

NEIGHBORIMPACT AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
YEAR ENDED JUNE 30, 2016

NEIGHBORIMPACT AND AFFILIATES

TABLE OF CONTENTS YEAR ENDED JUNE 30, 2016

	Page
INDEPENDENT AUDITORS' REPORT.....	1
FINANCIAL STATEMENTS	
Consolidated Statement of Financial Position	4
Consolidated Statement of Activities.....	5
Consolidated Statement of Functional Expenses.....	6
Consolidated Statement of Cash Flows	7
Notes to Consolidated Financial Statements	8
SUPPLEMENTAL INFORMATION	
Consolidating Schedule of Financial Position	22
Consolidating Schedule of Revenues and Expenses.....	23
SINGLE AUDIT COMPLIANCE	
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	24
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.....	26
Schedule of Findings and Questioned Costs	28
Status of Prior Year (2015) Findings.....	29
Schedule of Expenditures of Federal Awards	30

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
NeighborImpact
Redmond, Oregon

We have audited the accompanying consolidated financial statements of NeighborImpact (a nonprofit organization) and its affiliates, which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of 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 consolidated 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 Audit 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 consolidated financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NeighborImpact and its affiliates, as of June 30, 2016, 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements 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 financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) 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 consolidated 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 consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Prior-Year Summarized Comparative Information

We have previously audited the Organization's 2015 financial statements, and we expressed an unmodified opinion on them in our report dated December 1, 2015. In our opinion, the summarized comparative information provided herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2016, on our consideration of the Organization'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 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 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 the Organization's internal control over financial reporting and compliance.

November 1, 2016

FINANCIAL STATEMENTS

NEIGHBORIMPACT AND AFFILIATES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2016

(WITH COMPARATIVE TOTALS FOR JUNE 30, 2015)

	Totals	
	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,941,154	\$ 3,594,709
Grants receivable	987,300	1,992,175
Notes receivable	464,896	
Prepaid expenses and other current assets	84,918	660
Food inventory	73,632	104,596
	5,551,900	5,692,140
OTHER ASSETS		
Long-term investments	25,000	700,000
Investment in LLC	2,718	
Restricted notes receivable, net of allowance	404,788	86,955
Other notes receivable, net of allowance	2,211,707	2,108,420
	2,644,213	2,895,375
FIXED ASSETS, net of accumulated depreciation	2,145,750	2,283,113
TOTAL ASSETS	\$ 10,341,863	\$ 10,870,628
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 210,689	\$ 149,529
Accrued expenses	152,691	164,963
Escrow liability		13,987
Current portion of long-term debt	3,886	3,633
	367,266	332,112
LONG-TERM DEBT, net of current portion	30,246	34,119
TOTAL LIABILITIES	397,512	366,231
NET ASSETS		
Unrestricted	2,814,776	2,896,748
Temporarily restricted	6,522,685	6,943,809
Permanently restricted	606,890	663,840
	9,944,351	10,504,397
TOTAL LIABILITIES AND NET ASSETS	\$ 10,341,863	\$ 10,870,628

See notes to financial statements

NEIGHBORIMPACT AND AFFILIATES

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2016	2015
SUPPORT AND REVENUE					
Federal grants	\$	\$ 5,552,915	\$	\$ 5,552,915	\$ 5,887,822
State and local grants		5,147,051		5,147,051	4,861,273
Contributions	251,112	3,579,982		3,831,094	3,601,040
Program revenue	195,515			195,515	102,881
Rental income	9,749			9,749	12,998
Interest income	40,000		213	40,213	46,901
Income from investment in LLC	2,718			2,718	
Other revenue	2,955			2,955	55,576
Net assets, released from restrictions	14,758,235	(14,701,072)	(57,163)		
Total Support and Revenues	15,260,284	(421,124)	(56,950)	14,782,210	14,568,491
EXPENSES					
Program services					
Health and welfare	13,553,265			13,553,265	13,286,463
Support services					
Management and general	1,514,626			1,514,626	1,239,847
Fundraising and community relations	274,365			274,365	282,582
Total Expenses	15,342,256			15,342,256	14,808,892
CHANGE IN NET ASSETS	(81,972)	(421,124)	(56,950)	(560,046)	(240,401)
NET ASSETS - Beginning of year	2,896,748	6,943,809	663,840	10,504,397	10,744,798
NET ASSETS - End of year	\$ 2,814,776	\$ 6,522,685	\$ 606,890	\$ 9,944,351	\$ 10,504,397

See notes to financial statements

NEIGHBORIMPACT AND AFFILIATES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED JUNE 30, 2016 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015)

	Support Services		Program Services	Totals	
	Management and General	Fundraising and Community Relations	Health and Welfare	2016	2015
PERSONNEL					
Salaries and wages	\$ 604,385	\$ 171,249	\$ 3,846,435	\$ 4,622,069	\$ 4,729,173
Payroll taxes and benefits	192,110	49,430	1,504,912	1,746,452	1,731,500
Total Personnel	796,495	220,679	5,351,347	6,368,521	6,460,673
MATERIALS AND SERVICES					
Printing	6,042	130	30,950	37,122	53,983
Office expenses	41,520	20,804	96,599	158,923	180,330
Interest	125			125	
Insurance	12,324	125	59,559	72,008	23,519
Professional fees	34,865		8,127	42,992	34,942
Contract services	33,155	675	126,176	160,006	157,243
Repairs and maintenance	21,060	255	83,707	105,022	133,064
Client assistance	4,559	1,004	7,277,808	7,283,371	6,924,433
Transportation and lodging	10,718	2,392	164,881	177,991	213,545
Rent	87,895	12,108	87,722	187,725	190,827
Janitorial	17,262	715	2,833	20,810	24,365
Utilities and telephone	34,618	3,259	92,021	129,898	131,640
Training and recruitment	17,225	3,039	64,499	84,763	92,789
Dues and fees	40,284	9,180	20,317	69,781	89,726
Loss on disposal of assets	202,836			202,836	
Other	133,858			133,858	
Administration					3,961
Total materials and services	698,346	53,686	8,115,199	8,867,231	8,254,367
Total expenses before depreciation	1,494,841	274,365	13,466,546	15,235,752	14,715,040
Depreciation	19,785		86,719	106,504	93,852
TOTAL EXPENSES	\$ 1,514,626	\$ 274,365	\$ 13,553,265	\$ 15,342,256	\$ 14,808,892

See notes to financial statements

NEIGHBORIMPACT AND AFFILIATES

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2016

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (560,046)	\$ (240,401)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation expense	106,504	93,852
Non-cash adjustment to notes receivable		205,132
Non-cash income from investment in LLC	(2,718)	
Loss on disposal of assets	202,836	
Changes in operating assets and liabilities		
Grants receivable	1,004,875	(278,207)
Notes receivable	(878,016)	522,479
Prepaid expenses	(84,258)	7,485
Food inventory	30,964	893
Accounts payable	61,160	(58,706)
Accrued expenses	(12,272)	(70,833)
Escrow liability	(13,987)	6,152
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(144,958)	187,846
CASH FLOWS FROM INVESTING ACTIVITIES		
Redemption of investments	700,000	1,075,000
Purchase of property and equipment	(179,977)	(230,032)
Purchase of investments	(25,000)	
NET CASH PROVIDED BY INVESTING ACTIVITIES	495,023	844,968
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes payable	(3,620)	(3,420)
NET CASH USED IN FINANCING ACTIVITIES	(3,620)	(3,420)
NET INCREASE IN CASH AND CASH EQUIVALENTS	346,445	1,029,394
CASH AND CASH EQUIVALENTS - Beginning of year	3,594,709	2,565,315
CASH AND CASH EQUIVALENTS - End of year	\$ 3,941,154	\$ 3,594,709

See notes to financial statements

NEIGHBORIMPACT AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

From 1985, NeighborImpact (the Organization), has been recognized by the Oregon Housing and Community Services Department (OHCS) as a community action agency serving Crook, Deschutes and Jefferson Counties and the Warm Springs reservation. It is organized as a 501(c)(3) charitable corporation. A 15-member volunteer Board is responsible for setting policy and direction for the organization. Its service area encompasses all of Crook, Deschutes and Jefferson Counties and the Warm Springs reservation in a region known as Central Oregon. The organization maintains offices and classroom sites in the communities of Bend, La Pine, Madras, Prineville and Redmond, and also serves the cities of Culver, Metolius and Sisters.

The Organization is dedicated to supporting people and strengthening communities, especially through assistance to those living in poverty. The Organization's mission is delivered through two major departments, Community Services (including Food) and Early Care and Education.

The Organization provides the following services to assist low- and moderate-income residents of Central Oregon:

Community Services – provides food through operation of the regional food bank, collecting food and redistributing it through approximately 40 agencies in Crook, Deschutes and Jefferson Counties and at the Warm Springs reservation. These groups are independent non-profits and/or faith-based organizations that distribute supplemental food and fresh produce and operate congregate meal sites. The Organization is the local distribution partner of the Oregon Food Bank and Feed America. The agency provides transition housing and emergency housing assistance, operates a 5-family shelter, coordinates assistance in paying utility bills and providing weatherization services and education for low-income individuals and provides home-ownership counseling, financial education and assistance to individuals trying to stay in their homes through foreclosure prevention counseling, mortgage assistance and reverse mortgage counseling. Through its matched savings program, the Organization helps individuals save for home ownership, education and small business investments as well as other needs.

Early Care and Education – operates Head Start in Crook and Deschutes Counties. Approximately 451 children attend Head Start in 24 classrooms operating at 8 sites. The Head Start program also supports families of the children they serve, helping them move toward greater stability and a self-determined future. The Organization embraces a Two-Generation approach to eliminating poverty, giving children the skills to succeed and avoid poverty while helping their parents overcome factors keeping them in poverty. This division also operates the Childcare Resources program, which provides training, technical assistance and business support to childcare providers throughout Central Oregon. Childcare Resources coordinates training and education for the region's childcare system and providers and evaluating and rating providers.

Lending to Income Qualified Individuals – separate from the above programs, the Organization offers low-cost and deferred loans to income-qualified homeowners and individuals to preserve and rehabilitate property, replace failing wells and septic, provide downpayment assistance and closing cost loans and to support microenterprise and entrepreneurship to supplement income.

NEIGHBORIMPACT AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Organization – Continued

Supporting and affiliated organizations – the Central Oregon Community Action Foundation (CAFCO) is a 501(c)3 whose directors are appointed by the Organization board. CAFCO is a supporting organization that owns the headquarters building housing the Organization administration, holds certain cash assets of the Organization and receives and distributes grants supporting the Organization and other nonprofit organizations with missions that further the mission of the Organization.

The Organization is the majority partner of HousingImpact, a nonprofit LLC comprised of the Organization and Housing Works, the local housing authority for Central Oregon. HousingImpact’s mission is to develop affordable housing in Central Oregon. The managing partner of HousingImpact is selected by the two organizations and is currently Housing Works.

The Organization is a member of the Community Action Partnership of Oregon (CAPO), and holds a board seat in that organization. CAPO is the designated statutory authority responsible for coordinating the delivery system for federal antipoverty programs in Oregon, including the Community Services Block Grant, Low Income Energy Assistance Program, State Department of Energy Weatherization Program and such other programs as may be available. The authority of the Community Action Partnership of Oregon can be found at ORS 458.505. There are 18 community action agencies in Oregon that comprise CAPO and share responsible for delivery of anti-poverty services.

The Organization is a member of the NeighborWorks America network. There are 240 NeighborWorks organizations nationwide, including five in Oregon. NeighborWorks organizations support affordable housing and community development and the people who benefit from them. NeighborWorks provides financial support to its members organizations to allow them to build more houses, empower more individuals and transform more communities than they would be able to do on their own.

The Organization operates its food program under a contract with FeedingAmerica, which coordinates its work in Oregon through the Oregon Food Bank. Feeding America is a nationwide network of food banks and the nation's leading domestic hunger-relief charity. Feeding America feeds 46 million people annually through 60,000 food pantries and meal programs. The Organization receives food commodities through its affiliation with FeedingAmerica and the Oregon Food Bank.

The Organization is the designated “local leader” for the Washington, D.C.-based Corporation for Economic Development (CFED). There are three “local leaders” in Oregon and one “Network State Leadership” — Neighborhood Partnerships. CFED's strives to make it possible for millions of people to achieve financial security and contribute to an opportunity economy by scaling innovative practical solutions that empower low- and moderate-income people to build wealth and advance economic opportunity for all. CFED provides some financial support for advocacy activities by the Organization.

NEIGHBORIMPACT AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Organization – Continued

Resource Development – the Organization is supported in part through community donations. The Organization operates a fundraising and resource development program which seeks support from individual donors, foundations and corporations. Funds raised are used as local match for federal and state resources, program enhancement and to underwrite administrative costs (including fundraising costs) not permitted to be funded by federal and state funding. Total funds raised in 2015-16 were \$668,264. As part of its Resource Development Program the Organization maintains an endowment, managed by the Oregon Community Foundation. Principal from the endowment is preserved and interest from the endowment is distributed, 50 percent in support of operations and 50 percent to build endowment corpus.

Consolidation Policy

The accompanying consolidated financial statements include the accounts of NeighborImpact, Community Action Foundation of Central Oregon (CAFCO), and Healy Heights Partner, LLC (HHP).

The Organization has control over appointments to the Board of CAFCO so consolidation is required under accounting principles generally accepted in the United States of America. Once appointed, the Organization does not have the ability to remove Board members of CAFCO and does not control the activity of CAFCO. Inter-organization transactions and balances have been eliminated in consolidation.

Effective June 15, 2011, the Organization, through its wholly owned subsidiary HHP, became the 99 percent owner and limited partner of Deschutes Family Housing Limited Partnership (DFHLP). CAFCO is the 1 percent owner and general partner of DFHLP. As a result, consolidation is required under accounting principles generally accepted in the United States of America. Inter-organization transactions and balances have been eliminated in consolidation. DFHLP is an Oregon limited partnership, formed November 15, 1993, to construct, own and operate a 70-unit affordable housing project, in conformity with the provisions of Section 42 of the Internal Revenue Code (IRC). The partnership was terminated during the year ended June 30, 2016, and the remaining assets were transferred to CAFCO (see Note 8).

Basis of Accounting

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

Income Taxes

The Organization and CAFCO are not-for-profit corporations which have been granted tax-exempt status under IRC Section 501(c)(3). In addition, they have been determined by the Internal Revenue Services (IRS) not to be private foundations within the meaning of Section 509(a) of the code. DFHLP is not a taxpaying entity for federal or state tax purposes as the partners report partnership income on their respective tax

NEIGHBORIMPACT AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Income Taxes – Continued

returns. Accordingly, these consolidated statements do not reflect a provision for income taxes. The tax returns for the Organization, CAFCO and DFHLP are subject to examination by the IRS generally for three years after they were filed.

Support and Revenue

Grants and other contributions of cash and other assets are reported as temporarily restricted support if they are received with grantor or donor stipulations that limit the use of the donated assets. When a donor restriction expires (that is, then 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 consolidated statement of activities as net assets released from restrictions. 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 market value in the period received.

Estimates

The preparation of consolidated financial statements, in conformity with accounting principles generally accepted in the United States of America, required management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

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

Grants Receivable

Management believes that grants receivable will be fully collectible. Therefore, no allowance was recorded.

Functional Allocation of Expenses

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.

NEIGHBORIMPACT AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Functional Allocation of Expenses – Continued

The cost of providing various programs and other activities has been summarized on a functional basis in the consolidated 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.

Compensated Absences

Compensated absences are recorded as a liability and an expense when earned rather than when paid. When vacation is taken, amounts disbursed for vacation pay are charges against the liability. Compensated absences are valued at current pay rates.

Property and Equipment

Property and equipment acquired by the Organization are considered to be owned by the Organization. However, government funding sources may maintain an interest in the property purchased with grant funding as well as the right to determine the use of any proceeds from the sale of such assets. The land, building and improvements at the Organization's main location in Redmond, Oregon with a total cost of \$1,201,057, and related accumulated depreciation of \$504,007 as of June 30, 2016, is subject to a land use lease with the City of Redmond whereby upon termination of the lease, title of the property would transfer to the City of Redmond. The lease, after two extension options, expires May 2049. Management deems the likelihood of the lease terminating prior to such date to be remote.

All fixed assets are depreciated using the straight-line method over the estimated useful lives of the assets. The Organization capitalizes all property and equipment with a purchase price of greater than \$5,000 and a useful life of greater than one year.

Prior Year Summarized Information

The consolidated financial statements and notes to consolidated 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 consolidated financial statements for the year ended June 30, 2015, from which the summarized information was derived.

NEIGHBORIMPACT AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Net Assets

Net assets of the Organization consist of the following:

Unrestricted. These net assets are available for the general obligations of the Organization.

Temporarily Restricted. These net assets are restricted by grantors or donors for specific purposes.

Permanently Restricted. These net assets are restricted indefinitely by grantors or donors. Income earned on permanently restricted funds is, if not specifically required to be added to permanently restricted net assets, transferred to temporarily restricted or unrestricted classification.

NOTE 2 – STATEMENTS OF CASH FLOWS – NONCASH AND OTHER ITEMS

Cash paid for interest amounted to \$125 and \$0 for the years ended June 30, 2016, and 2015, respectively. The Organization paid no income taxes.

CAFCO received noncash proceeds of \$8,000 for the year ended June 30, 2016, on the sale of land to Housing Impact LLC, a related party.

NOTE 3 – INVESTMENTS

Investments consist of \$25,000 held by Oregon Community Foundation (Note 13) and of the Organization's share of income from Housing Impact LLC, an Oregon limited liability company in which the Organization holds a 51% ownership interest. Although the Organization holds a majority interest in this company, the minority owner makes all management decisions. As such, the Organization's investment in this company is presented in accordance with the equity method of accounting for investments.

NEIGHBORIMPACT AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 3 – INVESTMENTS – CONTINUED

Condensed financial information of Housing Impact LLC is summarized below as of and for the year ended June 30:

	<u>2016</u>
Balance Sheet Data:	
Total assets	\$ 892,997
Total liabilities	<u>(769,222)</u>
Members' capital	<u>\$ 123,775</u>
Statement of Operations Data:	
Revenues	\$ 21,351
Expenses	<u>(16,022)</u>
Net income	<u>\$ 5,329</u>

The information above was audited as part of the audit of the minority owner. The Organization did not receive any cash distributions from the LLC in 2016.

NEIGHBORIMPACT AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 4 – NOTES RECEIVABLE

Short-term notes receivable (in CAFCO) consisted of the following:

	2016
Note receivable from Lava Condo, LLC with a face value of \$300,000, due in monthly installments of \$1,250 , including interest at 5%, matures July 2016. Secured by real estate. Year-end balance includes accrued interest.	\$ 301,251
Note receivable from Lava Condo, LLC with a face value of \$155,000, due in monthly installments of \$646, including interest at 5%, matures July 2016. Secured by real estate. Year-end balance includes accrued interest.	155,645
Note receivable from Housing Impact LLC, a related party, with a face value of \$8,000, due in payments of \$4,000 per lot, payable once construction of a home begins on a lot. Non-interest bearing, secured by real estate.	<div style="text-align: right; border-bottom: 1px solid black;">8,000</div>
	\$ 464,896

Restricted notes receivable consisted of the following:

	2016	2015
NeighborImpact Reinvestment Corporation Loans - various interest rates, secured by real estate	\$ 461,951	\$ 98,714
Allowance for doubtful accounts	(57,163)	(11,759)
Net of allowance	\$ 404,788	\$ 86,955

NEIGHBORIMPACT AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 4 – NOTES RECEIVABLE – CONTINUED

Other notes receivable consisted of the following:

	<u>2016</u>	<u>2015</u>
Housing Assistance Loans, principal due subject to certain restriction, various interest rates, secured by real estate, various maturities.	\$ 2,320,026	\$ 2,202,829
HW Madras Limited Liability Company, principal due subject to certain restrictions, interest at 3.66%, secured by real estate, due September 2030.	<u>180,944</u>	<u>180,944</u>
	2,500,970	2,383,773
Allowance for doubtful accounts	<u>(289,263)</u>	<u>(275,353)</u>
Net of allowance	<u>\$ 2,211,707</u>	<u>\$ 2,108,420</u>

The Organization considers all notes receivable to be long-term since collection is contingent on future events and repayments in the near-term cannot be reasonably estimated. Management estimates the net value of long-term notes receivable based on historical experiences and adjusts the allowance on an annual basis to report the net realizable value.

NOTE 5 – PROPERTY AND EQUIPMENT

The following is a summary of property and equipment:

	<u>2016</u>	<u>2015</u>
Land	\$ 483,930	\$ 694,766
Buildings	1,861,558	1,855,426
Furniture and equipment	370,094	376,103
Roads and landscaping	45,096	45,096
Vehicles	<u>1,050,801</u>	<u>870,825</u>
	3,811,479	3,842,216
Accumulated depreciation	<u>(1,665,729)</u>	<u>(1,559,103)</u>
	<u>\$ 2,145,750</u>	<u>\$ 2,283,113</u>

NEIGHBORIMPACT AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 6 – LONG-TERM DEBT

Long-term debt consisted of the following:

	<u>2016</u>	<u>2015</u>
Payable to Bank of the Cascades from the Organization monthly payments of \$506, including interest at the Bank of the Cascades 3-year rate plus 2.75%, which was 6.75% as of June 30, 2016, and 2015. Secured by real estate, due 2023.	<u>\$ 34,132</u>	<u>\$ 37,752</u>
Less current portion	<u>(3,886)</u>	<u>(3,633)</u>
	<u>\$ 30,246</u>	<u>\$ 34,119</u>

Maturities of long-term debt are as follows:

Year ending June 30,

2017	\$ 3,886
2018	4,156
2019	4,446
2020	4,755
2021	5,086
Thereafter	<u>11,803</u>
	<u>\$ 34,132</u>

NOTE 7 – CONCENTRATIONS OF CREDIT RISKS

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 Federal Deposit Insurance Corporation (FDIC) insured institutions. The Organization utilizes sweep accounts to transfer any excess funds over the FDIC limit on a nightly basis to ensure all balances maintained at this institution remain insured by the FDIC at all times.

The Organization provides down payment and housing rehabilitation loans primarily to low and moderate income individuals. Notes receivable totaling \$2,962,921 are secured by property purchased or improved. These notes are a concentration of credit risk. Additionally, the Organization received approximately 98 percent of its funding from grants, contracts and contributions.

NEIGHBORIMPACT AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 8 – RELATED PARTY TRANSACTIONS

The Organization leases its Redmond administrative facilities from CAFCO. CAFCO is a supporting non-profit corporation formed exclusively to support the charitable purposes of the Organization. Located in Redmond, Oregon, it was the general partner of the DFHLP which closed during the year ended June 30, 2016. The Organization provided significant accounting and operations support to the partnership.

CAFCO has a short-term note receivable (Note 4) from an LLC in which the Organization has an interest (Note 3).

The Organization's services are occasionally utilized by members of the board of directors. Such services are provided on the same basis as those provided to the general public. Pursuant to ORS 65.364, no board members may receive loans through the Organization.

NOTE 9 – RESTRICTED FUNDS

Permanently Restricted

The Organization invested the proceeds from capital grants provided by NeighborWorks America in prior years in certificates of deposit in order to comply with grantor requirements. During 2016, the Organization liquidated these certificates of deposit and loaned out the proceeds as part of its housing program. As of June 30, 2016, and 2015, the Organization held 19 and 6 loans totaling \$461,951 and \$98,714, respectively, in connection with this program. Although there were no loans as of June 30, 2016, or 2015 that were considered to be delinquent, the allowance for doubtful accounts estimated by management does affect the balance that is restricted (Note 4).

Temporarily Restricted

The Organization receives the majority of their income in the form of grants and contributions restricted for a specific purpose. As of June 30, 2016, these funds were restricted to the Early Care and Education program, Home Ownership program, Lending program and various other programs in the amounts of \$676,290, \$476,921, \$3,891,563 and \$1,477,911, respectively.

NOTE 10 – OPERATING LEASE COMMITMENTS

The Organization leases office space in Redmond, Oregon from MNE Holdings, Inc. The lease required monthly lease payments of \$680 until September 2015, at which point monthly rents increased to \$737 through August 2016. This lease was then renewed, and the renewed terms call for monthly lease payments of \$1,156 for the renewal term of the lease, which will expire in August 2017. Total lease payments of \$8,730 were made for the year ended June 30, 2016.

NEIGHBORIMPACT AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 10 – OPERATING LEASE COMMITMENTS – CONTINUED

The Organization entered into a new building lease with RL Allen Group, LLC. The lease requires monthly payments of \$950 through December 2016, with annual increases each January to \$988 in 2018. Total lease payments of \$5,700 were made for the year ended June 30, 2016.

The Organization leases office space in Bend, Oregon from Deschutes Properties LLC. The lease requires monthly payments of \$4,505 through September 2016, with annual increases each October to \$4,779 in 2017. The lease expires in September 2018. Total lease payments of \$53,667 were made for the year ended June 30, 2016.

The following is a schedule of future minimum lease payments required under these leases:

Year ending June 30,	
2017	\$ 81,836
2018	70,993
2019	<u>20,269</u>
	<u>\$ 173,098</u>

NOTE 11 – RETIREMENT PLAN

The Organization maintains a Simplified Employee Pension (SEP) plan for eligible employees. During the years ended June 30, 2016, and 2015, employer pension expense totaled \$164,825 and \$167,858, respectively. The Organization also has in place an IRC Section 403(b) Plan that allows employees to defer tax on part of their compensation.

NOTE 12 – CONTINGENCIES

Grants

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 agency. In the opinion of the Organization's management, such disallowances, if any, will not be significant.

Tax Positions

The Organization is exempt from federal and state income taxes, with the exception of federal taxes for net profits on unrelated business income, under Internal Revenue Code Section 501(c)(3).

NEIGHBORIMPACT AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 12 – CONTINGENCIES – CONTINUED

Tax Positions – Continued

Regarding uncertain income tax positions, the Organization will recognize in its financial statements the benefit of a tax position when it believes that tax position will more likely than not be sustained on audit based on the technical merits of the position. For an exempt organization, uncertain tax positions could result from unrelated business income activities or actions that jeopardize its status as tax-exempt, such as political activity, substantial lobbying expenditures or excessive unrelated business activities. The Organization has concluded that it had no unrecognized income tax benefits at June 30, 2016, or June 30, 2015, and it has no tax positions for which it estimates a significant change over the next 12 months.

The Organization is subject to examination by state and federal tax authorities. With few exceptions, the Organization is no longer subject to examination by major taxing authorities for year before 2012.

NOTE 13 – FAIR VALUE MEASUREMENT

Accounting principles generally accepted in the United States of America established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active market that the Organization has the ability to access.

Level 2 – Inputs to the valuation methodology include

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

NEIGHBORIMPACT AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 13 – FAIR VALUE MEASUREMENT – CONTINUED

The fair value was calculated and provided by Oregon Community Foundation. The investments in the endowment fund were Level 2 assets.

NOTE 14 – REDUCTION IN NET ASSETS

Total net assets as shown in the Consolidating Schedule of Financial Position declined by \$560,046 over the one-year period ended June 30, 2016. Components of this reduction include the following:

	<u>2016</u>
Reduction in federal grant funding from prior year	\$ (334,907)
Loss on disposal of assets, resulting from transfer of Lincoln Land Trust ownership to HousingImpact and Housing Works.	(202,836)
One-time write-off by Affiliate required to offset administrative costs applied to close funds in prior years.	(133,858)
Increase in allowance for doubtful accounts related to the housing loan portfolio.	(59,314)
Reduction in food inventory from prior year.	(30,964)
Other additions (reductions).	<u>201,833</u>
	<u>\$ (560,046)</u>

NOTE 15 – SUBSEQUENT EVENTS

The Organization received payments in full of \$456,896 on the notes receivable due from Lava Condo, LLC in July 2016, and payment in full of \$180,944 on the note receivable due from HW Madras Limited Liability Company in August 2016.

The Organization refinanced the note payable with Bank of the Cascades in July 2016, and obtained an interest rate of 4.05%. No other terms on this note changed.

Subsequent events have been evaluated through November 1, 2016, the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

NEIGHBORIMPACT AND AFFILIATES

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

JUNE 30, 2016

(WITH COMPARATIVE TOTALS FOR JUNE 30, 2015)

ASSETS	2016		
	NeighborImpact	Community Action Foundation of Central Oregon	Total
	CURRENT ASSETS		
Cash and cash equivalents	\$ 2,744,017	\$ 1,197,137	\$ 3,941,154
Grants receivable	987,300		987,300
Notes receivable		464,896	464,896
Prepaid expenses and other current assets	84,918		84,918
Food inventory	73,632		73,632
TOTAL CURRENT ASSETS	3,889,867	1,662,033	5,551,900
OTHER ASSETS			
Long-term investments	25,000		25,000
Investment in LLC	2,718		2,718
Restricted notes receivable, net of allowance	404,788		404,788
Other notes receivable, net of allowance	2,211,707		2,211,707
TOTAL OTHER ASSETS	2,644,213		2,644,213
FIXED ASSETS, net of accumulated depreciation	1,721,638	424,112	2,145,750
TOTAL ASSETS	\$ 8,255,718	\$ 2,086,145	\$ 10,341,863
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	\$ 210,689	\$	\$ 210,689
Accrued expenses	152,691		152,691
Escrow liability			
Current portion of long-term debt	3,886		3,886
TOTAL CURRENT LIABILITIES	367,266		367,266
LONG-TERM DEBT, net of current portion	30,246		30,246
TOTAL LIABILITIES	397,512		397,512
NET ASSETS			
Unrestricted	728,631	2,086,145	2,814,776
Temporarily restricted	6,522,685		6,522,685
Permanently restricted	606,890		606,890
TOTAL NET ASSETS	7,858,206	2,086,145	9,944,351
TOTAL LIABILITIES AND NET ASSETS	\$ 8,255,718	\$ 2,086,145	\$ 10,341,863

2015

<u>NeighborImpact</u>	<u>Community Action Foundation of Central Oregon</u>	<u>Healy Heights Partner, LLC</u>	<u>Total</u>
\$ 1,825,923	\$ 1,727,916	\$ 40,870	\$ 3,594,709
1,992,175			1,992,175
660			660
<u>104,596</u>			<u>104,596</u>
3,923,354	1,727,916	40,870	5,692,140
700,000			700,000
86,955			86,955
<u>2,108,420</u>			<u>2,108,420</u>
2,895,375			2,895,375
<u>1,805,559</u>	<u>477,554</u>		<u>2,283,113</u>
<u>\$ 8,624,288</u>	<u>\$ 2,205,470</u>	<u>\$ 40,870</u>	<u>\$ 10,870,628</u>
\$ 149,529	\$	\$	\$ 149,529
164,963			164,963
13,987			13,987
<u>3,633</u>			<u>3,633</u>
332,112			332,112
<u>34,119</u>			<u>34,119</u>
366,231			366,231
650,408	2,205,470	40,870	2,896,748
6,943,809			6,943,809
<u>663,840</u>			<u>663,840</u>
8,258,057	2,205,470	40,870	10,504,397
<u>\$ 8,624,288</u>	<u>\$ 2,205,470</u>	<u>\$ 40,870</u>	<u>\$ 10,870,628</u>

NEIGHBORIMPACT AND AFFILIATES

CONSOLIDATING SCHEDULE OF REVENUES AND EXPENSES

YEAR ENDED JUNE 30, 2016

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015)

	Management and General	Fundraising and Community Relations	Early Care and Education	Emergency Services	Food Bank Services
SUPPORT AND REVENUE					
Federal grants	\$	\$	\$ 2,060,695	\$ 2,830,291	\$ 24,229
State and local grants			2,940,011	1,461,439	50,240
Contributions		626,264	1,661	6,359	3,069,694
Program revenue	26,701	42,267	25,823	54,018	
Rental income					
Interest income	5,056				
Income from investment in LLC	2,718				
Other revenue	(1,500)	35	100	4,043	
Total support and revenues	32,975	668,566	5,028,290	4,356,150	3,144,163
EXPENSES					
Personnel services:					
Salaries and wages	604,385	171,249	2,526,269	668,130	177,488
Payroll taxes and benefits	192,110	49,430	1,107,796	186,151	57,944
Total personnel expenses	796,495	220,679	3,634,065	854,281	235,432
Materials and services:					
Printing	6,042	130	19,855	4,461	313
Office expense	41,433	20,804	20,436	37,968	4,405
Interest	125				
Insurance	12,324	125	39,005	5,963	9,211
Professional fees	33,366		70	120	6,837
Contract services	33,155	675	52,185	38,534	994
Repairs and maintenance	21,060	255	50,126	13,266	11,914
Client assistance	216	1,004	286,849	3,069,227	3,065,041
Transportation and lodging	10,718	2,392	92,334	35,979	10,174
Rent	87,895	12,108	61,239	15,615	
Janitorial	17,262	715		1,953	110
Utilities and telephone	34,618	3,259	55,998	25,513	2,466
Training and recruitment	17,225	3,039	37,683	8,653	278
Dues and other fees	39,984	9,180	12,672	2,224	446
Loss on disposal of assets	170,427				
Other					
Administration	(1,123,177)	29,396	564,214	275,225	35,270
Total materials and services	(597,327)	83,082	1,292,666	3,534,701	3,147,459
Total expenses	199,168	303,761	4,926,731	4,388,982	3,382,891
CHANGE IN NET ASSETS, before transfer and depreciation					
	(166,193)	364,805	101,559	(32,832)	(238,728)
Transfer (to) from other funds	(35,901)	(231,894)	3,406	38,787	173,161
Depreciation and amortization	(6,751)		(55,562)	(15,410)	(15,747)
CHANGE IN NET ASSETS	(208,845)	132,911	49,403	(9,455)	(81,314)
NET ASSETS - Beginning of year	1,219,786	359,374	626,887	463,947	330,138
NET ASSETS - End of year	\$ 1,010,941	\$ 492,285	\$ 676,290	\$ 454,492	\$ 248,824

Home Ownership Program	Lending	Neighborhood Reinvestment Fund Capital	Total NeighborImpact	Community Action Foundation of Central Oregon	Healy Heights Partner, LLC	Totals	
						2016	2015
\$ 637,700	\$	\$	\$ 5,552,915	\$	\$	\$ 5,552,915	\$ 5,887,822
645,361	50,000		5,147,051			5,147,051	4,861,273
127,116			3,831,094			3,831,094	3,601,040
46,305	401		195,515			195,515	102,881
				9,749		9,749	12,998
	19,636	213	24,905	15,264	44	40,213	46,901
			2,718			2,718	
			2,678	277		2,955	55,576
<u>1,456,482</u>	<u>70,037</u>	<u>213</u>	<u>14,756,876</u>	<u>25,290</u>	<u>44</u>	<u>14,782,210</u>	<u>14,568,491</u>
404,532	70,016		4,622,069			4,622,069	4,729,173
133,023	19,998		1,746,452			1,746,452	1,731,500
<u>537,555</u>	<u>90,014</u>		<u>6,368,521</u>			<u>6,368,521</u>	<u>6,460,673</u>
5,905	416		37,122			37,122	53,983
30,969	2,821		158,836	87		158,923	180,330
			125			125	
4,880	500		72,008			72,008	23,519
90	1,010		41,493	1,499		42,992	34,942
34,575	(112)		160,006			160,006	157,243
8,401			105,022			105,022	133,064
796,645	14,642	45,404	7,279,028	4,343		7,283,371	6,924,433
24,501	1,893		177,991			177,991	213,545
9,575	1,293		187,725			187,725	190,827
770			20,810			20,810	24,365
7,919	125		129,898			129,898	131,640
17,110	775		84,763			84,763	92,789
4,975			69,481	300		69,781	89,726
			170,427	32,409		202,836	
				133,858		133,858	
<u>206,068</u>	<u>13,004</u>						<u>3,961</u>
<u>1,152,383</u>	<u>36,367</u>	<u>45,404</u>	<u>8,694,735</u>	<u>172,496</u>		<u>8,867,231</u>	<u>8,254,367</u>
<u>1,689,938</u>	<u>126,381</u>	<u>45,404</u>	<u>15,063,256</u>	<u>172,496</u>		<u>15,235,752</u>	<u>14,715,040</u>
(233,456)	(56,344)	(45,191)	(306,380)	(147,206)	44	(453,542)	(146,549)
64,200		(11,759)		40,914	(40,914)		
			(93,470)	(13,034)		(106,504)	(93,852)
<u>(169,256)</u>	<u>(56,344)</u>	<u>(56,950)</u>	<u>(399,850)</u>	<u>(119,326)</u>	<u>(40,870)</u>	<u>(560,046)</u>	<u>(240,401)</u>
646,177	3,947,907	663,840	8,258,056	2,205,471	40,870	10,504,397	10,744,798
<u>\$ 476,921</u>	<u>\$ 3,891,563</u>	<u>\$ 606,890</u>	<u>\$ 7,858,206</u>	<u>\$ 2,086,145</u>	<u>\$ -</u>	<u>\$ 9,944,351</u>	<u>\$ 10,504,397</u>

See notes to financial statements

SINGLE AUDIT COMPLIANCE

**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***

To the Board of Directors
NeighborImpact

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 NeighborImpact (the Organization) (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, 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 November 1, 2016.

Internal Control over Financial Reporting

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

**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**

deficiencies in internal control over financial reporting 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 the Organization's financial statements are free of 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.

November 1, 2016

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

Board of Directors
NeighborImpact

Report on Compliance for Each Major Federal Program

We have audited NeighborImpact's (the Organization), compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2016. The Organization's major federal programs are 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 the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization'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, could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization'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 the Organization's compliance.

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

Unmodified Opinion on Each Major Federal Program

In our opinion, the Organization 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 June 30, 2016.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance referred to above. In planning and performing our audit of compliance, we considered the Organization'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 the Organization'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 and therefore, material weaknesses or significant deficiencies may exist that were not 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.

November 1, 2016

NEIGHBORIMPACT AND AFFILIATES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2016

SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unmodified opinion on the basic financial statements of NeighborImpact (the Organization).
2. No material weaknesses in internal control over financial reporting were identified during the audit of the financial statements.
3. No instances of noncompliance required to be reported under *Government Auditing Standards* were identified during the audit of the financial statements.
4. No deficiencies in internal control over compliance considered to be material weaknesses were identified during the audit of the major federal award programs.
5. The auditors' report on compliance for the major federal award programs for the Organization expresses an unmodified opinion on all major federal programs.
6. No audit findings relative to the major federal award programs for the Organization are reported in this Schedule.
7. The programs tested as major programs were:
 - 93.568 – Low-income Energy Assistance Program (LIHEAP)
 - 93.600 – Head Start
8. The threshold for distinguishing Types A and B programs was \$750,000.
9. The Organization was determined not to be a low-risk auditee.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

FINDINGS – FINANCIAL STATEMENT AUDIT

None

**NEIGHBORIMPACT AND AFFILIATES
BEND, OREGON**

**STATUS OF PRIOR YEAR (2015) FINDINGS
YEAR ENDED JUNE 30, 2016**

No prior year findings

NEIGHBORIMPACT AND AFFILIATES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2016

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Expenditures to Subrecipients
Department of Energy				
Passed through Oregon Housing and Community Services				
Weatherization Assistance	81.042	DE-EE0006179	\$ 145,602	\$
BPA Weatherization	81.XXX	70589	110,040	
			255,642	
Department of Treasury				
Passed through Oregon Housing and Community Services				
National Foreclosure Mitigation Counseling	21.113	2016-8334-0072-CLI	2,706	
Passed through Department of Housing and Urban Development				
Passed through NeighborWorks America				
NWA	21.113	2015-8334-0025-OUT	111,280	
			113,986	
Department of Education				
Passed through Oregon Department of Education				
Race to the Top - Early Learning Challenge	84.412A	S412A130030	180,946	
			180,946	
Department of Health and Human Services				
Head Start	93.600	10CH10090-02-00	1,344,065	
Passed through Oregon Housing and Community Services				
Housing Stabilization Program (TANF)	93.558	100916	25,501	
Low-income Energy Assistance (LIEAP)	93.568	G-16B10RLIEA	1,977,803	
Community Services Block Grant	93.569	G-15B10RCOSR	210,631	
Passed through Oregon Department of Education				
Child Care Development Block Grant	93.575	G1601ORCCDF	297,589	
			3,855,589	
Department of Agriculture				
Passed through Oregon Food Bank				
Temporary Emergency Food Assistance Program Admin Costs	10.568	150326	24,229	
Temporary Emergency Food Assistance Program Food Commodities (non-cash)	10.569	150326	414,111	
			438,340	
Passed through Oregon Department of Education				
Child and Adult Care Food Program	10.558	0903003	236,095	
			674,435	
Department of Housing and Urban Development				
Supportive Housing Program	14.267	OR0051L0E031508	493,507	
Passed through NeighborWorks America				
Housing Counseling	14.169	2015-8334-0197-OUT	40,229	
Passed through Oregon Housing and Community Services				
Emergency Shelter Grant Program	14.231	E15-DC-41-0001	123,177	58,000
Home TBA	14.239	14-15-SG-41-0100	247,069	
Passed through the City of Bend				
Community Development Block Grant - Bend HOC	14.218	N/A	16,388	
Passed through the City of Redmond				
Community Development Block Grant - Redmond HOC	14.218	B61601-001	31,000	
			47,388	
Subtotal CFDA Number 14.218			951,370	58,000
			\$ 6,031,968	\$ 58,000

Note A - BASIS OF PRESENTATION

The accompanying schedule of federal awards includes the federal grant activity of NeighborImpact and is presented on the accrual basis of accounting. The information presented in this schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. NeighborImpact did not elect to utilize the 10% de minimus indirect cost rate.

Note B - INSURANCE AND LOANS

There was no insurance in effect related to federal awards, nor were there any amounts of loans or loan guarantees related to federal awards outstanding at year end.