

**NEIGHBORIMPACT**  
**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2006**

**WITH COMPARATIVE TOTALS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

**NEIGHBORIMPACT**

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**JUNE 30, 2006**

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# KERKOCCH KATTER & ASSOCIATES, LLP

*Certified Public Accountants*

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
NeighborImpact  
Redmond, Oregon

We have audited the accompanying statement of financial position of NeighborImpact (a nonprofit corporation), as of June 30, 2006 and the related statement of activities, functional expenses and cash flows for the year 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 audit.

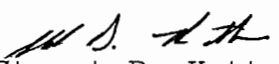
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 statement presentation. We believe that our audit provides 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 NeighborImpact, at June 30, 2006, and its activities and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 31, 2006 on our consideration of NeighborImpact's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of NeighborImpact taken as a whole. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Kerkoch Katter & Associates, LLP

  
By: Stuart D. Katter - a partner  
October 31, 2006

**FINANCIAL STATEMENTS**

**NEIGHBORIMPACT**

**STATEMENT OF FINANCIAL POSITION**

**JUNE 30, 2006**

**WITH COMPARATIVE TOTALS FOR JUNE 30, 2005**

	<i>Unrestricted</i>	<i>Temporarily</i>	<i>Permanently</i>	<i>Totals</i>	
	<i>Funds</i>	<i>Restricted</i>	<i>Restricted</i>	<i>2006</i>	<i>2005</i>
	<u>Funds</u>	<u>Funds</u>	<u>Funds</u>		
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	\$ 488,639	\$ 1,012,066	\$ 176,092	\$ 1,676,797	\$ 1,096,154
Grants receivable (no allowance for doubtful accounts considered necessary)		750,245		750,245	812,875
Prepaid expenses	1,018			1,018	565
Inventory		27,002		27,002	48,190
<b>Total current assets</b>	<b>489,657</b>	<b>1,789,313</b>	<b>176,092</b>	<b>2,455,062</b>	<b>1,957,784</b>
<b>Notes Receivable</b>		<b>1,164,333</b>	<b>360,908</b>	<b>1,525,241</b>	<b>1,527,600</b>
<b>Property and equipment</b> (net of depreciation)	<b>840,659</b>	<b>170,427</b>		<b>1,011,086</b>	<b>1,292,295</b>
<b>Total assets</b>	<b>\$ 1,330,316</b>	<b>\$ 3,124,073</b>	<b>\$ 537,000</b>	<b>\$ 4,991,389</b>	<b>\$ 4,777,679</b>
<b>LIABILITIES AND NET ASSETS</b>					
<b>Current liabilities</b>					
Accounts payable	\$	\$ 205,813	\$	\$ 205,813	\$ 143,342
Accrued expenses		64,564		64,564	54,152
Deferred revenue		393,461		393,461	362,540
Current portion of long-term debt		2,036		2,036	1,904
<b>Total current liabilities</b>		<b>665,874</b>		<b>665,874</b>	<b>561,938</b>
<b>Long-term debt</b> (net of current portion)		<b>58,125</b>		<b>58,125</b>	<b>60,080</b>
<b>Net assets</b>					
Unrestricted					
Operations	489,657			489,657	413,609
Fixed assets	840,659	170,427		1,011,086	1,292,295
Temporarily restricted		2,229,647		2,229,647	2,174,757
Permanently restricted			537,000	537,000	275,000
<b>Total net assets</b>	<b>1,330,316</b>	<b>2,400,074</b>	<b>537,000</b>	<b>4,267,390</b>	<b>4,155,661</b>
<b>Total liabilities and net assets</b>	<b>\$ 1,330,316</b>	<b>\$ 3,124,073</b>	<b>\$ 537,000</b>	<b>\$ 4,991,389</b>	<b>\$ 4,777,679</b>

The accompanying notes are an integral part  
of these financial statements

**NEIGHBORIMPACT**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2006**

**WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2005**

	<i>Unrestricted</i>	<i>Temporarily</i>	<i>Permanently</i>	<i>Totals</i>	
	<i>Funds</i>	<i>Restricted</i>	<i>Restricted</i>	<i>2006</i>	<i>2005</i>
	<u>Funds</u>	<u>Funds</u>	<u>Funds</u>	<u>2006</u>	<u>2005</u>
<b>SUPPORT AND REVENUE</b>					
<i>Support</i>					
Federal grants	\$ 155,937	\$ 4,230,616	\$ 262,000	\$ 4,648,553	\$ 4,596,677
State and local grants		4,006,728		4,006,728	3,306,173
Contributions	<u>242,449</u>	<u>58,504</u>		<u>300,953</u>	<u>136,814</u>
<i>Total support</i>	<u>398,386</u>	<u>8,295,848</u>	<u>262,000</u>	<u>8,956,234</u>	<u>8,039,664</u>
<i>Revenue</i>					
Program revenue		71,183		71,183	87,979
Other revenue	53,431	25,954		79,385	69,185
Rental income					24,350
Interest income		<u>28,380</u>		<u>28,380</u>	<u>8,664</u>
<i>Total revenue</i>	<u>53,431</u>	<u>125,517</u>		<u>178,948</u>	<u>190,178</u>
<i>Net assets released from program restrictions</i>	<u>8,553,193</u>	<u>(8,553,193)</u>			
<i>Total support and revenue</i>	<u>9,005,010</u>	<u>(131,828)</u>	<u>262,000</u>	<u>9,135,182</u>	<u>8,229,842</u>
<b>EXPENSES</b>					
<i>Program services</i>					
Health and welfare	8,709,130			8,709,130	8,082,491
<i>Support services</i>					
General and administrative	185,848			185,848	207,721
Fundraising	<u>128,475</u>			<u>128,475</u>	<u>39,129</u>
<i>Total expenses</i>	<u>9,023,453</u>			<u>9,023,453</u>	<u>8,329,341</u>
<b>CHANGES IN NET ASSETS, BEFORE TRANSFERS</b>					
	(18,443)	(131,828)	262,000	111,729	(99,499)
<i>Transfers (to) from other funds</i>	<u>5,261</u>	<u>(5,261)</u>			
<b>CHANGE IN NET ASSETS</b>	(13,182)	(137,089)	262,000	111,729	(99,499)
<b>NET ASSETS, beginning of year</b>	<u>1,343,498</u>	<u>2,537,163</u>	<u>275,000</u>	<u>4,155,661</u>	<u>4,255,160</u>
<b>NET ASSETS, end of year</b>	<u>\$ 1,330,316</u>	<u>\$ 2,400,074</u>	<u>\$ 537,000</u>	<u>\$ 4,267,390</u>	<u>\$ 4,155,661</u>

The accompanying notes are an integral part  
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**NEIGHBORIMPACT**

**STATEMENT OF FUNCTIONAL EXPENSES**

**YEAR ENDED JUNE 30, 2006**

**WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2005**

	<i>Supporting Services</i>		<i>Program Services</i>	<i>Totals</i>	
	<i>Management and General</i>	<i>Fundraising</i>	<i>Health and Welfare</i>	<i>2006</i>	<i>2005</i>
Salaries and wages	\$ 302,213	\$ 60,940	\$ 2,178,371	\$ 2,541,524	\$ 2,476,614
Payroll taxes and benefits	96,977	9,762	854,744	961,483	896,596
Bad debt					10,146
Loss on sale of property			1,096	1,096	
Printing	3,165	5,476	15,121	23,762	21,240
Office expenses	42,683	8,636	42,425	93,744	128,260
Interest			10,077	10,077	4,308
Insurance	25,263		3,010	28,273	32,386
Professional fees	13,950	42	6,728	20,720	36,809
Contract services	28,036	23,824		51,860	20,232
Maintenance			21,995	21,995	19,738
Client assistance			4,806,789	4,806,789	4,203,323
Transportation and lodging	2,006	2,892	94,635	99,533	95,624
Rent	29,467	563	19,591	49,621	78,526
Janitorial	8,515		1,199	9,714	10,522
Utilities & telephone	23,606	1,436	54,792	79,834	77,926
Training	2,120	791	56,520	59,431	38,657
Dues and fees	2,393	423	2,201	5,017	8,332
Administration	(553,526)	13,690	539,836		
<i>Total expenses before depreciation</i>	<u>26,868</u>	<u>128,475</u>	<u>8,709,130</u>	<u>8,864,473</u>	<u>8,159,239</u>
Depreciation	<u>158,980</u>			<u>158,980</u>	<u>170,102</u>
<i>Total expenses</i>	<u>\$ 185,848</u>	<u>\$ 128,475</u>	<u>\$ 8,709,130</u>	<u>\$ 9,023,453</u>	<u>\$ 8,329,341</u>

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**NEIGHBORIMPACT**

**STATEMENT OF CASH FLOWS**

**YEAR ENDED JUNE 30, 2006**

**WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2005**

	<i>Unrestricted</i>	<i>Temporarily</i>	<i>Permanently</i>
	<i>Funds</i>	<i>Restricted</i>	<i>Restricted</i>
	<u>Funds</u>	<u>Funds</u>	<u>Funds</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<i>Change in net assets</i>	\$ (13,182)	\$ (137,089)	\$ 262,000
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:			
Depreciation expense	158,980		
Loss on sale of property		1,096	
(Increase) decrease in accounts receivable	(16,213)	78,843	
(Increase) decrease in prepaid expenses	(453)		
(Increase) decrease in inventory		21,188	
Increase (decrease) in accounts payable	(9,468)	71,939	
Increase (decrease) in accrued expenses	(54,152)	64,564	
Increase (decrease) in deferred revenue		30,921	
	<u>65,512</u>	<u>131,462</u>	<u>262,000</u>
<i>Net cash provided by (used in) operating activities</i>			
	<u>65,512</u>	<u>131,462</u>	<u>262,000</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceedes from sale of property		150,000	
Net change in notes receivable		142,843	(140,484)
Net change in property and equipment	(32,000)	3,133	
	<u>(32,000)</u>	<u>295,976</u>	<u>(140,484)</u>
<i>Net cash provided by (used in) investing activities</i>			
	<u>(32,000)</u>	<u>295,976</u>	<u>(140,484)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Principal payments on notes payable		(1,823)	
		<u>(1,823)</u>	
<i>Net cash provided by (used in) financing activities</i>			
		<u>(1,823)</u>	
<i>Net increase (decrease) in cash and cash equivalents</i>	33,512	425,615	121,516
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>455,127</u>	<u>586,451</u>	<u>54,576</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 488,639</u>	<u>\$ 1,012,066</u>	<u>\$ 176,092</u>

<u>Totals</u>	
<u>2006</u>	<u>2005</u>
\$ 111,729	\$ (99,499)
158,980	170,102
1,096	
62,630	(264,252)
(453)	718
21,188	(29,609)
62,471	118,707
10,412	(46,189)
<u>30,921</u>	<u>335,315</u>
<u>458,974</u>	<u>185,293</u>
150,000	
2,359	(199,910)
<u>(28,867)</u>	<u>(57,090)</u>
<u>123,492</u>	<u>(257,000)</u>
<u>(1,823)</u>	<u>(1,717)</u>
<u>(1,823)</u>	<u>(1,717)</u>
580,643	(73,424)
<u>1,096,154</u>	<u>1,169,578</u>
<u>\$ 1,676,797</u>	<u>\$ 1,096,154</u>

The accompanying notes are an integral part  
of these financial statements

**NEIGHBORIMPACT**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Organization and Nature of Activities*

From 1985 to date, NeighborImpact (the Organization), has been recognized by the Oregon Housing and Community Services Department (OHCS) as a community action agency to serve Crook, Deschutes and Jefferson Counties. It is organized as a 501(c)(3) charitable corporation. A fifteen member volunteer board is responsible for setting policy and direction for the Organization. Its service area encompasses all of Crook, Deschutes and Jefferson counties in a region known as Central Oregon. The Organization maintains over 15 offices and classroom sites in the communities of La Pine, Bend, Redmond, Sisters, Prineville and Madras. It is the region's lead agency for homeless services, child care resources, emergency food programs, home ownership, housing rehabilitation, Head Start and self-help programs for the working poor. For the past 21 years, its community action programs have focused on building successful families by helping them with their basic needs, affordable housing, home ownership and training to increase life skills, work skills and financial literacy. The Organization does this while providing guidance and help with job search, child care, and temporary rent assistance.

*Basis of Accounting*

The accompanying financial statements have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America.

*Income Taxes*

The financial statements do not reflect the effects of income taxes. The Organization is a not-for-profit corporation which has been granted tax exempt status under code section 501(c)(3). In addition, the Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the code.

*Support and Revenue*

Grants and other contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, and would typically need to be purchased if not provided by the donation, are recorded at their fair values in the period received.

The accompanying notes are an integral part  
of these financial statements

**NEIGHBORIMPACT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*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. Accordingly, actual results could differ from those estimates.

*Cash Equivalents*

Cash equivalents are stated at cost which approximates market value. For purposes of the statement of cash flows, NeighborImpact, considers all cash investments with maturities of three months or less to be cash and cash equivalents.

*Functional Allocation of Expenses*

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among programs and supporting services benefited.

*Inventory*

Inventory consists primarily of food and food supplies used in the Organization's client service programs and is stated at the lower of cost, determined by the first-in, first-out method, or market. Amounts held at year end are considered to be temporarily restricted in accordance with grantor requirements.

*Accrued Compensated Absences*

The Organization accrues vacation pay at current pay rates. The Organization employees accrue vacation leave annually. Accrued vacation is not to be paid to employees except upon termination.

*Allocation of Supporting Service Expenditures*

The Organization allocates indirect expenses of administrative overhead and other allocable costs to supporting service departments based on various direct costs and other information. The Organization's management reviews and updates these allocations on an annual basis.

The accompanying notes are an integral part  
of these financial statements

**NEIGHBORIMPACT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Fixed Assets*

Fixed assets acquired by the Organization are considered to be owned by the Organization. However, Federal and State funding sources may maintain an equitable interest in the property purchased with grant monies as well as the right to determine the use of any proceeds from the sale of such assets. Fixed assets are depreciated using the straight-line method over estimated useful lives of the assets.

*Comparative Financial Information*

The financial statements and notes to the financial statements contain certain prior year summarized comparative information in total. 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 Organization's financial statements for the year ended June 30, 2005, from which the summarized information was derived.

**NOTE 2 - FUND STRUCTURE**

A brief description of the various funds used by the Organization in accounting for their activities is as follows:

*Unrestricted Funds*

These funds account for unrestricted contributions and provides for administration and operation of the Organization. Equipment acquisitions, including the recording of their cost and depreciation are also included in the unrestricted funds.

*Temporarily Restricted Funds*

These funds are used to account for the proceeds of specific revenue sources that are legally or contractually restricted to expenditures for specified purposes.

*Permanently Restricted Funds*

These funds account for the collection and disbursement of restricted contributions of which the income portion is, if not specifically required to be added to the capital, transferred to the temporarily restricted or unrestricted funds. Permanently restricted funds also include trust funds held by other trustees where the principal is restricted in perpetuity.

The accompanying notes are an integral part  
of these financial statements

**NEIGHBORIMPACT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2006**

**NOTE 3 - SUMMARY OF CASH AND CASH EQUIVALENTS**

Cash and Cash Equivalents consisted of the following at June 30, 2006:

Bank checking and savings	\$ 1,596,825
Investment in U.S. Treasury Bills	79,729
Petty cash	<u>243</u>
	<u>\$ 1,676,797</u>

**NOTE 4 - NOTES RECEIVABLE**

Notes receivable at June 30, 2006 consist of the following:

Deschutes Family Housing Limited Partnership, principal due subject to certain restrictions, see Note 11, interest at 5%, secured by real estate, matures August 2019.	\$ 391,393
Housing Assistance Loans, principal due subject to certain restrictions, various interest rates, secured by real estate.	2,326,315
Neighborhood Reinvestment Corporation Loans, various interest rates, secured by real estate.	360,908
Madras Family Housing Limited Partnerships, principal due subject to certain restrictions, see Note 11, interest at 3%, secured by real estate, matures August 2028.	444,167
Community Action Foundation of Central Oregon, interest at 5%, due on demand, see Note 11, unsecured.	<u>164,083</u>
	3,686,866
Less deferred for collection (See Note 11)	<u>(2,161,625)</u>
	<u>\$ 1,525,241</u>

The Agency considers all notes receivable to be long-term since collection is contingent on future events. Management estimates the net value of certain long-term loans based on historical experience.

The accompanying notes are an integral part  
of these financial statements

**NEIGHBORIMPACT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 5 - PROPERTY AND EQUIPMENT**

The following is a summary of property and equipment as of June 30, 2006:

Land	\$ 170,427
Buildings	735,075
Equipment	276,071
Vehicles	479,881
Less accumulated depreciation	<u>(650,368)</u>
<i>Net property and equipment</i>	<u><u>\$ 1,011,086</u></u>

**NOTE 6 - NOTE PAYABLE**

Note payable at June 30, 2006 consisted of the following:

Community First Bank of Prineville, monthly payments of \$502 including interest at 6.75%, secured by real estate, due 2023.	<u><u>\$ 60,161</u></u>
--	-------------------------

Maturities of note payable are as follows:

Year end June 30, 2007	\$ 2,036
2008	2,178
2009	2,330
2010	2,342
2011	2,357
Thereafter	<u>48,918</u>
	<u><u>\$ 60,161</u></u>

**NOTE 7 - CONCENTRATIONS OF CREDIT RISK**

Financial instruments that potentially subject the Organization to a concentration of credit risk consist principally of cash and cash equivalents and notes receivable. The Organization maintains the majority of its cash balances at FDIC insured institutions and invests in U.S. Government securities. The Organization provides mortgage assistance primarily to low- and moderate-income individuals. Notes receivable totaling \$3,522,783 are secured by property purchased or improved. These notes are a concentration of credit risk. Additionally, the Organization receives approximately 95% of its funding from grants and contracts. Management does not anticipate a significant reduction in funding.

The accompanying notes are an integral part  
of these financial statements

**NEIGHBORIMPACT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2006**

**NOTE 8 - RECLASSIFICATIONS**

Certain amounts in the year ended June 30, 2005 financial statements have been reclassified to conform with the year ended June 30, 2006 financial statements.

**NOTE 9 - CONTINGENCY**

*Grant Audit*

The Organization receives grants from various federal, state, and local agencies that are subject to review and audit by these agencies. Such audits could result in a request for reimbursement by these agencies for expenditures disallowed under the terms and conditions of the appropriate Organization. In the opinion of the Organization's management, such disallowances, if any will not be significant.

**NOTE 10 - RELATED PARTY TRANSACTIONS**

The Organization leases its facilities from the Community Action Foundation of Central Oregon, Inc.(CAFCO), a non-profit corporation located in Redmond, Oregon. CAFCO is the general partner of the Deschutes Family Housing Limited Partnership, an Oregon Limited Partnership formed to own and operate the Bill Healy Family Center. Included in the financial statements are notes receivable at June 30, 2006 from the Deschutes Family Housing Limited Partnership and CAFCO in the amount of \$391,393 and \$164,083, respectively. These notes were incurred in connection with the construction of the Bill Healy Family Center. Additionally, notes receivable in the amount of \$444,167 are due from the Madras Family Housing Limited Partnership, an Oregon Limited Partnership formed to own and operate the Madras Family Housing Center, in connection with the initial formation of the limited partnership. Since collection of these notes receivable is contingent upon future available capital of the projects and other restrictions, the notes will be deferred until collection.

**NOTE 11 - PERMANENTLY RESTRICTED FUNDS**

The Neighborhood Reinvestment Corporation provided a \$262,000 capital grant during the year and \$275,000 from prior years totaling \$537,000 of funds for making loans and for capital projects. This amount is permanently restricted although proceeds on capital projects, or interest earned, over the corpus may be transferred to unrestricted net assets for furthering the Organization's mission. However, should the Organization become defunct, all remaining grant funds, interest earnings, capital project proceeds, and loan and capital project portfolios representing the use of these funds will revert to the Neighborhood Reinvestment Corporation. The Organization invested the capital grant in U.S. treasury bills and FCID insured investments in order to comply with grantor requirements. As of June 30, 2006, the Organization held 17 loans totaling \$360,908 in connection with this program. There were no loans as of June 30, 2006 that were considered to be delinquent.

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**SINGLE AUDIT COMPLIANCE**

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*Certified Public Accountants*

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## **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**

Board of Officials  
NeighborImpact  
Redmond, Oregon

We have audited the accompanying financial statements of NeighborImpact as of and for the year ended June 30, 2006, which collectively comprise NeighborImpact's basic financial statements and have issued our report thereon dated October 31, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### ***Internal Control over Financial Reporting***

In planning and performing our audit, we considered NeighborImpact's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might constitute material weaknesses. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the combined financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting that we consider to be material weaknesses.

### ***Compliance and Other Matters***

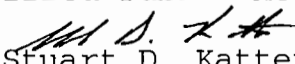
As part of obtaining reasonable assurance about whether NeighborImpact's financial statements are free of material misstatement, we performed tests of their compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect 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 that are required to be reported under *Government Auditing Standards*.

**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 (CONTINUED)**

***Compliance and Other Matters (Continued)***

This report is intended solely for the information and use of the audit committee, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Kerkoch Katter & Associates, LLP  
Certified Public Accountants

By:  Stuart D. Katter - a partner

October 31, 2006

# KERKOCHE KATTER & ASSOCIATES, LLP

*Certified Public Accountants*

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## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors  
NeighborImpact  
Redmond, Oregon

### **Compliance**

We have audited the compliance of NeighborImpact with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. NeighborImpact's major federal programs are identified in the Summary of Audit Results. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of NeighborImpact's management. Our responsibility is to express an opinion on NeighborImpact's compliance based on our audit.

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 OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 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 NeighborImpact'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. Our audit does not provide a legal determination on NeighborImpact with those requirements.

In our opinion, NeighborImpact complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133 (CONTINUED)**

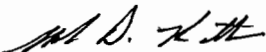
***Internal Control over Compliance***

The management of NeighborImpact is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered NeighborImpact's internal control over compliance with requirements that could have a direct and material effect on a major program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might constitute material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a federal financial assistance program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over noncompliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Kerkoch Katter & Associates, LLP  
Certified Public Accountants



By: Stuart D. Katter - a partner

October 31, 2006

NEIGHBORIMPACT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2006

Program

*U.S. Department of Health and Human Services - Major Program CFDA 93.600*

Head Start

No reportable findings or questioned costs.

*U.S. Department of Treasury - Major Program CFDA 21.000*

Neighborhood Reinvestment Program

No reportable findings or questioned costs.

*Note:* The auditor's report expresses an unqualified opinion on the compliance reports of NeighborImpact.

Dollar threshold used to distinguish between Type A and Type B programs was \$300,000.

There were no unresolved findings or questioned costs in the year ended June 30, 2005 single audit.

The auditee qualified as low-risk for the year ended June 30, 2006.

No management letter was issued for the year ended June 30, 2006.

**NEIGHBORIMPACT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**YEAR ENDED JUNE 30, 2006**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
<i>U.S. Department of Energy</i>		
Passed through the Oregon Housing and Community Services:		
DOE WX	81.042	\$ 111,727
BPA Weatherization	81.042	171,622
<i>U.S. Department of Treasury</i>		
Neighborhood Reinvestment Program - expendable	21.000	155,937
Neighborhood Reinvestment Program - permanent	21.000	140,484
<i>U.S. Department of Health and Human Services</i>		
Head Start - major program	93.600	1,395,872
Passed through the Oregon Housing and Community Services:		
Low-income Energy Assistance (LIEAP)	93.568	1,366,387
Community Services Block Grant	93.569	206,134
Housing Stabilization Program(TANF)	93.558	17,687
Passed through Child Care Resources & Referral Network		
Child Care Development Block Grant	93.575	161,732
Passed through Oregon University System		
Child Care Development Block Grant	93.575	24,266
<i>U.S. Department of Agriculture</i>		
Passed through the Oregon Department of Education:		
Child and Adult Care Food Program	10.558	110,517
Passed through the Oregon Housing and Community Services:		
Passed through the Oregon Food Bank:		
Child Nutrition Program	10.565	15,463
Temporary Emergency Food Assistance Program	10.569	144,641
<i>Federal Emergency Management Agency</i>		
Passed through the Deschutes United Way:		
Emergency Food and Shelter Program	83.523	13,988
<i>U.S. Department of Housing and Urban Development</i>		
Supportive Housing Program	14.235	293,129
Passed through the Oregon Housing and Community Services:		
COC Project	14.760	2,953
Emergency Shelter Grant Program	14.231	61,260
Home TBA	14.239	501
Passed through the City of Prineville:		
Community Development Block Grant	14.228	18,498
Passed through the City of Madras:		
Community Development Block Grant	14.228	192,734
Passed through the City of Bend:		
Community Development Block Grant	14.228	23,416
<i>Total federal financial assistance</i>		<u>\$ 4,628,948</u>

Note: The above schedule was prepared under the accrual basis of accounting.  
The value of federal loan funds was \$2,326,315 as of June 30, 2006.