Neighborhood Reinvestment Corporation
(d.b.a. NeighborWorks® America)

Financial Statements, Supplementary Information, Schedule of Expenditures of Federal Awards, and Independent Auditor's Reports Required by *Government Auditing Standards* **and Uniform Guidance**

Years Ended September 30, 2016 and 2015

Neighborhood Reinvestment Corporation
(d.b.a. NeighborWorks® America)

Contents

CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Neighborhood Reinvestment Corporation
(d.b.a. NeighborWorks® America)
Washington, D.C.

We have audited the accompanying financial statements of **Neighborhood Reinvestment Corporation (d.b.a. NeighborWorks® America)** which comprise the statements of financial position as of September 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

To the Board of Directors
Neighborhood Reinvestment Corporation
(d.b.a. NeighborWorks® America)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Neighborhood Reinvestment Corporation (d.b.a. NeighborWorks® America)** as of September 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits of the financial statements were conducted for forming an opinion on those statements as a whole. The schedules of functional expenses are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards and notes to the schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are also presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules of functional expenses, the schedule of expenditures of federal awards, and the notes to the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2017, on our consideration of **Neighborhood Reinvestment Corporation (d.b.a. NeighborWorks® America)'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 result 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 **Neighborhood Reinvestment Corporation (d.b.a. NeighborWorks® America)'s** internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Calverton, Maryland
June 5, 2017

Financial Statements

Neighborhood Reinvestment Corporation
(d.b.a. NeighborWorks® America)

Statements of Financial Position (Amounts in 000's)

September 30,		2016		2015
Assets				
Current assets				
Cash and cash equivalents	**$**	**234,302**	$	124,553
Short term investments		**2,704**		2,984
Receivables:				
Contributions receivable		**2,689**		663
Grant and contract receivables		**630**		1,450
Other receivables - net		**432**		914
Prepaid expenses and other assets		**1,719**		1,434
Total current assets		**242,476**		131,998
Noncurrent assets				
Deposits		**544**		785
Property and equipment, net		**7,719**		8,969
Total noncurrent assets		**8,263**		9,754
Total assets	**$**	**250,739**	$	141,752
Liabilities and Net Assets				
Current liabilities				
Accounts payable and accrued expenses	**$**	**6,200**	$	8,100
Pass-through liability		**30,157**		14,038
Grant commitments:				
Foreclosure prevention		**41,226**		45,551
Deferred revenue:				
Foreclosure prevention		**10,602**		13,072
Registration Fees		**311**		339
Total current liabilities		**88,496**		81,100
Noncurrent liabilities				
Deferred rent liability		**7,640**		8,404
Total noncurrent liabilities		**7,640**		8,404
Total liabilities		**96,136**		89,504
Commitments and contingencies				
Net assets				
Unrestricted net assets		**12,903**		15,532
Temporarily restricted net assets		**139,200**		34,216
Permanently restricted net assets		**2,500**		2,500
Total net assets		**154,603**		52,248
Total liabilities and net assets	**$**	**250,739**	$	141,752

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

Neighborhood Reinvestment Corporation
(d.b.a. NeighborWorks® America)

Statement of Activities (Amounts in 000's)

Year ended September 30,	2016			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Revenue, Gains, and Other Support				
Congressional appropriations	$ 177,105	$ -	$ -	$ 177,105
Grants and contracts	6,227	-	-	6,227
Training registration fees	3,126	-	-	3,126
Contributions	1,015	132,165	-	133,180
Publications and subscriptions	420	-	-	420
Other income	701	-	-	701
Interest income	130	8	-	138
Net assets released from restrictions:				
Satisfaction of program and time restrictions	27,189	(27,189)	-	-
Total revenue, gains, and other support	215,913	104,984	-	320,897
Expenses				
Grants and grant commitments	138,028	-	-	138,028
Personnel	44,489	-	-	44,489
Professional services	14,964	-	-	14,964
Other operating costs	9,345	-	-	9,345
Occupancy	4,039	-	-	4,039
Conferences and workshops	3,290	-	-	3,290
Travel	3,050	-	-	3,050
Depreciation and amortization	1,337	-	-	1,337
Total expenses	218,542	-	-	218,542
Change in net assets	(2,629)	104,984	-	102,355
Net assets, beginning of year	15,532	34,216	2,500	52,248
Net assets, end of year	$ 12,903	$ 139,200	$ 2,500	$ 154,603

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

Neighborhood Reinvestment Corporation
(d.b.a. NeighborWorks® America)

Statement of Activities (Amounts in 000's)

Year ended September 30,	2015			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Revenue, Gains, and Other Support				
Congressional appropriations	$ 181,816	$ -	$ -	$ 181,816
Grants and contracts	7,533	-	-	7,533
Training registration fees	3,558	-	-	3,558
Contributions	953	12,866	-	13,819
Publications and subscriptions	681	-	-	681
Other income	450	-	-	450
Interest income	89	5	-	94
Net assets released from restrictions:				
Satisfaction of program and time restrictions	25,696	(25,696)	-	-
Total revenue, gains, and other support	220,776	(12,825)	-	207,951
Expenses				
Grants and grant commitments	145,378	-	-	145,378
Personnel	40,989	-	-	40,989
Professional services	15,293	-	-	15,293
Other operating costs	9,725	-	-	9,725
Occupancy	3,957	-	-	3,957
Travel	3,312	-	-	3,312
Conferences and workshops	3,476	-	-	3,476
Depreciation and amortization	1,985	-	-	1,985
Total expenses	224,115	-	-	224,115
Change in net assets	(3,339)	(12,825)	-	(16,164)
Net assets, beginning of year	18,871	47,041	2,500	68,412
Net assets, end of year	$ 15,532	$ 34,216	$ 2,500	$ 52,248

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

Neighborhood Reinvestment Corporation
(d.b.a. NeighborWorks® America)

Statements of Cash Flows (Amounts in 000's)

Years ended September 30,		**2016**		2015
Cash flows from operating activities				
Change in net assets	**$**	**102,355**	$	(16,164)
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Bad debt expense		**9**		-
Depreciation and amortization		**1,337**		1,985
Impairment of software development costs		**360**		1,269
Loss on disposal of fixed assets		**8**		-
(Increase) decrease in assets				
Receivables:				
Contributions receivable		**(2,026)**		694
Grant and contract receivables		**820**		2,314
Other receivables		**473**		(385)
Prepaid expenses and other assets		**(285)**		(793)
Deposits		**241**		42
Increase (decrease) in liabilities				
Accounts payable and accrued expenses		**(1,900)**		(691)
Pass-through liability		**16,119**		5,367
Grant commitments:				
Foreclosure prevention		**(4,325)**		6,465
Deferred revenue:				
Foreclosure prevention		**(2,470)**		3,184
Registration Fees		**(28)**		(253)
Deferred rent liability		**(764)**		471
Net cash provided by operating activities		**109,924**		3,505
Cash flows from investing activities				
Purchases of investments		**(2,703)**		(2,983)
Sales of Investments		**2,983**		2,985
Purchases of property and equipment		**(455)**		(1,698)
Net cash used in investing activities		**(175)**		(1,696)
Increase in cash and cash equivalents		**109,749**		1,809
Cash and cash equivalents, beginning of year		**124,553**		122,744
Cash and cash equivalents, end of year	**$**	**234,302**	$	124,553

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

1. Organization, Mission and Program Services

Organization

Neighborhood Reinvestment Corporation (d.b.a. NeighborWorks® America) (the Corporation) was established by Congress in 1978, by the Neighborhood Reinvestment Corporation Act under 42 U.S.C. 8101-8107. The Corporation is a private non-profit charitable organization under IRC 501(c)(3). As stated in its enabling documents the purpose of the Corporation is to continue the joint efforts of the federal financial supervisory agencies and the Department of Housing and Urban Development (HUD) in promoting reinvestment in older neighborhoods by local financial institutions in cooperation with the community, residents and local governments. These efforts were previously conducted by the Urban Reinvestment Task Force, which the Corporation succeeded.

Funding for the Corporation is primarily through Congressional appropriation as well as through grants from federal and state government agencies, corporations, foundations and private donors. The Corporation's board of directors is determined by statute and consists of the heads of the Comptroller of the Currency, Federal Reserve, National Credit Union Administration, Federal Deposit Insurance Corporation (FDIC) and the U.S. Department of Housing and Urban Development (HUD), who are presidential appointees subject to Senate confirmation, or their designated representatives.

Mission

The Corporation provides financial, technical and organizational support around 250 independent, community-based non-profit organizations operating in all 50 States and the District of Colombia, known collectively as the NeighborWorks® network, that help low- and moderate- income families rent, purchase and maintain affordable homes. The NeighborWorks® network also revitalizes communities through resident leadership and private and public partnerships that encourage local investment in sustainable projects.

The Corporation provides its services to the NeighborWorks® network through four distinct program service areas, Capacity Building, Preserving Affordable Housing, Training and Informing, and Organizational Assessment as described below. In addition, the Corporation administers the National Foreclosure Mitigation Counseling (NFMC) Program which was enacted by Congress on December 26, 2007 in response to the nationwide subprime foreclosure crisis. Since its passage, Congress has appropriated ten successive annual rounds of funding totaling approximately $848 million to NeighborWorks® America for continuation of the program.

The Corporation maintains its national headquarters in Washington, D.C. and supports its NeighborWorks® network locally through regional offices in Boston, New York, Atlanta, Cincinnati, Kansas City, Denver, and Los Angeles.

Program Services

Capacity Building

Capacity building refers to the practical assistance the Corporation provides to strengthen the performance of NeighborWorks® network organizations, enabling them to respond most effectively and efficiently to the needs of their communities. The Corporation expands the capacity of network members by providing onsite technical assistance and limited funding. As part of Capacity Building, the Corporation promotes increased access to the capital markets through its support of Community Housing Capital and NeighborWorks Capital Corporation. These affiliated organizations play a critical role in meeting the NeighborWorks® network's capital needs by bringing low-cost, flexible private-sector capital and innovative loan products to network members. Flexible loan products help meet the financing needs for housing rehabilitation, homeownership and real-estate development.

National Foreclosure Mitigation Counseling (NFMC)

The NFMC program is designed to provide mortgage foreclosure mitigation assistance to states and areas with high rates of defaults and foreclosures, primarily in the subprime housing market. Through the state housing finance agencies, HUD-approved housing counseling intermediaries and community-based NeighborWorks® organizations, the Corporation provides free assistance to families at risk of losing their homes, helping clients to understand the complex foreclosure process, and identifying possible courses of action to allow them to make informed decisions and take necessary actions.

Preserving Affordable Housing

The Corporation helps NeighborWorks® organizations construct new housing, repair and renovate existing housing, promote homeownership and further mixed-income affordable housing opportunities. The Corporation also supports the organizations' hazard abatement, energy conservation, post-purchase counseling, and foreclosure prevention activities. Equity capital, in the form of highly flexible Corporation grants to local organizations' revolving loan funds, is also vitally important. Revolving loan funds are used to support home repair, down-payment and closing-cost assistance, energy conservation repairs, commercial and small business loans, predevelopment costs, acquisition of problem properties, and a host of other initiatives.

Training and Informing

Through communications, publishing, research and training functions, the Corporation collects and disseminates pertinent and useful information for the NeighborWorks® network and the broader community development field. The Corporation imparts this data and information through a variety of vehicles, and trains and informs the network and representatives of the broader industry through national and regional training events, publications, on-line (at www.nw.org) and other venues.

Organizational Assessment

The Corporation closely monitors the capacity of each NeighborWorks® organization to successfully manage programmatic risks and to ensure their financial and organizational stability. The organizational assessment function evaluates all of the NeighborWorks® network members to successfully predict, mitigate, and manage risk and steadily increase the health, performance, productivity, and effectiveness of the organizations.

2. Summary of Significant Accounting Policies

Basis of Accounting

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

Cash and Cash Equivalents

Cash and cash equivalents are stated at cost which approximates fair value and include investments with original maturities of three months or less. Cash in excess of amounts required to fund current operations are invested overnight.

Cash held as an agent where the Corporation has neither an administrative or financial direct involvement is recorded as a Pass-Through Liability included on the Statements of Financial Position and amounted to $30,157 and $14,038 at September 30, 2016 and 2015, respectively.

As required by their underlying grant agreements, the Corporation maintains separate bank accounts related to its NFMC and Project Reinvest programs.

Investments

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 11 for discussion of fair value measurements. The investment policy of the Board of Directors limits investment of the Corporation's funds to US Treasury and Federal Agency Securities or repurchase agreements or mutual funds consisting of such securities.

Included in investments on the statement of financial position are endowment funds of $2,500 related to the George Knight Scholarship Endowment more fully described in Note 6. These funds are included as a permanently restricted net asset and are invested consistent with Board policy.

Purchases and sales of securities are recorded on a trade-date basis and interest income is recorded on the accrual basis. Investment income or loss is included in the change in unrestricted net assets unless their use is temporarily or permanently restricted by donor stipulations or by law.

Receivables

Contributions - Contributions receivable consist of amounts due from private corporations and foundations. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows when the difference between present and nominal value is material. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Conditional promises to give are not included as support until the conditions are substantially met. There were no long-term receivables at September 30, 2016 and 2015.

Grants and Contracts – Grants and contracts receivable consist of amounts due from federal agencies, corporations, and foundations resulting from allowable expenditures incurred which have not been recovered as of the end of the fiscal year.

Other Receivables - Other receivables consist of contracts and miscellaneous receivables from sources other than federal agencies and donor corporations and foundations.

Allowance for Doubtful Accounts - The Corporation uses the allowance method to provide for receivables deemed uncollectible based on management's evaluation of potential uncollectible amounts at year-end. Contributions, grants and contracts receivable due from federal and state government agencies, foundations and major corporations are generally deemed collectible and no allowance was established for such receivables at September 30, 2016 and 2015. Other receivables are evaluated as to their collectability using the most recent information available.

Property and Equipment

Property and equipment consist primarily of computer equipment and related software, furniture and fixtures, and leasehold improvements. Property and equipment is recorded at cost, which includes all costs required to put the asset into service. The Corporation capitalizes all expenditures for property and equipment with a per-unit cost over $5k. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, which range from 3 to 8 years, or the lesser of the minimum lease period or the asset's useful life for leasehold improvements. When assets are sold or otherwise disposed of, the asset and the related accumulated depreciation and amortization are removed from the accounts and any remaining gain or loss is included in operations. Repairs and maintenance are charged to expense when incurred.

Certain costs of internally developed software are capitalized and once the development project is complete and the software put into service, these costs are amortized over the estimated useful lives of the software, which range from 3 to 5 years.

Impairment of Long-Lived Assets

The Corporation reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or the fair value less costs to sell.

Financial Instruments and Credit Risk

Financial instruments which potentially subject the Corporation to concentrations of credit risk consist principally of cash and cash equivalents and cash held for long term purposes held at creditworthy financial institutions. At September 30, 2016 and 2015, substantially all of the Corporation's cash and cash equivalents and cash held for long-term purposes were held at financial institution in accounts over FDIC limits.

Credit risk with respect to contributions receivable, grants receivable and other receivables is limited due to the nature of the grantor, typically the Federal government, its Agencies and large financial institutions, and the fact that the Corporation's private donors are dispersed over a large geographic area.

Major Source of Funding

The Corporation receives a substantial portion of its revenue from congressional appropriations, 55% and 87%, for the years ended September 30, 2016 and 2015, respectively. The continued receipt of the appropriation may be dependent upon future overall economic and political conditions and while the Corporation's management anticipates that it will continue to have access to the resources necessary to carry out its programs in their current form, its ability to do so and the extent to which it continues, may be dependent on the above factors.

Additionally, during 2016, the Corporation received a one time donation from the Bank of America settlement funds, which represented 38% of total revenue, thus reducing the percentage concentration for appropriations in the current year. The programs designed around this funding will dissolve when the funding is fully used and not deemed to have a severe impact to the organization.

Grant Commitments

Grant commitments are the committed but unpaid balances to grantees under the National Foreclosure Mitigation Counseling Program funded through congressional appropriations. These amounts will be paid to grantees on submission of the required progress reports under the programs. NFMC grants are expensed when the grant commitment is made.

Deferred Revenue

Deferred revenue consists of training registration fees, unearned contract revenue and uncommitted grants of the National Foreclosure Mitigation Counseling Program under congressional appropriations. Training registration fees and contract revenue received in advance and not yet earned are deferred to the applicable period. Congressional appropriations for the National Foreclosure Mitigation Counseling Program, received but not yet awarded to sub-recipients, are deferred to the period to which the awards will be made.

Deferred Rent Liability

The Corporation leases office space under long arrangements which contain rent abatements, escalation clauses and tenant build-out allowances. Rent expense is recognized on a straight line basis over the life of the underlying lease taking into consideration all such adjustments. The difference between the contractual cash liability and rent expense is recorded as deferred rent liability on the statement of financial position. The liability is amortized as an adjustment to rent expense over the life of the underlying lease.

Net Assets

a) *Unrestricted Net Assets* - Unrestricted net assets include resources available for general operations of the Corporation, invested primarily in its property and equipment, or designated by the board of directors for a specific use.

b) *Temporarily Restricted Net Assets* - Temporarily restricted net assets consist of amounts that are subject to donor restrictions and include income earned on permanently restricted net assets that are restricted by donors.

The Corporation reports gifts of cash and other assets as 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 purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Contributions that are received and released in the same period are reflected as unrestricted.

c) *Permanently Restricted Net Assets* - Permanently restricted net assets consist of assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by action of the Corporation. The restrictions stipulate that resources be maintained permanently but permit the Corporation to expend the income generated in accordance with the provisions of the agreements. The permanently restricted net assets are established to provide a permanent source of income for awarding National Training Institute scholarships through investment earnings.

Pass-Through Liability

Under certain agency agreements, the Corporation receives assets from the donor and agrees to use those assets on behalf of or transfer those assets, the return on investment of those assets, or both to a specified beneficiary. When such agency agreements are without variance power, the Corporation records the receipt and disbursement of funds on the Statement of Financial Position as a Pass-Through Liability. Accordingly, there is no impact on the Statement of Activities for such grants.

Revenue Recognition

The Corporation is funded through several different sources: congressional appropriations, grants and contracts from government agencies, corporations and foundations, contributions, training registration fees, sale of publications and subscriptions, performance of miscellaneous consulting services, and investment income.

The Corporation's primary source of funding is through federal appropriations. Unrestricted federal appropriations are recognized as unrestricted revenue when the legislation is enacted. Appropriations under the NFMC Program are initially deferred and subsequently recognized as related program grant commitments are made and allowable operating expenses incurred.

Grants and contracts may involve different arrangements such as reimbursement of cost, milestone payments, fee-for-service or donation. Revenue is recognized under reimbursement of allowable cost and milestone arrangements on a systematic basis as qualifying costs are incurred or contractual milestones are reached and customer concurrence, if required, has occurred. Revenue is recognized under fee-for-service contracts as services are rendered.

Unconditional contributions are recorded when pledged and are considered to be available for unrestricted use unless specifically restricted by the donor.

Fees received in advance of a training event are deferred and recognized when the related training has been completed. Fees for consulting services and investment income are recognized when earned.

Functional Allocation of Expenses

Costs of program activities and supporting services are presented on a functional basis as described in Note 9 of the financial statements. Accordingly, certain direct and indirect expenses have been allocated among the programs and supporting services benefited.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The Corporation is exempt from Federal income taxes under provisions of Section 501(c)(3) of the Internal Revenue Code. In addition, the Corporation has been classified by the Internal Revenue Service as a publicly supported organization under Section 509(a)(1) of the Internal Revenue Code. The Corporation follows the income tax standard for uncertain tax positions. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. The Corporation has analyzed tax positions taken for filing with the Internal Revenue Service and all state jurisdictions where it operates. The Corporation believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Corporation's financial position, results of activities or cash flows. Accordingly, the Corporation has not recorded any reserves or related accruals for interest and penalties for uncertain income tax positions at September 30, 2016 and 2015.

Fair Value

Certain financial instruments are required to be recorded at fair value. Changes in assumptions or estimation methods could affect the fair value estimates; however, we do not believe any such changes would have a material impact on our financial condition, results of operations or cash flows. Cash equivalents are recorded at cost, which approximates fair value. The fair values of investments held by the endowment fund are disclosed in Note 11.

Notes to Financial Statements (Amounts in $000's)

3. Property and Equipment

Property and equipment consists of the following:

September 30,	**2016**	2015
Computer and software equipment	**$ 14,031**	$ 14,103
Leasehold improvements	**10,118**	9,866
Software development in progress	**244**	423
Furniture and fixtures	**1,079**	1,070
Total property and equipment at cost	**25,472**	25,462
Less: accumulated depreciation and amortization	**(17,753)**	(16,493)
Total property and equipment, net	**$ 7,719**	$ 8,969

Depreciation and amortization expense for the years ended September 30, 2016 and 2015, was $1,337 and $1,985, respectively. Costs related to internally developed software capitalized as software development in progress amounted to $244 and $423 for the years ended September 30, 2016 and 2015, respectively.

The Corporation performed a technical evaluation of a software development project that had been capitalized in prior years and put on hold. The evaluation concluded that due to a combination of changes in business requirements and application architecture design, the project would be abandoned in its present form. As a result, the Corporation recorded an impairment charge of $360 and $1,269 for the years ended September 30, 2016 and 2015, respectively, that is included in Other Operating Expenses in the Statements of Activities.

4. Temporarily Restricted Net Assets

At September 30, 2016 and 2015, temporarily restricted net assets consist of the following:

	2016	2015
Bank of America	**$ 119,970**	$ 1,648
SunTrust	**11,725**	21,051
Wells Fargo	**2,934**	7,823
JP Morgan	**2,081**	-
RW Johnson	**971**	415
Citi	**244**	903
Scholarship/Endowment	**200**	322
MetLife	**168**	960
Morgan Stanley	**88**	-
Ford	**-**	29
All Others	**817**	1,065
Total temporarily restricted net assets	**$139,200**	$34,216

5. Permanently Restricted Net Assets

The Corporation received $2,500 as part of the 2001 Congressional Appropriation for the purpose of establishing The George Knight Scholarship Endowment. In addition, the Corporation received $500 in 2001 from JP Morgan Chase Bank ("JPMCB") (formerly known as Washington Mutual Bank) to establish an endowment fund. In February 2002, the Corporation received an additional $500 from JPMCB increasing the total principal balance of the endowment fund to $3,500. In 2010, permanently restricted net assets of $1,000 were released from permanent restrictions and transferred to temporarily restricted net assets to comply with revised donor stipulations. No permanently restricted contributions were received during fiscal years 2016 and 2015.

6. Endowment

The endowment funds in Note 5 were established for the purpose of funding Training Institute scholarships. The Endowment funds' principal balances will remain in perpetuity, while interest income from the endowments will be used to fund Training Institute scholarships.

Interpretation of Relevant Law

The Board of Directors of the Corporation has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently restricted net assets (a) the original value of gifts donated to the donor-restricted permanent endowment, (b) the original value of subsequent gifts to the donor-restricted permanent endowment, and (c) accumulations to the donor-restricted permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Corporation. The Corporation reports these funds in accordance with, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and Enhanced Disclosures for All Endowment Funds.* These endowment funds are invested in highly rated Federal Agency securities consistent with Board policy. The returns on the endowment funds invested have been included in temporarily restricted investment income on the Statements of Activities.

Notes to Financial Statements (Amounts in $000's)

Endowment Net Asset Composition and Changes in Balances

The following table represents the composition of the Corporation's endowment by net asset class and the changes in donor restricted endowment funds at September 30, 2016 and 2015.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets – 09/30/2014	$ -	$ 454	$ 2,500	$ 2,954
Investment income	-	5	-	5
Amounts appropriated for expenses	-	(137)	-	(137)
Endowment net assets – 09/30/2015	-	322	2,500	2,822
Investment income	-	8	-	8.00
Amounts appropriated for expenses	-	(130)	-	(130)
Endowment net assets – 09/30/2016	$ -	$ 200	$ 2,500	$ 2,700

Return Objectives and Risk Parameters

By policy, the endowment fund assets are invested and maintained in a balanced investment program. The primary objective of the Directors for managing the investment process is to preserve principal and provide reasonable returns. The Directors consider the combination of broad asset classes; reduction of risk through diversification; and then select the portfolio that may obtain the highest return given an acceptable level of risk within established corporate investment policies.

The endowment assets are invested in a manner that balances the following investing objectives:

1. Capital Protection: the achievement of adequate investment growth such that the purchasing power of the principal amount of the endowment assets is maintained over a reasonable time horizon.

2. Current Income: the generation of interest and dividends to provide sufficient cash flow and liquidity to fund distribution requirements.

3. Consistent growth performance: the achievement of growth in such a manner to protect the endowment assets from excessive volatility in market value from year to year.

Notes to Financial Statements (Amounts in $000's)

Spending Policy

In order to protect the restricted endowments against losses and to ensure relative stability in its annual earnings (which are needed to fund the Training Institute scholarships), management invests the funds in government secured instruments consistent with the Organization's investment policies.

7. Capital Corporations

Community Housing Capital: Community Housing Capital is a national intermediary serving as a direct lender to the NeighborWorks® network, providing financing for the development and preservation of single-family and multi-family affordable housing. Grants made by the Corporation to Community Housing Capital amounted to $2,300 and $2,238 for the years ended September 30, 2016 and 2015, respectively.

NeighborWorks® Capital Corporation: NeighborWorks® Capital Corporation (NWCC) is an independently incorporated tax-exempt nonprofit organization and certified Community Development Financial Institution (CDFI) that operates as an affiliated entity to NeighborWorks® America. NWCC serves the NeighborWorks® network by developing and enhancing resources for the acquisition, development, sale, financing or ownership of affordable single-and multi-family properties and commercial projects. Grants made by the Corporation to NWCC amounted to $2,300 and $2,238 for the years ended September 30, 2016 and 2015, respectively.

8. Commitments and Contingencies

Operating Leases

On June 1, 2013, the Corporation entered into a 10-year lease agreement for its main headquarters office, which expires in May 2023. The lease provides for a tenant improvement allowance of approximately $4,900 and one year rent abatement. The Corporation subleases office space in situations where it has capacity in excess of its business requirements. Sublease revenue under such agreements totaled $0 and $4 in fiscal 2016 and 2015, respectively. The Corporation also has other lease agreements with regional offices expiring at various times through 2025.

Minimum lease payments under non-cancelable operating leases are as follows:

Years ending September 30,	
2017	$ 4,600
2018	4,688
2019	4,595
2020	4,470
2021	4,155
Thereafter	8,350
	$ 30,858

Occupancy expense for the years ended September 30, 2016 and 2015, amounted to $4,039 and $3,957, respectively.

The Corporation is party to office equipment leases, primarily for copiers and media production equipment, which typically have a term of 60 months. Equipment lease expense for the years ended September 30, 2016 and 2015, amounted to $295 and $299, respectively. Commitments under non-cancelable office equipment operating leases are as follows: FY2017 – $307; FY2018 – $243; FY2019 - $122, FY2020 - $11.

Commitments and Contingencies

The Corporation enters into contracts for hotel accommodations and meeting space in connection with its National Training Institutes and other significant trainings up to three years in advance of the events. The contracts often carry cancellation penalties which vary in severity inversely to the date cancellation notice is given. At September 30, 2016, the Corporation had 36 such contracts in place extending through fiscal 2018. The maximum penalty assuming all contracts were cancelled at the latest possible date is $3,295 in fiscal 2017 and $1,835 in fiscal 2018.

The Corporation receives funds from Federal sources that are subject to audit by the various awarding agencies. The Corporation has not been informed of any intent to conduct an audit. In the event of such an audit, management does not believe that any material adjustments will be necessary.

As per the Recapture and De-obligation Procedure of the NFMC program, in the event that counseling demand falls short of the goals projected in the Grantee's application and Grant Agreement or in the event that the grantee does not comply with the terms and conditions of the grant as outlined in the Final Funding Announcement, Notice of Intent to Award Funds, and Grant Agreement, the Corporation may recapture funds already distributed to the Grantee and/or rescind its obligation to distribute un-disbursed awarded funds to the grantee. Pursuant to this procedure, subsequent to year end, some organizations have voluntarily returned funds or requested funds to be de-obligated.

In the ordinary course of activities, the Corporation is party to various legal and administrative actions, including employment matters and claims by organizations in the NeighborWorks® network. In the opinion of management, the potential adverse impact of these legal and administrative actions is insignificant to the financial statements of the Corporation.

Notes to Financial Statements (Amounts in $000's)

9. Program and Supporting Services

The following is a breakdown of the Corporation's program and supporting services for the years ended September 30, 2016 and 2015. See Note 1 for a description of the Corporation's Program Services:

September 30,	**2016**	2015
Program Services:		
Capacity Building	**$93,312**	$97,240
National Foreclosure Mitigation Counseling (NFMC)	**43,367**	47,852
Preserving Affordable Housing	**38,251**	37,959
Training and Informing	**27,705**	26,524
Organizational Assessment	**6,668**	6,689
Total program services	**209,303**	216,264
Supporting Services:		
General and Administrative	**7,816**	6,465
Resource Development	**1,423**	1,386
Total supporting services	**9,239**	7,851
Total expenses	**$218,542**	$224,115

General and Administrative

In accordance with the National Affordable Housing Act (P.L. 101-625), the Corporation's administrative expenses are consistently held to less than 15 percent of expenditures. These expenses include the offices of the chief executive officer, the chief operating officer, the chief financial officer and the general counsel as well as the finance, information management, public policy and legislative affairs, human resources, and administrative services units.

Resource Development

This supporting service category includes expenditures which provide the structure necessary to encourage and secure private financial support.

10. Retirement Plan

The Corporation has a defined contribution retirement plan subject to independent audit which meets the requirements of Section 401(k) of the U.S. Internal Revenue Code. Each eligible participant may enter into a salary deferral agreement with the Corporation in an amount equal to but not less than 1% or more than 75% of his or her compensation for the contribution period capped at the legal allowable maximum dollar deferral. The Corporation matches each eligible participant's pre-tax contributions at 100% up to a maximum of 6%, and this matching contribution is 100% vested. The Corporation may also contribute a discretionary amount equal to 6% of the social security integration level in effect and 11.7% of each eligible participant's compensation in excess of the social security integration level. This discretionary employer contribution to eligible participants has a 5-year vesting schedule as follows: 20% year 2; 40% year 3; 80% year 4; and 100% year 5. Employees may also borrow against their vested benefits. Employees are eligible for both the discretionary and matching contributions after one year of service.

Total retirement plan expense for fiscal years 2016 and 2015 is $3,113 and $2,936, respectively.

11. Fair Value

A fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value is established by generally accepted accounting principles. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under generally accepted accounting principles are described as follows:

<u>Basis of Fair Value Measurement</u>

Level 1—Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2—Inputs to the valuation methodology include: (1) quoted prices for similar assets or liabilities in active markets; (2) quoted prices for identical or similar assets or liabilities in inactive markets; (3) inputs other than quoted prices that are observable for the asset or liability; and (4) inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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

The asset's 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.

Notes to Financial Statements (Amounts in $000's)

The following tables set forth by level, within the fair value hierarchy, the Corporation's investment assets at fair value as of September 30, 2016 and 2015. Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

September 30, 2016

Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Balance as of September 30, 2016
Freddie Mac US Domestic Unsecured		$ 2,500		$ 2,500
Freddie Mac US Domestic Unsecured		204		204
Total		$ 2,704		$ 2,704

September 30, 2015

Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Balance as of September 30, 2015
Freddie Mac US Domestic Unsecured		$ 2,500		$ 2,500
Freddie Mac US Domestic Unsecured		484		484
Total		$ 2,984		$ 2,984

Government securities classified as Level 2 are valued using quoted market prices for similar assets and liabilities in active markets. There are no unfunded commitments at September 30, 2016 and 2015.

12. Severance Pay

The Corporation will provide pay to separated employees under the following involuntary separation conditions:

Severance – position elimination and reduction in force.

Transition Pay – resignation in lieu of termination for performance-based or for cause terminations, declination to relocate with position move (outside of existing commuting area) or resignation due to other mutual decision to end the employment relationship.

Employees who are terminated for any other reasons (i.e., performance, cause, misconduct) will not be eligible for severance or transition pay. Additionally, resignations are voluntary separations; therefore, severance or transition pay does not apply unless the resignation occurs after the employee receives a notice of involuntary separation or resigns due to a mutual decision to end the employment relationship.

In the event an employee accepts other employment with the Corporation prior to the date of a position elimination or reduction in force, the employee will not be eligible for severance pay. If an employee is rehired after separation, he or she may be required to reimburse the severance pay on a pro rata basis, based on whether the total number of weeks on severance pay was more than the number of weeks in which the employee was not employed by the Corporation. The method of repayment will be considered on a case-by- case basis. Further, an employee will be considered to have voluntarily resigned and will not be eligible for severance pay if he or she rejects NeighborWorks America's offer of employment within the same commuting area and pay classification prior to involuntary separation.

The Corporation entered into severance agreements with four employees during 2016. As a result, these agreements include payments totaling $88 to be made in 2017.

13. Subsequent Events

Subsequent events were evaluated through June 5, 2017, which is the date the financial statements were available to be issued. There were no events noted that required adjustment or disclosure to these financial statements except those noted above.

Supplementary Information

Neighborhood Reinvestment Corporation
(d.b.a. NeighborWorks® America)

Schedule of Functional Expenses - Year Ended September 30, 2016 (Amounts in 000's)

	Program Services						Supporting Services			
	Capacity Building	National Foreclosure Mitigation Counseling	Preserving Affordable Housing	Training and Informing	Organizational Assessment	Total Program Services	General and Administrative	Resource Development	Total Supporting Services	2016 Total
Grants and grant commitments	$ 57,683	$ 37,650	$ 38,251	$ 4,426	$ -	$ 138,010	$ -	$ 18	$ 18	$ 138,028
Personnel	16,580	2,150	-	7,906	3,619	30,255	13,457	777	14,234	44,489
Professional services	4,815	1,297	-	5,006	257	11,375	3,577	12	3,589	14,964
Other operating costs	1,070	520	-	2,450	70	4,110	5,226	9	5,235	9,345
Occupancy	1,641	161	-	469	390	2,661	1,286	92	1,378	4,039
Conferences and workshops	382	265	-	2,097	11	2,755	528	7	535	3,290
Travel	1,512	75	-	759	219	2,565	428	57	485	3,050
Depreciation and amortization	-	-	-	-	-	-	1,337	-	1,337	1,337
Total expenses	83,683	42,118	38,251	23,113	4,566	191,731	25,839	972	26,811	218,542
Overhead allocation	9,629	1,249	-	4,592	2,102	17,572	(18,023)	451	(17,572)	-
Total expenses, after overhead allocation	$ 93,312	$ 43,367	$ 38,251	$ 27,705	$ 6,668	$ 209,303	$ 7,816	$ 1,423	$ 9,239	$ 218,542

See independent auditors' report.

Neighborhood Reinvestment Corporation
(d.b.a. NeighborWorks® America)

Schedule of Functional Expenses - Year Ended September 30, 2015 (Amounts in 000's)

	Program Services						Supporting Services			
	Capacity Building	National Foreclosure Mitigation Counseling	Preserving Affordable Housing	Training and Informing	Organizational Assessment	Total Program Services	General and Administrative	Resource Development	Total Supporting Services	2015 Total
Grants and grant commitments	$ 60,246	$ 42,615	$ 37,959	$ 4,526	$ 1	$ 145,347	$ 6	$ 25	$ 31	$ 145,378
Personnel	16,496	1,770	-	6,985	3,721	28,972	11,267	750	12,017	40,989
Professional services	6,045	1,431	-	5,271	277	13,024	2,259	10	2,269	15,293
Other operating costs	1,180	598	-	2,512	66	4,356	5,360	9	5,369	9,725
Travel	1,772	87	-	646	210	2,715	547	50	597	3,312
Occupancy	1,477	139	-	494	262	2,372	1,488	97	1,585	3,957
Conferences and workshops	554	196	-	2,081	16	2,847	615	14	629	3,476
Depreciation and amortization	-	-	-	-	-	-	1,985	-	1,985	1,985
Total expenses	87,770	46,836	37,959	22,515	4,553	199,633	23,527	955	24,482	224,115
Overhead allocation	9,467	1,016	-	4,009	2,136	16,628	(17,059)	431	(16,628)	-
Total expenses, after overhead allocation	$ 97,237	$ 47,852	$ 37,959	$ 26,524	$ 6,689	$ 216,261	$ 6,468	$ 1,386	$ 7,854	$ 224,115

See independent auditors' report.

Neighborhood Reinvestment Corporation
(d.b.a. NeighborWorks® America)

Schedule of Expenditures of Federal Awards

Year ended September 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA/ Public Law Number	Passed Through to Subrecipients	Federal Expenditures
Congressional Appropriation - NeighborWorks® National Foreclosure Mitigation Counseling Program			
Appropriation 1	21.110-161	$ (203,089)	$ (203,089)
Appropriation 2	21.110-289	(395,676)	(395,676)
Appropriation 3	21.111-008	(33,023)	(33,023)
Appropriation 4	21.111.117	(24,617)	(24,617)
Appropriation 5	21.112.010	(4,510)	(4,510)
Appropriation 6	21.112-055	(1,188)	(1,188)
Appropriation 8	21.113-076	(20,030)	(20,030)
Appropriation 9	21.113-235	(2,306,506)	(2,306,506)
Appropriation 10	21.114.113	39,925,452	45,093,979
Total - NeighborWorks® National Foreclosure Mitigation Counseling Program		36,936,813	42,105,340
Congressional Appropriation - NeighborWorks® System Program			
FY 2016 Appropriation	21.114.113	85,087,536	135,000,000
Total Congressional Appropriations		**122,024,349**	**177,105,340**
U.S. Department of Housing and Urban Development:			
Emergency Home Loan Program (EHLP)	14.323	-	50,269
Housing Counseling Training Program	14.169	2,624,233	2,951,465
Housing Counseling Training Program	14.316	-	834,581
Total U.S. Department of Housing and Urban Development		**2,624,233**	**3,836,315**
U.S. Department of Agriculture			
NeighborWorks® Rural Community Development	10.446	-	4,889
Corporation for National and Community Service			
Volunteers in Service to America	94.013	-	88,216
Total Expenditures of Federal Awards		**$ 124,648,582**	**$ 181,034,760**

Program Title	Public Law Number		Endowment Fund Balance
George Knight Scholarship Fund for the Neighborhood Reinvestment Training Institute	21.106-377	$ -	$ 2,500,000

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal grant activity of the Corporation under programs of the federal government for the year ended September 30, 2016. The information in this schedule is presented in accordance with the requirements of 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Corporation, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Corporation. Therefore, some amounts presented in the schedule may differ from amounts presented in the financial statements.

The difference between this schedule for the NFMC program and the schedule of functional expenses before the overhead allocation represents bank charges of $12,713 that are not charged to the NFMC program.

2. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting with the exception of capital expenditures and deferred rent, which are reported in the schedule when paid or accrued for payment. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Corporation does not charge indirect costs to federal awards and as such did not elect to use the 10-percent de minim as indirect cost rate.

3. Federal Endowments

The federal endowments listed in the schedule are administered directly by the Corporation, and balances and transactions relating to these programs are included in the Corporation's financial statements. There were no transactions impacting the endowment balance during 2016.

Independent Auditors' Reports Required by *Government Auditing Standards* and Uniform Guidance

CliftonLarsonAllen LLP
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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*

To the Board of Directors
Neighborhood Reinvestment Corporation
(d.b.a. NeighborWorks® America)
Washington, D.C.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of **Neighborhood Reinvestment Corporation (d.b.a. NeighborWorks® America)**, which comprise the statement of financial position as of September 30, 2016, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 5, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered **Neighborhood Reinvestment Corporation's (d.b.a. NeighborWorks® America)** internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **Neighborhood Reinvestment Corporation's (d.b.a. NeighborWorks® America)** internal control. Accordingly, we do not express an opinion on the effectiveness of NeighborWorks® America's internal control.

A *deficiency in internal* control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Board of Directors
Neighborhood Reinvestment Corporation
(d.b.a. NeighborWorks® America)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Neighborhood Reinvestment Corporation's (d.b.a. NeighborWorks® America)** financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Calverton, Maryland
June 5, 2017

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

To the Board of Directors
Neighborhood Reinvestment Corporation
(d.b.a. NeighborWorks® America)
Washington, D.C.

Report on Compliance for Each Major Federal Program

We have audited **Neighborhood Reinvestment Corporation's (d.b.a. NeighborWorks® America)** compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of **Neighborhood Reinvestment Corporation's (d.b.a. NeighborWorks® America)** major federal programs for the year ended September 30, 2016. **Neighborhood Reinvestment Corporation's (d.b.a. NeighborWorks® America)** 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of **Neighborhood Reinvestment Corporation's (d.b.a. NeighborWorks® America)** major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **Neighborhood Reinvestment Corporation's (d.b.a. NeighborWorks® America)** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of **Neighborhood Reinvestment Corporation's (d.b.a. NeighborWorks® America)** compliance.

Opinion on Each Major Federal Program

In our opinion, **Neighborhood Reinvestment Corporation (d.b.a. NeighborWorks® America)** 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 September 30, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2016-002. Our opinion on each major federal program is not modified with respect to these matters.

Neighborhood Reinvestment Corporation's (d.b.a. NeighborWorks® America) response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. **Neighborhood Reinvestment Corporation's (d.b.a. NeighborWorks® America)** response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of **Neighborhood Reinvestment Corporation (d.b.a. NeighborWorks® America)** is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered **Neighborhood Reinvestment Corporation's (d.b.a. NeighborWorks® America)** internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **Neighborhood Reinvestment Corporation's (d.b.a. NeighborWorks® America)** 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.

To the Board of Directors
Neighborhood Reinvestment Corporation
(d.b.a. NeighborWorks® America)

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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2016-001 and 2016-002 that we consider to be significant deficiencies.

Neighborhood Reinvestment Corporation's (d.b.a. NeighborWorks® America) response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. **Neighborhood Reinvestment Corporation's (d.b.a. NeighborWorks® America)** response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Calverton, Maryland
June 5, 2017

Neighborhood Reinvestment Corporation
(d.b.a. NeighborWorks® America)

Schedule of Findings and Questioned Costs

Section I – Summary of Auditors' Results

Financial Statements

1. Type of auditors' report issued: Unmodified

2. Internal control over financial reporting:

   - Material weakness(es) identified? ____ yes __x__ no
   - Significant deficiency(ies) identified that are not considered to be material weakness(es)? ____ yes __x__ none reported

3. Noncompliance material to financial statements noted? ____ yes __x__ no

Federal Awards

1. Internal control over major federal programs:

   - Material weakness(es) identified? ____ yes __x__ no
   - Significant deficiency(ies) identified that are not considered to be material weakness(es)? __x__ yes ____ none reported

2. Type of auditors' report issued on compliance for major federal programs: Unmodified

3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? __x__ yes ____ no

Identification of Major Federal Programs

CFDA Number(s)	Name of Federal Program or Cluster
21.114.113	Congressional Appropriation – NeighborWorks System Program, FY 2016 Appropriation

Dollar threshold used to distinguish between Type A and Type B programs: $ 3,000,000

Auditee qualified as low-risk auditee __x__ yes ____ no

Schedule of Findings and Questioned Costs

Section II – Financial Statement Findings

Our audit did not disclose any matters required to be reported in accordance with *Government Auditing Standards*.

Section III – Findings and Questioned Costs – Major Federal Programs

2016-001 - Procurement, Suspension and Debarment

Department of the Treasury

CFDA Number(s)	Name of Federal Program or Cluster
21.114.113	Congressional Appropriation – NeighborWorks System Program, FY 2016 Appropriation

Type of Finding: Significant Deficiency in Internal Control over Compliance

Criteria or specific requirement: Uniform Grant Guidance requires compliance with the provisions of procurement, suspension, and debarment. 2 CFR Part 213 states that recipients of federal funds are prohibited from contracting with or making sub awards under covered transactions to parties that are suspended or debarred. "Covered transactions" include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed $25,000 or meet certain other criteria.

When a non-federal entity enters into a covered transaction with an entity at a lower tier, the nonfederal entity must verify that the entity is not suspended or debarred or otherwise excluded from participating in the transaction. This verification may be accomplished by:

(1) checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA) and available at https://www.sam.gov/portal/public/SAM,
(2) collecting a certification from the entity, or
(3) adding a clause or condition to the covered transaction with that entity

The Corporation should have internal controls designed and effectively operating to ensure compliance with those provisions.

Condition: During our testing, we noted the Corporation did not have effective internal controls to ensure vendors were not suspended or debarred. We observed that management put in place a third party service to perform verification of vendors' suspension and debarment status; however, this process requires a manual transmission of the vendors to be verified and documentation of the results of these verifications was not consistently maintained and could not be retrieved from the third party service provider.

Questioned costs: None

Context: For three out of fourteen vendors tested for procurement we noted that documentation related to suspension and debarment verification was not maintained and the Corporation could not confirm that it was performed. However, our testing did not identify any vendors that had been suspended or debarred.

Cause: The policies and procedures surrounding suspension and debarment verification were not consistently followed as designed.

Effect: The auditor noted no instances of noncompliance with the provisions of procurement, suspension, and debarment; however, the lack of effective internal controls over these compliance requirements provides an opportunity for noncompliance.

Repeat Finding: Yes, prior year finding 2015-001.

Recommendation: We recommend the Corporation ensure consistent application of its policies and procedures to ensure an adequate verification process is in place to review potential contractors to determine they are not suspended or debarred.

Management Response and Corrective Action Plan: In December of 2014, the newly centralized Procurement Division introduced guidance on the protocol for checking the Excluded Parties List (EPLS), also known as System of Award Management (SAM), to verify a prospective Contractor's status prior to contract award. In February of 2015, this protocol was formally incorporated into policy, and the guidance posted on the Inside NW Procurement page. The protocol was further reinforced via emails and meetings in March of 2015; and in training forums throughout 2015 and 2016. Prior to issuance of any purchase orders and award of contracts, the designated Contracting Officer must ensure that a SAM has been completed to verify that there are no issues of debarment or exclusion of parties listing for the Vendor.

The SVP of Procurement ensures that a SAM verification check and report is produced and included in the contract file. As permitted by delegation of authority, Program Office staff may serve as the Contracting Officer for procurements of value $20,000 and under. As such, this Program Office staffs are responsible for verification of positive SAM results for any procurements they are awarding. The guidance on SAM verification requirements are also included in the $20,000 and under procurement checklist guidance found on the Inside NW Procurement page, and embedded in the $20,000 and under Award Determination Memo.

In the fourth quarter of 2016, the Procurement Office conducted its own Quality Assurance Review of contract files for procurements of value $20,000 and under, and SAM verification was included as one of the components reviewed. Of 14 files reviewed, three files lacked the required SAM results. In the fall of 2016, the Procurement Division addressed this topic in its Procurement Task Lead meetings to ensure that these leads within their Program Offices understood the need to run a SAM check prior to award, and include this information in the contract file.

In October of 2016, the Procurement Division implemented its "NEST" procurement system which requires SAM verification results be uploaded for procurements of all value. Prior to approving an award and executing any contracts, the SVP of Procurement ensures that SAM verification results are included in the contract files for procurements above the $20,000 threshold by reviewing the report bearing the date of contract award generated by the System of Award Management. Procurements of value $20,000 and under are routed through the NEST system for approval by those Program Officials with this Delegation of Authority. The NetSuite accounting system includes a field requiring the SAM verification results; and training has been provided to Procurement Task Leads in the Program Offices, and is posted on the Inside NW Procurement page.

During spring of 2017, NeighborWorks America has studied whether the Procurement Policy and Procedures needed additional clarification and/or enhanced controls for increased frequency of SAM verification and reporting. While the procurement policy and procedure does outline the requirements for SAM check and filing this report, Procurement decided to develop additional guidance in the form of a process flow map specific to the $20,000 and under procurements. This process flow map outlines the protocol and entry of the required documents to be uploaded into electronic files in the NEST Procurement system. Another round of sample testing will be conducted between June and September 2017 to verify that the Program Offices are completing the required SAM record checks and including the SAM reports in NEST for procurements within their delegated authority.

Finance has put in place a third party verification system (Visual Compliance) to screen all vendors to identify if any have been debarred. Effective February 2017, before any payments are made, Finance staff transmits the vendor list to Visual Compliance for verification, hence the Office of the CFO has both preventative and detective controls to identify disbarment.

2016-002 – Procurement

Department of the Treasury

CFDA Number(s)	Name of Federal Program or Cluster
21.114.113	Congressional Appropriation – NeighborWorks System Program, FY 2016 Appropriation

Type of Finding: Significant Deficiency in Internal Control over Compliance and Noncompliance

Criteria or specific requirement: According to 2 CFR § 200.201, the Federal awarding agency or pass-through entity must decide on the appropriate instrument for the Federal award (i.e., grant agreement, cooperative agreement, or contract) in accordance with the Federal Grant and Cooperative Agreement Act.

When a non-federal entity enters into covered transactions with an entity the non-federal entity must decided on the terms of the transaction which set the terms triggering payment for the services or goods.

According to 2 CFR § 200.319, Sections (a), All procurement transactions must be conducted in a manner providing full and open competition consistent with the standards of this section. In order to ensure objective contractor performance and eliminate unfair competitive advantage, contractors that develop or draft specifications, requirements, statements of work, or invitations for bids or requests for proposals must be excluded from competing for such procurements. Some of the situations considered to be restrictive of competition include but are not limited to: (1) Placing unreasonable requirements on firms in order for them to qualify to do business; (2) Requiring unnecessary experience and excessive bonding; (3) Noncompetitive pricing practices between firms or between affiliated companies; (4) Noncompetitive contracts to consultants that are on retainer contracts; (5) Organizational conflicts of interest; (6) Specifying only a “brand name" product instead of allowing "an equal" product to be offered and describing the performance or other relevant requirements of the procurement; and (7) Any arbitrary action in the procurement process

All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition. The recipient is required to ensure that procurement records and files for purchases in excess of the small purchase threshold shall include the following at a minimum: (a) basis for contractor selection, (b) justification for lack of competition when competitive bids or offers are not obtained, and (c) basis for award cost or price.

The Corporation should have internal controls designed and effectively operating to ensure compliance with those provisions.

Condition: During our testing, we noted the Corporation did not have effective internal controls to ensure policies and procedures for procurement were applied and effective.

Questioned costs: Unable to determine.

Context: One out of fourteen vendors did not have a contract, did not have adequate sole source justification, and was not competitively bid.

Cause: The Corporation did not identify that the competitive bid policies and procedures should have been applied to the purchase. The policies and procedures surrounding contracts and agreements were not consistently followed as designed.

Effect: The lack of effective internal controls over these compliance requirements provides an opportunity for noncompliance.

Repeat Finding: Yes, prior year finding 2015-002.

Recommendation: We recommend the Corporation ensure consistent application of its policies and procedures and that those policies and procedures are compliant with Federal requirements, and to ensure procurement requirements are followed and documented for purchases above the small purchase threshold.

Management Response and Corrective Action Plan: At the end of FY 16, the Procurement Division converted any remaining Letters of Agreements to formal contracts. A Sole Source Justification Memo was completed for any of these contracts that had not been competitively awarded. All newly awarded contracts in FY 17 are subject to the Sole Source Justification process. The procurement department is still researching whether there are any existing legacy contracts, and this exercise will continue until June 30, 2017. To the best of our knowledge, the Procurement Division has addressed its active contract portfolio to determine that there are no remaining "legacy" contracts that have not been properly converted to the contract format now used by NeighborWorks America. Any that had not been competitively awarded need either a Sole Source Memo, or a Memo to File, which explains the circumstances by which the standard competition requirements did not apply.

The Corporation's revised Procurement Policy "Requirements Package" states that the Corporation does not have to follow competitive procurement requirements when a procurement meets the conditions for a sole source or a qualified urgency.

In fourth quarter of 2016, the new SVP of the Procurement Division transformed the “Waiver of Competition Memo” contained in Procurement Policy and Procedure 002 to a “Sole Source Justification Memo” with the intent of clarifying the parameters for justification of a sole source procurement. The Procurement Division has revised Procurement Policy and Procedures 002 and 003 to clarify that which constitutes a true sole source justification: 1) a single source available to meet the requirements; or, 2) a true urgency related to criticality and continuity of business operations. This update removes the categorization of “Exemptions from Competition” by replacing it with procurement policies on Sole Source justifications.

In addition, the Procurement Division has developed and posted a chart on its Inside NW Procurement page that outlines the procurement vehicles utilized by NeighborWorks America. The chart outlines the parameters for a sole source justification. This topic has also been addressed in Procurement Task Lead forums to ensure the information is disseminated across the Corporation. The SVP of the Program Office requesting sole source and the relevant Corporation Officer must sign off on the Sole Source Justification Memo, and must be reviewed by the SVP of Procurement to ensure it meets the requirements for a sole source.

The Procurement Policy and Procedures has been updated to qualify circumstances in which an urgency is qualified, or “justified”, by way of a Sole Source Memo. As outlined above, those scenarios would include instances where there is an articulable and imminent risk of severe financial, reputational, or programmatic harm if the procurement action is not executed. Procurement’s NEST system and Finance’s NetSuite system have fields in which a Sole Source Memo must be attached as the Award Determination Memo explaining the circumstances by which a sole source procurement is justified.

Section IV – Prior Year Major Federal Program Findings

2015 – 001 – Procurement, Suspension and Debarment
During this year’s testing of suspension and debarment, instances of noncompliance were noted and have been reported in finding 2016-001.

Reason for finding’s recurrence: The Corporation’s corrective actions were not effectively implemented and require refinement to their design.

2015 – 002 - Procurement
During this year’s testing of suspension and debarment, instances of noncompliance were noted and have been reported in finding 2016-002.

Reason for finding’s recurrence: The Corporation’s corrective actions were not completed.

2015 – 003 – Subrecipient Monitoring

Current Year Status: During this year’s testing of subrecipient monitoring, we did not note any similar instances and this item is deemed resolved; however, aspects of management’s corrective action plan are still in the process of being implemented.