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, 2015 and 2014

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

Contents

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INDEPENDENT AUDITORS' 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 **Neighborhood Reinvestment Corporation (d.b.a. NeighborWorks® America)**, which comprise the statements of financial position as of September 30, 2015, and the related statements of activities and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

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

Other Matters

2014 Financial Statements

The 2014 financial statements of **Neighborhood Reinvestment Corporation (d.b.a. NeighborWorks® America)** were audited by other auditors whose report dated March 9, 2015, expressed an unmodified opinion on those statements.

Other Information

Our audit was conducted for the purpose of forming an opinion on the 2015 financial statements as a whole. The 2015 schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of expenditures of federal awards, as required by U.S. 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 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. The 2014 schedule of functional expenses was subjected to the auditing procedures applied in the 2014 audit of the basic financial statements by other auditors, whose report on such information stated that it was fairly stated in all material respects in relation to the 2014 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 15, 2016, 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

June 15, 2016

Financial Statements

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

Statements of Financial Position (Amounts in $000's)

September 30,		**2015**		2014
Assets				
Current assets				
Cash and cash equivalents	**$**	**124,553**	$	122,744
Short term investments		**2,984**		2,986
Receivables:				
Contributions receivable		**663**		1,357
Grant and contract receivables		**1,450**		3,764
Other receivables - net		**914**		529
Prepaid expenses and other assets		**1,434**		641
Total current assets		**131,998**		132,021
Noncurrent assets				
Deposits		**785**		827
Property and equipment, net		**8,969**		10,525
Total noncurrent assets		**9,754**		11,352
Total assets	**$**	**141,752**	$	143,373
Liabilities and Net Assets				
Current liabilities				
Accounts payable and accrued expenses	**$**	**8,100**	$	8,791
Pass-through liability		**14,038**		8,671
Grant commitments:				
Foreclosure prevention		**45,551**		39,086
Deferred revenue:				
Foreclosure prevention		**13,072**		9,888
Registration Fees		**339**		592
Total current liabilities		**81,100**		67,028
Noncurrent liabilities				
Deferred rent liability		**8,404**		7,933
Total noncurrent liabilities		**8,404**		7,933
Total liabilities		**89,504**		74,961
Commitments and contingencies				
Net assets				
Unrestricted net assets		**15,532**		18,871
Temporarily restricted net assets		**34,216**		47,041
Permanently restricted net assets		**2,500**		2,500
Total net assets		**52,248**		68,412
Total liabilities and net assets	**$**	**141,752**	$	143,373

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)

Statement 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
Grants and contracts	11,916	-	-	11,916
Training registration fees	2,946	-	-	2,946
Contributions	2,421	39,273	-	41,694
Other income	892	-	-	892
Publications and subscriptions	469	-	-	469
Interest income	95	1	-	96
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 Cash Flows (Amounts in $000's)

Years ended September 30,		**2015**		2014
Cash flows from operating activities				
Change in net assets	**$**	**(16,164)**	$	23,775
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Bad debt expense		**-**		240
Depreciation and amortization		**1,985**		4,444
Impairment of software development costs		**1,269**		-
Loss on disposal of fixed assets		**-**		14
(Increase) decrease in assets				
Receivables:				
Contributions receivable		**694**		14,873
Grant and contract receivables		**2,314**		1,704
Other receivables		**(385)**		3,120
Prepaid expenses and other assets		**(793)**		278
Deposits		**42**		94
Increase (decrease) in liabilities				
Accounts payable and accrued expenses		**(691)**		(1,515)
Pass-through liability		**5,367**		(7,345)
Grant commitments:				
Foreclosure prevention		**6,465**		(441)
Deferred revenue:				
Foreclosure prevention		**3,184**		831
Registration Fees		**(253)**		283
Others		**-**		(67)
Other liabilities		**-**		(500)
Deferred rent liability		**471**		1,374
Net cash provided by operating activities		**3,505**		41,162
Cash flows from investing activities				
Purchases of investments		**(2,983)**		(2,987)
Sales of Investments		**2,985**		3,139
Purchases of property and equipment		**(1,698)**		(1,055)
Net cash used in investing activities		**(1,696)**		**(903)**
Increase in cash and cash equivalents		**1,809**		40,259
Cash and cash equivalents, beginning of year		**122,744**		82,485
Cash and cash equivalents, end of year	**$**	**124,553**	$	122,744

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 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 nine successive annual rounds of funding totaling approximately $808 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

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 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 $14,038 and $8,671 at September 30, 2015 and 2014, respectively.

As required by their underlying grant agreements, the Corporation maintains separate bank accounts related to its NFMC and Wells Fargo Urban Lift 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 in 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, 2015 and 2014.

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, 2015 and 2014. Other receivables are evaluated as to their collectibility 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 $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 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 held at creditworthy financial institutions. At September 30, 2015 and 2014 substantially all of the Corporation's cash and cash equivalents were held at one money center 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 unrestricted revenue from congressional appropriations, 87% and 86% for the years ended September 30, 2015 and 2014, 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.

Grant Commitments

Grant commitments are the committed but unpaid balances to grantees under the National Foreclosure Mitigation Counseling Program (NFMC) 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. 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. Federal appropriations provided for general performance of the Corporation's mission are recognized as revenue when the legislation is enacted and allowable costs have been incurred. 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, 2015 and 2014.

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. The fair values of investments held by the endowment fund are disclosed in Note 11.

Reclassifications

Certain reclassifications have been made to the 2014 financial statements to conform to the current year presentation. These changes had no impact on previously reported net assets.

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

3. Property and Equipment

Property and equipment consist of the following:

September 30,	**2015**	2014
Computer and software equipment	**$ 14,103**	$ 13,687
Leasehold improvements	**9,866**	8,492
Software development in progress	**423**	2,004
Furniture and fixtures	**1,070**	1,062
Total property and equipment at cost	**25,462**	25,245
Less: accumulated depreciation and amortization	**(16,493)**	(14,720)
Total property and equipment, net	**$ 8,969**	$ 10,525

Depreciation and amortization expense for the years ended September 30, 2015 and 2014 was $1,985 and $4,444, respectively. Costs related to internally developed software capitalized as software development in progress amounted to $0 and $805 for the years ended September 30, 2015 and 2014, respectively.

4. Temporarily Restricted Net Assets

At September 30, 2015 and 2014, temporarily restricted net assets consist of the following:

	2015	2014
SunTrust	**$ 21,051**	$ 29,583
Wells Fargo	**7,823**	14,328
Bank of America	**1,648**	-
MetLife	**960**	-
Citi	**903**	694
RW Johnson	**415**	-
Morgan Stanley	**-**	430
Ford	**29**	843
Scholarship/Endowment	**322**	454
All other	**1,065**	709
Total temporarily restricted net assets	**$34,216**	$ 47,041

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 2015 and 2014.

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).* 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, 2015 and 2014.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets – 09/30/2013	$ -	$ 601	$ 2,500	$ 3,101
Interest income	-	1	-	1
Amounts appropriated for expenses	-	(148)	-	(148)
Endowment net assets – 09/30/2014	-	454	2,500	2,954
Interest income	-	5	-	5
Amounts appropriated for expenses	-	(137)	-	(137)
Endowment net assets – 09/30/2015	$ -	$ 322	$ 2,500	$ 2,822

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 will 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 $2,000 and $2,350 for the years ended September 30, 2015 and 2014, 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 $2,088 and $2,350 for the years ended September 30, 2015 and 2014, 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 $4 and $54 in fiscal 2015 and 2014, respectively. The Corporation also has other lease agreements with district offices expiring at various times through 2025.

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

Years ending September 30,	
2016	$ 4,476
2017	4,552
2018	4,615
2019	4,482
2020	4,413
Thereafter	12,348
	$ 34,886

Occupancy expense for the years ended September 30, 2015 and 2014 amounted to $3,957 and $3,687, 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, 2015 and 2014 amounted to $299 and $277, respectively. Commitments under non-cancelable office equipment operating leases are as follows: FY2016 – $310; FY2017 – $302; FY2018 – $197; FY2019 - $22 and FY2020 - $1.

Other Commitments

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, 2015 the Corporation had 16 such contracts in place extending through fiscal 2018. The maximum penalty assuming all contracts were cancelled at the latest possible date is $1,417 in fiscal 2016, $2,481 in fiscal 2017 and $743 in fiscal 2018.

Contingencies

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, 2015 and 2014. See Note 1 for a description of the Corporation's Program Services:

September 30,	**2015**	2014
Program Services:		
Capacity Building	**$97,240**	$ 94,612
National Foreclosure Mitigation Counseling (NFMC)	**47,852**	68,032
Preserving Affordable Housing	**37,959**	35,966
Training and Informing	**26,524**	24,514
Organizational Assessment	**6,689**	6,844
Total program services	**216,264**	229,968
Supporting Services:		
General and Administrative	**6,465**	6,056
Resource Development	**1,386**	1,483
Total supporting services	**7,851**	7,539
Total expenses	**$224,115**	$ 237,507

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 2015 and 2014 was $2,936 and $2,851, respectively.

11. Fair Value

A fair value hierarchy that prioritizes the input 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 below:

<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.

The following tables set forth by level, within the fair value hierarchy, the Corporation's investment assets at fair value as of September 30, 2015 and 2014. Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

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

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

September 30, 2014

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, 2014
FHLB US Domestic Series: 0000		$2,500		$2,500
FHLB US Domestic Series: 0000		486		486
Total		$2,986		$2,986

Government securities classified as Level 2 are valued using quoted market prices for similar assets and liabilities in active markets.

During 2015, 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 and determined the carrying amount exceeded its fair value of zero, measured using the technical evaluation. The Corporation recorded an impairment charge of $1,269 in other operating costs in the 2015 statement of activities when it wrote-down the carrying value of the software development project to its estimated fair value.

12. Subsequent Events

Subsequent events were evaluated through June 15, 2016, which is the date the financial statements were available to be issued.

On August 21, 2014 the US Department of Justice entered into a $16.65 billion settlement agreement with Bank of America in connection with certain bank activities leading up to the 2008 financial crisis. The agreement established a $490 million fund to help those homeowners who have a tax liability arising from principal forgiveness after the expiration of the Mortgage Forgiveness Debt Relief Act (MFDRA). The agreement stipulated that if the MFDRA is reinstated 25% of the fund would be paid out to the Corporation to be used to provide housing counseling, neighborhood stabilization, foreclosure prevention or similar programs. Legislation extending the MFDRA was signed into law on December 18, 2015. As a result, the Corporation received $122.54 million in settlement money on February 10, 2016. The Corporation has done significant planning work towards the approach to the use of these funds and expects to announce its plan in the spring of 2016.

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, 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	(17,060)	431	(16,629)	(1)
Total expenses, after overhead allocation	$ 97,237	$ 47,852	$ 37,959	$ 26,524	$ 6,689	$ 216,261	$ 6,467	$ 1,386	$ 7,853	$ 224,114

See independent auditors' report.

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

Schedule of Expenditures of Federal Awards

	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 auditors' report.

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

Schedule of Expenditures of Federal Awards

Year ended September 30, 2015

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 1	21.110-161	$ (26,099)
Appropriation 2	21.110-289	40,038
Appropriation 3	21.111-008	(16,002)
Appropriation 6	21.112-055	(290,679)
Appropriation 7	21.113-006	(147,437)
Appropriation 8	21.113-076	(2,229,999)
Appropriation 9	21.113-235	49,486,249
Total - NeighborWorks® National Foreclosure Mitigation Counseling Program		46,816,071
Congressional Appropriation - NeighborWorks® System Program		
FY 2015 Appropriation	21.113-235	135,000,000
Total Congressional Appropriations		**181,816,071**
U.S. Department of Treasury - Making Home Affordable	21.110-343	**752,909**
U.S. Department of Housing and Urban Development:		
Emergency Home Loan Program (EHLP)	14.323	1,959,975
Housing Counseling Training Program	14.169	1,524,549
Housing Counseling Training Program	14.316	943,568
Total U.S. Department of Housing and Urban Development		**4,428,092**
U.S. Department of Agriculture		
NeighborWorks® Rural Community Development	10.446	**147,603**
Corporation for National and Community Service		
Volunteers in Service to America	94.013	**139,502**
Total Expenditures of Federal Awards		**$ 187,284,177**

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, 2015. 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 schedule of functional expenses before the overhead allocation represents bank charges of $20,000 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. 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 or was committed to provide federal awards to subrecipients as follows:

Program Title	Federal CFDA/ Public Law Number	Amount Provided to Subrecipients
Congressional Appropriation - NeighborWorks® National Foreclosure Mitigation Counseling Program	21.110-161 & 289, 21.111-008, 21.112-055, 21.113-006, -076, & 235	$ 42,015,071
Congressional Appropriation - NeighborWorks® System Program	21.113-235	83,916,117
U.S. Department of Housing and Urban Development:		
Emergency Home Loan Program (EHLP)	14.323	533,332
Housing Counseling Training Program	14.169	1,350,052
U.S. Department of Treasury - Making Home Affordable	21.110-343	151,130
Total		$ 127,967,702

4. Federal Endowments

The federal endowments listed below 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 2015.

Independent Auditors' Reports Required by *Government Auditing Standards* and OMB Circular A-133

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, 2015, 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 15, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered **Neighborhood Reinvestment Corporation (d.b.a. NeighborWorks® America)**'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 **Neighborhood Reinvestment Corporation (d.b.a. NeighborWorks® America)**'s 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Neighborhood Reinvestment Corporation (d.b.a. NeighborWorks® America)**'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 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 15, 2016

CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

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

We have audited **Neighborhood Reinvestment Corporation (d.b.a. NeighborWorks® America)**'s 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 **Neighborhood Reinvestment Corporation (d.b.a. NeighborWorks® America)**'s major federal programs for the year ended September 30, 2015. **Neighborhood Reinvestment Corporation (d.b.a. NeighborWorks® America)**'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of **Neighborhood Reinvestment Corporation (d.b.a. NeighborWorks® America)**'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 **Neighborhood Reinvestment Corporation (d.b.a. NeighborWorks® America)**'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 **Neighborhood Reinvestment Corporation (d.b.a. NeighborWorks® America)**'s 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, 2015.

Other Matters

The results of our auditing procedures disclosed a instances of noncompliance, which were required to be reported in accordance with OMB Circular A-133 and are described in the accompanying schedule of findings and questioned costs as items 2015-002 and 2015-003. Our opinion on each major federal program is not modified with respect to these matters.

Neighborhood Reinvestment Corporation (d.b.a. NeighborWorks® America)'s response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. **Neighborhood Reinvestment Corporation (d.b.a. NeighborWorks® America)'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 **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 (d.b.a. NeighborWorks® America)**'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 **Neighborhood Reinvestment Corporation (d.b.a. NeighborWorks® America)**'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, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2015-001, 2015-002, and 2015-003, that we consider to be significant deficiencies.

Neighborhood Reinvestment Corporation (d.b.a. NeighborWorks® America)'s 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 (d.b.a. NeighborWorks® America)'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 result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Calverton, Maryland
June 15, 2016

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 section 510(a) of OMB Circular A-133? __x__ yes ______ no

Identification of Major Federal Programs

CFDA Number(s)	Name of Federal Program or Cluster
21.110-161, 21.110-289, 21.111-008, 21.112-055, 21.113-006, 21.113-076, 21.113-235	Congressional Appropriation – NeighborWorks® National Foreclosure Mitigation Counseling Program, Appropriations 1, 2, 3, 6, 7, 8, 9
21.113-235	Congressional Appropriation - NeighborWorks System Program, FY 2015 Appropriation

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

Auditee qualified as low-risk auditee pursuant to OMB Circular A-133? __x__ yes ______ no

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

2015 – 001 Procurement, Suspension and Debarment

Department of the Treasury

CFDA Number(s)	Name of Federal Program or Cluster
21.113-235	Congressional Appropriation - NeighborWorks System Program, FY 2015 Appropriation

Type of Finding: Significant Deficiency in Internal Control over Compliance

Criteria or specific requirement: OMB Circular A-133 requires compliance with the provisions of procurement, suspension, and debarment. 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 ae 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.

Questioned costs: None

Context: For three out of seventeen 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.

Recommendation: We recommend the Corporation ensure consistent application of their 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: Management has reviewed the finding and has concluded that it agrees with the finding. While vendors that have been processed through the recently centralized procurement process are appropriately verified, there are "legacy" vendors that are not.

By July 1st 2016, we will have engaged a third party service to review our current vendor list and subrecipent list to determine if any of them are ineligible for covered transactions. Further as new vendors and subrecipients are added to our A/P files we will check their eligibility. Lastly, for any payments made we will use this third party service to check the eligibility of the recipient prior to making the payment.

Interim SVP and Controller will be accountable for implementing this control and EVP and CFO will monitor the completion of this corrective action plan.

2015 – 002 – Procurement

Department of the Treasury

CFDA Number(s)	Name of Federal Program or Cluster
21.113-235	Congressional Appropriation - NeighborWorks System Program, FY 2015 Appropriation

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

Criteria or specific requirement: Non-Federal entities shall use procurement procedures that conform to applicable federal law and regulations and standards identified in OMB Circular A-110. All non-federal entities should follow federal laws and implementing regulations applicable to procurement as noted in federal agency implementation of the OMB A-110.

All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition. The recipient is required 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.

Questioned costs: Unable to determine

Context: 1 out of 17 vendor contracts tested did not have the sole source justification documented and was not competitively bid.

Cause: The Corporation did not identify that the procurement policies and procedures should have been applied to the purchase.

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

Recommendation: We recommend the Corporation ensure consistent application of their policies and procedures to ensure procurement requirements are followed and documented for purchases above the small purchase threshold.

Management Response and Corrective Action Plan: Management has reviewed the finding and has concluded that it agrees with the finding. While vendors that have been processed through the recently centralized procurement process were either competitively bid or had an appropriately documented sole source justification, there are some "legacy" vendors for which there is not a clearly documented basis for their selection.

It should be noted that the flagged transaction here involved a vendor whose relationship with the business predated the implementation of the centralized procurement process. Further, almost all of the "legacy" vendors are engaged to deliver typical commercial goods and services to the business.

Regarding a corrective action, Management will continue to leverage its' centralized procurement process to insure that future procurement transactions are conducted in a manner to provide, to the maximum extent practical, open and free competition.

For those existent vendors where the business has, or reasonable expects to have, purchases in excess of $25,000 in a single year, Management will engage in the following triage process…

- Review the available documentation to determine if, even in the absence of a formal procurement process, there is a reasonable basis for the legacy vendor selection and price;
- Identify those legacy vendors where a sole-source justification is appropriate and put that in place;
- For the remaining legacy vendors, compete the services provided under an IDIQ or other appropriate vehicle.

Management expects to complete the triage by July 15th, 2016, and have taken either the appropriate procurement actions or completed the required documentation by September 30th, 2016.
Management understands that there are not sufficient resources on staff to complete this effort and perform current duties. As such, additional external resources will be procured in order to complete this corrective action.

Interim SVP and Controller will be accountable for implementing this plan and EVP and CFO will monitor the completion of this corrective action plan.

2015 – 003 – Subrecipient Monitoring

Department of the Treasury

CFDA Number(s)	Name of Federal Program or Cluster
21.113-235	Congressional Appropriation - NeighborWorks System Program, FY 2015 Appropriation

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

Criteria or specific requirement: All organizations expending $500,000 or more of Federal funds relating to awards issued prior to December 26, 2014, are required to complete an A-133 audit within 9 months of year-end. Per OMB Circular A-133, a pass-thru entity of Federal funds is responsible for ensuring subrecipients receive the required audits within 9 months of year-end. In addition, a pass-thru entity of Federal funds is also responsible for issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit reports and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings.

Condition: During our review of 68 subrecipients receiving funds under the Congressional Appropriation PL 113-235, we noted 1 instance where the Corporation did not obtain and conclude on the most recent A-133 audit and 2 instances where the Corporation did not conclude on the subrecipient's A-133 findings within the required 6 months after receipt of the audit reports.

Questioned costs: None

Context: Exceptions were noted in 3 out of 68 subrecipients tested under the Congressional Appropriation PL 113-235.

Cause: In the first exception, the subrecipient did not submit their A-133 audit and, because the financial statement audit opinion did not reference a separate internal control and compliance report, no additional steps were taken by the Corporation to obtain the A-133 audit or determine if one was required. We noted that the subrecipient had a past history of annual submissions to the Federal Audit Clearinghouse website, which is required for all organizations that undergo A-133 audits, and did make a submission during the year in question.

The Corporation's policy is to review documents submitted by the subrecipient, including the financial statement and A-133 audits, and to document that review. If an A-133 audit has not been submitted, the reviewer looks to see whether the financial statement audit opinion makes reference to a separate internal control and compliance report, which is required under *Government Auditing Standards,* and if present, takes additional steps to obtain the A-133 audit. This process is flawed because an organization may submit a financial statement audit performed under auditing standards generally accepted in the United States of America vs. *Government Auditing Standards* and still be required to have an A-133 audit.

In the second exception, we understand the Corporation experienced turnover in the role responsible for reviewing and concluding on this subrecipient's A-133 audit. This employee's work was later reallocated and the review completed subsequent to year-end.

In the third exception, it was not evident why the Corporation did not comply with the 6 month time requirement.

Effect: A subrecipient may have compliance issues identified in the A-133 report that are not considered by the Corporation prior to issuing a subaward or during the monitoring period following an award.

Recommendation: We recommend that the Corporation improve the design of their internal control processes over subrecipient monitoring to ensure A-133 audits are obtained when required to be performed by subrecipients and to ensure that decisions on audit findings of subrecipients are issued within the time frames required.

Management Response and Corrective Action Plan: Management has reviewed the finding and has concluded that it agrees with the finding. Understanding that for FY2016, as a practical matter, all of our subawards will be covered by Uniform Guidance, we will implement the following corrective actions:

1. Engage a firm that is a recognized industry expert to layout the current procedure/processes for determining grant eligibility across the organization and to work with us to determine any gaps in our current grant management procedures relative to the Uniform Guidance standards.
2. We will clarify those gaps and revise our current grant management procedures to become compliant with the Uniform Guidance.
3. This process will be led by a team chaired by the Interim SVP-Controller and consisting of the Sr. Director of Financial & Off-Site Analysis, Organizational Assessment Division, the VP - Foreclosure Mitigation, National Initiatives, the Senior Manager - Systems Integration and Compliance and the Sr. Director-Quality Control and Compliance, National Foreclosure Mitigation Counseling Program.
4. We will implement these procedures across the organization by August 19, 2016, provide those updated procedures to CLA and insure strict adherence to those procedures by staff. Further, we will work with Internal Audit to schedule an initial review/test of these procedures prior to September 30, 2016 and review and correct any exceptions uncovered by Internal Audit.

Section IV – Prior Year Major Federal Program Findings

2014 – 001

During this year's testing of suspension and debarment, instances of noncompliance were noted and have been reported in finding 2015-001.