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 OMB Circular A-133

Years Ended September 30, 2014 and 2013

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

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the **Neighborhood Reinvestment Corporation (d.b.a. NeighborWorks® America)** (the Corporation) which comprise the statements of financial position as of September 30, 2014 and 2013, 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.

Auditor's 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.

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, 2014 and 2013, 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 were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary schedules of functional expenses are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards (SEFA), as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* is presented for purposes of additional analysis and is not a required part of the 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 audits 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 taken as a whole.

Other Reporting Required by ***Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2015 on our consideration of the Corporation'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 Corporation's internal control over financial reporting and compliance.

BDO USA, LLP

March 9, 2015

Financial Statements

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

Statements of Financial Position (Amounts in 000's)

September 30,		**2014**		2013
Assets				
Current assets				
Cash and cash equivalents	**$**	**123,230**	$	83,123
Receivables:				
Contributions receivable		**1,357**		16,230
Grant and contract receivables		**3,764**		5,468
Other receivables - net		**529**		3,889
Prepaid expenses and other assets		**1,468**		1,840
Total current assets		**130,348**		110,550
Noncurrent assets				
Cash held for long term purposes		**2,500**		2,500
Property and equipment, net		**10,525**		13,928
Total noncurrent assets		**13,025**		16,428
Total assets	**$**	**143,373**	$	126,978
Liabilities and Net Assets				
Current liabilities				
Accounts payable and accrued expenses	**$**	**17,462**	$	26,322
Grant commitments:				
National Foreclosure Mitigation Counseling		**39,086**		39,527
Deferred revenue:				
National Foreclosure Mitigation Counseling		**9,888**		9,057
Registration Fees		**592**		309
Others		**-**		67
Total current liabilities		**67,028**		75,282
Noncurrent liabilities				
Other liabilities		**-**		500
Deferred rent liability		**7,933**		6,559
Total noncurrent liabilities		**7,933**		7,059
Total liabilities		**74,961**		82,341
Commitments and contingencies				
Net assets				
Unrestricted net assets		**18,871**		18,555
Temporarily restricted net assets		**47,041**		23,582
Permanently restricted net assets		**2,500**		2,500
Total net assets		**68,412**		44,637
Total liabilities and net assets	**$**	**143,373**	$	126,978

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

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

Statements of Activities (Amounts in 000's)

Year ended September 30,	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Gains, and Other Support				
Congressional appropriations	$ 203,269	$ -	$ -	$ 203,269
Contributions	11,767	39,273	-	51,040
Grants and contracts	2,570	-	-	2,570
Training registration fees	2,946	-	-	2,946
Investment income	95	1	-	96
Publications and subscriptions	469	-	-	469
Other income	892	-	-	892
Net assets released from restrictions:				
Satisfaction of program and time restrictions	15,815	(15,815)	-	-
Total revenue, gains, and other support	237,823	23,459	-	261,282
Expenses				
Grants and grant commitments	160,428	-	-	160,428
Personnel	39,172	-	-	39,172
Professional services	16,077	-	-	16,077
Other operating costs	7,499	-	-	7,499
Depreciation and amortization	4,444	-	-	4,444
Occupancy	3,687	-	-	3,687
Travel	3,247	-	-	3,247
Conferences and workshops	2,953	-	-	2,953
Total expenses	237,507	-	-	237,507
Change in net assets	316	23,459	-	23,775
Net assets, beginning of year	18,555	23,582	2,500	44,637
Net assets, end of year	$ 18,871	$ 47,041	$ 2,500	$ 68,412

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

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

Statements of Activities (Amounts in 000's)

Year ended September 30,	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Gains, and Other Support				
Congressional appropriations	$ 202,546	$ -	$ -	$ 202,546
Contributions	13,185	25,055	-	38,240
Grants and contracts	2,562	-	-	2,562
Training registration fees	2,999	-	-	2,999
Investment income	46	4	-	50
Publications and subscriptions	645	-	-	645
Other Income	998	-	-	998
Net assets released from restrictions:	-	-		
Satisfaction of program and time restrictions	10,494	(10,494)	-	-
Total revenue, gains, and other support	233,475	14,565	-	248,040
Expenses				
Grants and grant commitments	157,586	-	-	157,586
Personnel	36,654	-	-	36,654
Professional services	16,782	-	-	16,782
Other operating costs	8,751	-	-	8,751
Occupancy	4,385	-	-	4,385
Depreciation and amortization	4,183	-	-	4,183
Travel	2,991	-	-	2,991
Conferences and workshops	2,866	-	-	2,866
Total expenses	234,198	-	-	234,198
Change in net assets	(723)	14,565	-	13,842
Net assets, beginning of year	19,278	9,017	2,500	30,795
Net assets, end of year	$ 18,555	$ 23,582	$ 2,500	$ 44,637

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,		**2014**		2013
Cash flows from operating activities				
Change in net assets	**$**	**23,775**	$	13,842
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:				
Bad debt expense		**240**		17
Depreciation and amortization		**4,444**		4,183
Loss on disposal of fixed assets		**14**		-
(Increase) decrease in assets				
Receivables:				
Contributions receivable		**14,873**		(14,977)
Grant and contract receivables		**1,704**		(1,644)
Other receivables		**3,120**		(3,626)
Prepaid expenses and other assets		**372**		(954)
Increase (decrease) in liabilities				
Accounts payable and accrued expenses		**(8,860)**		(6,247)
Grant commitments:				
National Foreclosure Mitigation Counseling		**(441)**		(951)
Deferred revenue:				
National Foreclosure Mitigation Counseling		**831**		1,492
Registration fees		**283**		(15)
Others		**(67)**		2
Other liabilities		**(500)**		-
Deferred rent liability		**1,374**		5,474
Net cash provided by (used in) operating activities		**41,162**		(3,404)
Cash flows from investing activities				
Purchases of property and equipment		**(1,055)**		(10,410)
Net cash used in investing activities		**(1,055)**		(10,410)
Increase (decrease) in cash and cash equivalents		**40,107**		(13,814)
Cash and cash equivalents, beginning of year		**83,123**		96,937
Cash and cash equivalents, end of year	**$**	**123,230**	$	83,123

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). 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 to 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 eight successive annual rounds of funding totaling approximately $758 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 district offices in Boston, New York, Atlanta, Cincinnati, Kansas City, Denver and Los Angeles.

Program Services (Note 9)

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.

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.

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.

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 supporting the Corporation's endowments included in permanently restricted net assets is classified as cash held for long term purposes in the Statements of Financial Position. Cash held under donor imposed restrictions 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 $8,671 and $16,016 at September 30, 2014 and 2013. As required by their underlying grant agreements, the Corporation maintains separate bank accounts related to its NFMC and Wells Fargo Urban Lift programs.. The Board of Directors policy requires that all excess cash and cash equivalents over the amounts needed for current operations be placed in US Treasury and Federal Agency Securities or repurchase agreements or mutual funds consisting of such securities.

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.

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, 2014 and 2013. Other receivables are evaluated as to their collectability using the most recent information available.

Cash Held for Long Term Purposes

Cash held for long-term purposes relates to the George Knight Scholarship Endowment more fully described in Note 6. These funds are included in permanently restricted net assets, are invested consistent with Board policy, and are carried at fair market value.

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 $5. 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 in accordance with generally accepted accounting principles. 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.

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, 2014 and 2013 substantially all of the Corporation's cash and cash equivalents and cash held for long term purposes was held at one financial institution in accounts over Federal Deposit Insurance Corporation (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 unrestricted revenue from congressional appropriations, 86% and 87%, respectively, for the years ended September 30, 2014 and 2013. 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.

Grant Commitments

Grant commitments are the committed but unpaid balances to grantees under the NFMC 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 NFMC 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 NFMC 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.

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.

Revenue Recognition

The Corporation is funded through several different sources: congressional appropriations, contributions, grants and contracts from government agencies, 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 or fee-for-service. 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.

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 10 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.

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

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. 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, 2014 and 2013. The Corporation is still open to examination by taxing authorities from 2011 forward.

Reclassifications

Certain reclassifications have been made to the 2013 financial statements to conform to the current year presentation.

3. Property and Equipment

Property and equipment consists of the following:

September 30,	**2014**	2013
Computer and software equipment	**$ 13,687**	$ 13,790
Leasehold improvements	**8,492**	8,389
Software development in progress	**2,004**	1,199
Furniture and fixtures	**1,062**	1,065
Total property and equipment at cost	**25,245**	24,443
Less: accumulated depreciation and amortization	**(14,720)**	(10,515)
Total property and equipment, net	**$ 10,525**	$ 13,928

Depreciation and amortization expense for the years ended September 30, 2014 and 2013 was $4,444 and $4,183, respectively. Costs related to internally developed software capitalized as software development in progress amounted to $805 and $1,199 for the years ended September 30, 2014 and 2013, respectively.

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

4. Temporarily Restricted Net Assets

At September 30, 2014 and 2013, temporarily restricted net assets consists of the following:

	2014	2013
SunTrust	**$ 29,583**	$ -
Wells Fargo	**14,328**	18,668
Ford Foundation	**843**	1,123
Citi	**694**	824
Morgan Stanley	**430**	1,209
Scholarship/Endowment	**454**	601
All other	**709**	1,157
Total temporarily restricted net assets	**$ 47,041**	$ 23,582

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 2014 and 2013.

6. Endowment

The endowment funds 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* (ASC 958-

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

205). 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.

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, 2014 and 2013.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets – 09/30/2013	$ -	$ 601	$ 2,500	$ 3,101
Investment income	-	1	-	1
Amounts appropriated for expenses	-	(148)	-	(148)
Endowment net assets – 09/30/2014	$ -	$ 454	$ 2,500	$ 2,954

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.

Spending Policy

In order to protect the restricted endowments against losses and to insure relative stability in its annual earnings (which are needed to fund Training Institute scholarships), the Directors identify a targeted annual earning rate to be applied to the restricted endowments to meet these objectives.

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

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 $2,350 for each of the years ended September 30, 2014 and 2013.

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 $2,350 for each of the years ended September 30, 2014 and 2013.

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 $54 and $53 in fiscal 2014 and 2013, respectively. The Corporation also has other lease agreements with district offices expiring at various times through 2021.

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

Years ending September 30,	
2015	$ 3,988
2016	4,476
2017	4,552
2018	4,615
2019	4,482
Thereafter	16,709
	$ 38,822

Occupancy expense for the years ended September 30, 2014 and 2013 amounted to $3,687 and $4,385, respectively.

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

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, 2014 and 2013 amounted to $277 and $122, respectively. Commitments under non-cancelable office equipment operating leases are as follows:

Years ending September 30,	
2015	$ 281
2016	271
2017	264
2018	158
2019	3
	$ 977

Other Commitments

Under the terms of an agreement between the Mortgage Guaranty Insurance Corporation (MGIC) and the Corporation, MGIC insured some mortgage loans that did not meet all of MGIC's standard underwriting guidelines. The purpose of this agreement was to create a loan product with FreddieMac and MGIC that would allow for special underwriting guidelines to make mortgages to low- and moderate-income borrowers. Under this agreement, which was amended December 23, 1997, the Corporation shares a portion of this higher financial risk. In December 1998, both parties agreed that no new loans would be executed under the terms of this agreement but the Corporation will continue to carry the risk for the maximum liability for the remaining mortgages executed prior to this date. To date, the Corporation has paid a total of $10 for two claims against a loan loss reserve. As of September 30, 2014, MGIC had 43 original mortgages which it had insured under the agreement totaling $4,031. The Corporation's maximum liability under this agreement is the lesser of $162 or 25% of the claims paid by MGIC.

Contingencies

The Corporation receives funds from Federal sources that are subject to audit by the various awarding agencies. On November 14, 2014 the Corporation received notice regarding a scheduled Financial and Administrative Compliance Review for the Housing Counseling Grant awarded by HUD. Management does not believe that any material adjustments will be necessary as a result of this review.

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. Further, the Corporation wrote-off $234 of NFMC re-capturable grants that had been accrued as receivable at September 30, 2013 that were determined to be uncollectible at September 30, 2014. The write-off was made against non-appropriated funds.

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

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.

9. Program and Supporting Services

The following is a breakdown of the Corporation's program and supporting services for the years ended September 30, 2014 and 2013. See Note 1 for a description of the Corporation's Program Services:

September 30,	**2014**	2013
Program Services:		
Capacity Building	**$ 94,612**	$ 81,561
National Foreclosure Mitigation Counseling (NFMC)	**68,032**	75,753
Preserving Affordable Housing	**35,966**	34,635
Training and Informing	**24,514**	26,760
Organizational Assessment	**6,844**	8,371
Total program services	**229,968**	227,080
Supporting Services:		
General and Administrative	**6,056**	5,754
Resource Development	**1,483**	1,364
Total supporting services	**7,539**	7,118
Total expenses	**$ 237,507**	$ 234,198

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 2014 and 2013 were $2,851 and $1,950 respectively.

11. Subsequent Events

Subsequent events were evaluated through March 9, 2015, 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, 2014 (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	2014 Total
Grants and grant commitments	$ 58,729	$ 61,365	$ 35,966	$ 4,368	$ -	$ 160,428	$ -	$ -	$ -	$ 160,428
Personnel	15,595	1,881	-	6,852	3,729	28,057	10,345	770	11,115	39,172
Professional services	7,038	2,359	-	4,422	281	14,100	1,927	50	1,977	16,077
Other operating costs	861	778	-	2,081	82	3,802	3,686	11	3,697	7,499
Occupancy	1,075	145	-	349	359	1,928	1,678	81	1,759	3,687
Travel	1,732	135	-	688	202	2,757	396	94	490	3,247
Conferences and workshops	454	268	-	1,743	8	2,473	455	25	480	2,953
Depreciation and amortization	-	-	-	-	-	-	4,444	-	4,444	4,444
Total expenses	85,484	66,931	35,966	20,503	4,661	213,545	22,931	1,031	23,962	237,507
Overhead allocation	9,128	1,101	-	4,011	2,183	16,423	(16,875)	452	(16,423)	-
Total expenses, after overhead allocation	$ 94,612	$ 68,032	$ 35,966	$ 24,514	$ 6,844	$ 229,968	$ 6,056	$ 1,483	$ 7,539	$ 237,507

See independent auditor's report.

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

Schedule of Functional Expenses - Year Ended September 30, 2013 (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	2013 Total
Grants and grant commitments	$ 50,130	$ 68,494	$ 34,635	$ 4,304	$ -	$ 157,563	$ -	$ 23	$ 23	$ 157,586
Personnel	12,709	2,194	-	7,549	4,525	26,977	8,963	714	9,677	36,654
Professional services	6,608	2,066	-	5,298	300	14,272	2,462	48	2,510	16,782
Other operating costs	766	965	-	2,217	108	4,056	4,682	13	4,695	8,751
Occupancy	1,181	221	-	180	267	1,849	2,536	-	2,536	4,385
Travel	1,565	134	-	633	249	2,581	321	89	410	2,991
Conferences and workshops	440	270	-	1,731	16	2,457	393	16	409	2,866
Depreciation and amortization	-	-	-	-	-	-	4,183	-	4,183	4,183
Total expenses	73,399	74,344	34,635	21,912	5,465	209,755	23,540	903	24,443	234,198
Overhead allocation	8,162	1,409	-	4,848	2,906	17,325	(17,786)	461	(17,325)	-
Total expenses, after overhead allocation	$ 81,561	$ 75,753	$ 34,635	$ 26,760	$ 8,371	$ 227,080	$ 5,754	$ 1,364	$ 7,118	$ 234,198

See independent auditor's report.

Schedule of Expenditures of Federal Awards

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

Schedule of Expenditures of Federal Awards

Year ended September 30, 2014

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	*Federal CFDA/ Public Law Number*	*Federal Expenditures*
Congressional Appropriation - NeighborWorks® National Foreclosure Mitigation Counseling Program		
Appropriation 2	21.110-289	$ 1,362,394
Appropriation 3	21.111-008	-
Appropriation 4	21.111-117	(2,033)
Appropriation 5	21.112-010	(3,408)
Appropriation 6	21.112-055	(379)
Appropriation 7	21.112-175	(2,293,453)
Appropriation 8	21.113-046	67,605,888
Total - NeighborWorks® National Foreclosure Mitigation Counseling Program		66,669,010
Congressional Appropriation - NeighborWorks® System Program		
FY 2014 Appropriation	21.112-175	136,600,000
Total Congressional Appropriations		203,269,010
U.S. Department of Treasury - Making Home Affordable	H.R.6069-111	3,052,685
U.S. Department of Housing and Urban Development - Housing Counseling Training Program	14.169	2,787,592
U.S. Department of Housing and Urban Development - Housing Counseling Training Program	14.316	1,018,520
U.S. Department of Housing and Urban Development – The Emergency Homeowners' Loan Program (EHLP)	14.323	2,840,055
U.S. Department of Agriculture NeighborWorks® Rural Community Development	10.446	77,427
Corporation for National and Community Service Volunteers in Service to America	94.013	69,923
Total Expenditures of Federal Awards		$ 213,115,211

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, 2014. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations.* 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 statement of functional expenses before the overhead allocation represents NFMC's Quality Control Compliance service fees and bank charges of $237,374 as these charges are not charged to the NFMC program.

Sub-awards made to organizations assisting in the project implementation are expensed in the financial statements when the agreement is entered into by the Corporation. The schedule for the year ended September 30, 2014 includes only payments made by the Corporation to subrecipients for periods through September 30, 2014. If a sub-award agreement is prematurely terminated or not fully expended, the remaining expenses and related revenue are reversed in the financial statements.

2. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, 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.

3. Subrecipients

Of the federal expenditures presented in the schedule, the Corporation provided federal awards to subrecipients as follows:

Program Title	Federal CFDA/ Public Law Number	Amount Provided to Subrecipients
NeighborWorks® National Foreclosure Mitigation Counseling Program	21.110-289/ 21.112-010/21.112-55/21.112-175	$ 60,719,061
U.S. Department of Housing and Urban Development - Housing Counseling Assistance Program	14.169	$ 1,021,774
U.S. Department of Housing and Urban Development - EHLP	14.323	$ 1,350,052
U.S. Department of Treasury - Making Home Affordable	H.R.6069-111	$ 1,409,506

Independent Auditor's
Reports Required by
Government Auditing Standards
and OMB Circular A-133

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Independent Auditor's 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, DC

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)** (the Corporation), which comprise the statement of financial position as of September 30, 2014, 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 March 9, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation'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 Corporation internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Corporation'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. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's 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 results of that testing, and not to provide an opinion on the effectiveness of the Corporation'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 Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP

March 9, 2015

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Bethesda, MD 20814

Independent Auditor's Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance

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)** (the Corporation) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Corporation's major federal programs for the year ended September 30, 2014. The Corporation's major federal programs are identified in the summary of auditor's 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 each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Corporation'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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Corporation'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 Corporation's compliance.

Opinion on Each Major Federal Program

In our opinion, the Corporation 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, 2014.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2014-01. Our opinion on each major federal program is not modified with respect to this matter.

The Corporation's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Corporation's 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 the Corporation 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 the Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on a 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 OMB Circular A-133, 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 Corporation'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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The Corporation's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Corporation's 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

BDO USA, LLP

March 9, 2015

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

Schedule of Findings and Questioned Costs

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

a) Material weakness(es) identified?	___ yes	_X_ no
b) Significant deficiency(ies) identified?	___ yes	_X_ none reported
c) Noncompliance material to financial statements noted?	___ yes	_X_ no

Federal Awards

Internal control over major programs:

Material weakness (es) identified?	___ yes	_X_ no
Significant deficiency (ies) identified?	___ yes	_X_ none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to to be reported in accordance with section .510(a) of Circular A-133? _X_ yes ___ no

Identification of major programs:

CFDA/Public Law Number	Name of Federal Program or Cluster
21.112-175	Congressional Appropriation – NeighborWorks System Program – FY 2014 Appropriation
21.110-289/21.111-008/21.111-117/ 21.112-010/21.112-055/21.112-175	Congressional Appropriation – NeighborWorks National Foreclosure Mitigation Counseling Program
H.R.6069-111	U.S. Department of Treasury – Making Home Affordable

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

Auditee qualified as low-risk auditee? ___ yes _X_ no

Section II - Financial Statement Findings

There were no findings related to the financial statements which are required to be reported in accordance with generally accepted auditing standards (GAGAS).

Section III - Federal Award Findings and Questioned Costs

2014-01: **Procurement, Suspension and Debarment**

Information on Federal Program - Congressional Appropriation – NeighborWorks National Foreclosure Mitigation Counseling Program, 21.110-289/21.111-008/21.111-117/ 21.112-010/ 21.112-155/21.112-175

U.S. Department of Treasury – Making Home Affordable, H.R.6069-111

Congressional Appropriation - NeighborWorks® System FY 2014 Appropriation, 21.112-175 Program

Criteria or Specific requirement – 2 CFR Part 180, 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 non-federal 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/ (note: EPLS is no longer a separate system; however, the OMB guidance and agency implementing regulations still refer to it as EPLS),
(2) collecting a certification from the entity, or
(3) adding a clause or condition to the covered transaction with that entity

Condition and Proper Perspective – During our testing of transactions over the procurement, we noted that documentation related to the search for suspended or debarred organizations or vendors was not maintained by the Corporation. However our testing did not identify any vendors or organizations that had been suspended or debarred.

Cause and Effect – The policies and procedures surrounding suspension and debarment were not followed as designed. As a result, the Corporation could enter into a transaction with vendors or organizations prohibited from doing business with the federal government.

Questioned Costs – None.

Recommendation – As we noted in the prior year, we recommend that management should continue implementing recommended enhancements to the existing policies to ensure compliance to all procurement requirements. Also, the Corporation should retain documentation related to search for suspended or debarred vendors.

Views of Responsible Officials and Planned Corrective Actions –

Management concurs with this finding and has taken steps to ensure that documentation regarding suspension and debarment is a requirement of the procurement award process. This process step had been implemented in the third quarter of fiscal 2014 through a check sheet in the contractor file. As part of the centralized procurement process discussed in Part IV, below, and targeted for "go-live" during the third quarter of fiscal 2015, documentation regarding suspension and debarment will be included within the contract award folder and will include a "reps and warranty" provision that the contractor is not suspended and debarred at the time a contract is executed. With regards to material contracts, the Corporation is exploring a subscription with Dunn and Bradstreet which will allow it to more accurately assess the contractor's financial capability thus reducing the risk of non-performance.

Section IV – Prior Year Federal Award Findings and Questioned Costs

2013-01: **Procurement, Suspension and Debarment**

Information on Federal Program - Congressional Appropriation – NeighborWorks National Foreclosure Mitigation Counseling Program, 21.110-289/21.111-008/21.111-117/ 21.112-010/ 21.112-155/21.112-175

U.S. Department of Treasury – Making Home Affordable, H.R.6069-111

Congressional Appropriation - NeighborWorks® System FY 2014 Appropriation, 21.112-175 Program

Criteria or Specific requirement – Recipients of federal funds are required to follow certain procedures as identified in OMB Circular A-110 for the procurement of supplies and other expendable property, equipment, real property and other services with federal funds. All procurement transactions in excess of the small purchase threshold ($25,000) shall be conducted in a manner to provide open and free competition. Procurement records and files for purchases in excess of $25,000 should contain some form of cost or price analysis and should contain 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 or contract price.

In addition, as prescribed by OMB Circular A-133, the Corporation is required to ensure vendors engaged for federal programs are not suspended or debarred.

Condition – Management, through their internal analysis and review of vendor spend levels noted a vendor with significant payments was used for the design and custom build for the replacement events and training management system without following the procurement standards required. Internal audit subsequently identified that two individuals approved multiple task orders at or near their approval limits in order to avoid following procurement policies. Beginning in fiscal year 2011, management used a consultant for the design and custom build of their replacement events and training management system where the cost was well in excess of the small purchase threshold. This contract with the consultant was not competitively bid, there was no solicitation from various sources, and there was no documentation in the files that the build of this system was available only from a single source. Further, certain officers of the Corporation failed to comply with the Delegation of Authority policy related to entering into contracts approved by the Board. When those officers identified in June, 2012 that documentation to support the sole source of this contract was not obtained, a sole-source exception memo to justify the reasons why the consultant was used and the reasons for a sole-source award was developed, backdated and signed by those officers. The document did not contain all of the elements that are required by the standards to support sole sourcing the contract. Multiple controls over the procurement process did not function as designed.

Questioned Costs - None

Context –The total cost of the project spend through September 30, 2013 was $1,752,684. Project costs incurred were $802,622 and $950,062 for fiscal year 2012 and fiscal year 2013, respectively.

A subsequent evaluation by a third-party specialist who performed an Independent Verification and Validation (IV&V) determined that the Corporation received appropriate value for the amounts expended. Therefore there are no questioned costs associated with this noncompliance. Further, the Board of Directors also engaged independent counsel to conduct a review. The review did not produce evidence of fraud by the Corporation. In addition, while a search was not documented for suspended or debarred organizations or vendors, our testing did not identify any vendors or organizations that had been suspended or debarred.

Effect – Failure to follow procurement policies and procedures may prohibit the Corporation from obtaining a fair and most effective price and quality for services and therefore the federal government may overpay for purchases related to the federal program. Further, the Corporation could enter into a transaction with vendors or organizations prohibited from doing business with the federal government.

Cause – Management's controls and policies surrounding procurement, suspension and debarment were not followed as designed.

Current Year Status – The officers of the Corporation continue to set the appropriate "tone at the top" in their communications with staff and have taken significant steps to address the issues raised in this finding, including the hiring of a career procurement professional with significant experience in the Federal procurement arena to establish and manage a centralized procurement process. At this report date the Corporation has completed or nearly completed the following with a target implementation date of early third quarter fiscal 2015:

- Developing and socializing within the organization a methodical and disciplined centralized procurement process that includes the review and approval by authorized procurement staff of supporting documentation for procurements meeting a minimum dollar threshold consistent with Federal guidelines;
- Developing standardized award files that include documentation checklists as well as templates covering the significant procurement process steps, including but not limited to, RFQ's, RFP's, competition waivers, award determination and contracts;
- Holding multiple focus group meetings with relevant staff involved with the procurement process to introduce and institutionalize the new processes and procedures;
- Completing the documentation and inclusion in the Administrative Policy Manual of revised procurement policies reflecting the disciplined approach, above;
- Becoming an authorized user of the GSA schedules to ensure competitively bid procurements

In addition, the Corporation has:

- Implemented a capital budget process for significant single and multi-year investment projects which includes a full life cycle costing, Officer and Board review and approval, and a quarterly review of actual to budgeted results;
- Incorporated the procurement process into the annual risk analysis performed by Internal Audit and included the testing of the procurement function as part of the FY15 internal audit plan approved by the Board of Directors.

2013-02: **Activities Allowed or Unallowed; Allowable Costs/Cost Principles**

Information on Federal Program - Congressional Appropriation – NeighborWorks National Foreclosure Mitigation Counseling Program, 21.110-289/21.111-008/21.111-117/ 21.112-010/ 21.112-155/21.112-175

Criteria or Specific requirement – OMB Circular A-122, Attachment B, Section B(5) states that bad debts, including losses arising from uncollectable accounts and other claims, related collection costs, and related legal costs are unallowable.

Condition – An unallowable cost of bad debt expense was charged to the NFMC program.

Questioned Costs - $16,988

Context – During our testing of subrecipients, we noted that uncollected de-obligated funds from NFMC round 1 funding, which were not collected in rounds 2-6 were written off as bad debt expense. Bad debts are considered unallowable and are not allowed to be charged to federal programs.

Effect – The Corporation is not in compliance with OMB Circular A-122 regarding Allowable Costs/Cost Principles and unallowable cost was charged to the federal program and reimbursed by the federal agency.

Cause – Requirements related to unallowable costs as outlined in OMB Circular A-122 was not followed.

Recommendation - We recommend management review its policy and procedures for the charging of non-standard or unusual costs incurred for any of the federal programs. The outcome of the management review change can then be made to the Corporation's policies and procedures to ensure that only allowable costs are charged to federal programs.

Views of Responsible Officials and Planned Corrective Actions – Management concurs with the recommendation. Management made the necessary correction and reclassified the bad debt expenses to the correct non-federal fund source in the 2013 financial statements. In addition, the correct procedures and fund source for classifying bad debt expense were communicated to the appropriate Finance staff members responsible for this function, and the responsible staff person overseeing the NFMC program to ensure that a similar mistake will not be made in the future in administering federal grant programs like NFMC, Emergency Homeowners' Loan Program (EHLP) and MHA.

Current Year Status – We did not note any additional instances of this nature during our audit, the corrective action noted by Management appears to have been placed in action.