

**NEIGHBORHOOD HOUSING SERVICES, INC.
OF GREAT FALLS
d/b/a NEIGHBORWORKS GREAT FALLS**

GREAT FALLS, MONTANA

**FINANCIAL STATEMENT
AS OF
SEPTEMBER 30, 2011**

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Douglas Wilson & Company, P.C.

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	3-4
STATEMENT OF FINANCIAL POSITION AS OF SEPTEMBER 30, 2011 (WITH COMPARATIVE AMOUNTS AS OF SEPTEMBER 30, 2010).....	5
STATEMENT OF ACTIVITIES FOR THE YEAR ENDED SEPTEMBER 30, 2011 (WITH COMPARATIVE AMOUNTS AS OF SEPTEMBER 30, 2010).....	6
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED SEPTEMBER 30, 2011 (WITH COMPARATIVE AMOUNTS AS OF SEPTEMBER 30, 2010).....	7
STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED SEPTEMBER 30, 2011 (WITH COMPARATIVE AMOUNTS AS OF SEPTEMBER 30, 2010).....	8
NOTES TO FINANCIAL STATEMENTS	9-16
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED SEPTEMBER 30, 2011.....	17
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	18-19
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133.....	20-21
SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED SEPTEMBER 30, 2011	22
SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED SEPTEMBER 30, 2011.....	23

Board of Directors
Neighborhood Housing Services, Inc. of Great Falls
d/b/a NeighborWorks Great Falls
Great Falls, Montana

INDEPENDENT AUDITOR'S REPORT

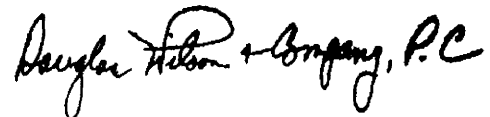
We have audited the accompanying statement of financial position of Neighborhood Housing Services, Inc. of Great Falls d/b/a NeighborWorks Great Falls (a nonprofit organization) as of September 30, 2011, and the related statements of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2010 financial statements and, in our report dated January 19, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the September 30, 2011 financial statements referred to above present fairly, in all material respects, the financial position of Neighborhood Housing Services, Inc. of Great Falls d/b/a NeighborWorks Great Falls as of September 30, 2011 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2012 on our consideration of Neighborhood Housing Services, Inc. of Great Falls d/b/a NeighborWorks Great Falls' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the 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.



Great Falls, Montana
January 12, 2012

NEIGHBORHOOD HOUSING SERVICES, INC. OF GREAT FALLS
d/b/a NEIGHBORWORKS GREAT FALLS

DRAFT

GREAT FALLS, MONTANA

STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2011
(WITH COMPARATIVE AMOUNTS AS OF SEPTEMBER 30, 2010)

ASSETS

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total	2010 Total
Current Assets:					
Cash	\$ 389,170	\$ 641,534	\$ 744,792	\$ 1,775,496	\$ 982,393
Accounts Receivable	7,085	83,218	-	90,303	307,165
Pledges Receivable	10,119	19,044	-	29,163	46,493
Real Estate Property Held for Sale	-	1,454,004	387,212	1,841,216	1,737,291
Prepaid Expenses	12,578	-	-	12,578	10,164
Current Portion of Mortgages Receivable	-	130,925	16,846	147,771	122,623
Total Current Assets	418,952	2,328,725	1,148,850	3,896,527	3,206,129
Property and Equipment, at Cost:					
Land	56,000	-	-	56,000	56,000
Building	787,015	-	-	787,015	787,015
Construction Tools/Equipment	114,593	-	-	114,593	111,487
Furniture and Office Equipment	121,960	-	-	121,960	125,350
Less: Accumulated Depreciation	(294,626)	-	-	(294,626)	(243,685)
Total Property and Equipment	784,942	-	-	784,942	836,167
Other Assets:					
Mortgages Receivable – Net of Allowance, Current Portion and Buy Back Discount	1,503,179	6,455,188	722,893	8,681,260	8,271,056
Total Other Assets	1,503,179	6,455,188	722,893	8,681,260	8,271,056
Total Assets	\$ 2,707,073	\$ 8,783,913	\$ 1,871,743	\$ 13,362,729	\$ 12,313,352

LIABILITIES AND NET ASSETS

Current Liabilities:					
Accounts Payable	\$ 118,615	\$ 14,019	\$ -	\$ 132,634	\$ 66,283
Accrued Payroll Taxes and Benefits	41,411	-	-	41,411	29,473
Due to Community Frameworks	-	693,978	-	693,978	856,015
Mortgage Escrow and Trust Accounts	-	163,718	-	163,718	24,545
Line of Credit	-	-	-	-	549,000
Current Portion of Long-Term Debt	76,342	-	-	76,342	-
Total Current Liabilities	236,368	871,715	-	1,108,083	1,525,316
Deferred Revenue	-	104,335	551,249	655,584	438,530
Long-Term Debt, Net of Current Portion	439,275	-	-	439,275	-
Total Liabilities	675,643	976,050	551,249	2,202,942	1,963,846
Net Assets	2,031,430	7,807,863	1,320,494	11,159,787	10,349,506
Total Liabilities and Net Assets	\$ 2,707,073	\$ 8,783,913	\$ 1,871,743	\$ 13,362,729	\$ 12,313,352

See the accompanying notes to the financial statements.

NEIGHBORHOOD HOUSING SERVICES, INC. OF GREAT FALLS
d/b/a NEIGHBORWORKS GREAT FALLS

DRAFT

GREAT FALLS, MONTANA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(WITH COMPARATIVE AMOUNTS AS OF SEPTEMBER 30, 2010)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total	2010 Total
Revenue, and Other Support					
Grants	\$ 94,000	\$ 1,474,160	\$ 275,000	\$ 1,843,160	\$ 3,076,345
Grant Administration Income	-	20,843	-	20,843	12,537
Contributions	116,620	-	100,000	216,620	107,775
Interest – Loans	-	101,929	-	101,929	46,141
Interest – Deposits	221	1,966	-	2,187	2,181
Loan Fees	23,734	-	-	23,734	37,060
Development and Design Fees	104,001	-	-	104,001	90,939
Rent Income	7,400	-	-	7,400	24,135
Contract Income	-	45,159	-	45,159	87,555
Lot Sales	20,976	-	-	20,976	20,827
Other Income	84,704	21,923	-	106,627	34,365
Net Assets Released from Restrictions:				-	-
Satisfaction of Program Restrictions	1,145,132	(1,145,132)	-	-	-
Grantor Released Permanent Restriction	221,780	-	(221,780)	-	-
Total Revenue, and Other Support	<u>1,818,568</u>	<u>520,848</u>	<u>153,220</u>	<u>2,492,636</u>	<u>3,539,860</u>
Expenses					
Program Services	1,326,851	-	-	1,326,851	1,580,891
Management and General	328,499	-	-	328,499	293,127
Resource Development	27,005	-	-	27,005	20,274
Total Expenses	<u>1,682,355</u>	<u>-</u>	<u>-</u>	<u>1,682,355</u>	<u>1,894,292</u>
Change in Net Assets	136,213	520,848	153,220	810,281	1,645,568
Net Assets – Beginning of Year	1,996,939	7,185,293	1,167,274	10,349,506	8,703,938
Prior Period Adjustment	(101,722)	101,722	-	-	-
Net Assets – Beginning of Year, Restated	<u>1,895,217</u>	<u>7,287,015</u>	<u>1,167,274</u>	<u>10,349,506</u>	<u>8,703,938</u>
Net Assets – End of Year	<u>\$ 2,031,430</u>	<u>\$ 7,807,863</u>	<u>\$ 1,320,494</u>	<u>\$ 11,159,787</u>	<u>\$ 10,349,506</u>

See the accompanying notes to the financial statements.

**NEIGHBORHOOD HOUSING SERVICES, INC. OF GREAT FALLS
d/b/a NEIGHBORWORKS GREAT FALLS**

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GREAT FALLS, MONTANA

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(WITH COMPARATIVE AMOUNTS AS OF SEPTEMBER 30, 2010)**

	2011 Total	2010 Total
Cash Flows From Operating Activities		
Change in Net Assets	\$ 810,281	\$ 1,645,568
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities		
Loss on Disposal of Assets	1,584	17,828
Depreciation	69,511	70,240
Proceeds from Sale of Real Estate Property Held for Sale	1,701,434	2,871,698
Loss on Sales of Real Estate Property Held for Sale	147,693	329,553
Purchase of Real Estate Property Held for Sale	(1,953,052)	(3,204,005)
Permanently Restricted Contributions	(375,000)	-
(Increase) Decrease in:		
Accounts Receivable	234,192	(49,849)
Prepaid Expenses	(2,414)	(9,903)
Increase (Decrease) in:		
Accounts Payable	66,351	50,567
Accrued Payroll Taxes and Benefits	11,938	(15,537)
Deferred Revenue	217,054	362,115
Mortgage Escrow Accounts	(22,864)	241,853
Net Cash Provided by Operating Activities	906,708	2,310,128
Cash Flows from Investing Activities		
Cash Paid for Property and Equipment	(19,870)	(62,177)
Net Increase in Mortgage and Notes Receivable	(435,352)	(1,758,599)
Net Cash Used by Investing Activities	(455,222)	(1,820,776)
Cash Flows from Financing Activities		
Proceeds from Issuance of Debt	515,617	2,854,239
Payment of Debt	(549,000)	(2,813,489)
Permanently Restricted Contributions	375,000	-
Net Cash Provided by Financing Activities	341,617	40,750
Net Increase in Cash	793,103	530,102
Cash, Beginning of Year	982,393	452,291
Cash, End of Year	\$ 1,775,496	\$ 982,393
Supplemental Disclosure of Cash Flow Information:		
Interest Paid	\$ 5,574	\$ 5,751

See the accompanying notes to the financial statements.

NEIGHBORHOOD HOUSING SERVICES, INC. OF GREAT FALLS
d/b/a NEIGHBORWORKS GREAT FALLS

DRAFT

GREAT FALLS, MONTANA

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(WITH COMPARATIVE AMOUNTS AS OF SEPTEMBER 30, 2010)

	Program Services			
	Home Buyer Education/ Housing Counseling	Lending	Affordable Housing/ Neighborhood Revitalization	Self-Help/ Weed & Seed
Salaries/Benefits and Taxes	\$ 116,489	\$ 69,608	\$ 174,091	\$ 266,712
Advertising	100	-	666	715
Annual Meeting	-	-	-	-
Bank Charges	-	1,870	1,740	-
Computer Support	351	2,264	63	678
Credit Reports	2,530	257	1,416	0
Federal Express	384	32	278	187
Fund Drive	-	-	-	-
Grant Expenses	-	-	-	129,621
Homebuyer Education/ Housing Counseling	6,362	-	-	-
Interest	-	5,574	-	-
Loan Origination Expense	-	12,523	-	-
Marketing	575	-	621	514
Meeting Expense	3,894	239	2,232	1,073
Miscellaneous	724	232	4,189	3,499
Newsletter	-	-	-	-
Outside Professional Services/Consultants	328	564	6,219	3,956
Professional Services - Legal	-	3,053	4,410	-
Special Events	-	-	(1,302)	78
Training	844	50	2,796	4,053
Travel - Local	141	333	5,966	3,301
Travel - Out of Town	1,843	-	2,286	14,697
Vehicle Costs	-	-	3,390	-
Audit	1,131	2,175	5,119	1,914
Insurance	697	629	25,666	6,939
Equipment Rent/Maintenance	433	-	2,922	600
Small Equipment Purchase	557	490	1,349	19,521
Office Supplies	1,613	364	428	2,561
Postage	589	846	328	329
Occupancy	8,784	7,690	10,105	11,350
Fees, Subscriptions & Dues	35	-	1,974	535
Telephone	1,614	1,126	3,029	4,270
(Gain)/Loss on Sale of Real Estate	-	-	147,693	-
(Gain)/Loss on Sale of Assets	-	-	-	-
Repairs on Homes Sold	-	-	24,408	-
Bad Debt	-	131,249	-	-
Depreciation	-	4,409	21,025	1,046
	<u>\$ 150,018</u>	<u>\$ 245,577</u>	<u>\$ 453,107</u>	<u>\$ 478,149</u>

Program Services	Supporting Services				
Total Program Services	Management and General	Resource Development	Total Supporting Services	2011 Grand Total	2010 Grand Total
\$ 626,900	\$ 192,589	\$ 9,601	\$ 202,190	\$ 829,090	\$ 749,330
1,481	744	-	744	2,225	4,946
-	1,330	-	1,330	1,330	1,121
3,610	1,335	445	1,780	5,390	5,062
3,356	5,864	2,819	8,683	12,039	4,642
4,203	0	-	-	4,203	3,158
881	1,050	12	1,062	1,943	569
-	-	3,291	3,291	3,291	1,617
129,621	11,497	-	11,497	141,118	271,283
6,362	-	-	-	6,362	4,725
5,574	-	-	-	5,574	5,751
12,523	-	-	-	12,523	5,580
1,710	3,583	1,254	4,837	6,547	5,855
7,438	(7,445)	551	(6,894)	544	4,153
8,644	(55)	51	(4)	8,640	9,550
-	3,987	33	4,020	4,020	9,576
11,067	2,722	-	2,722	13,789	21,979
7,463	-	-	-	7,463	-
(1,224)	9,466	-	9,466	8,242	13,770
7,743	4,328	30	4,358	12,101	14,273
9,741	1,067	81	1,148	10,889	10,713
18,826	2,954	-	2,954	21,780	19,004
3,390	-	-	-	3,390	-
10,339	4,161	-	4,161	14,500	14,000
33,931	8,302	36	8,338	42,269	45,526
3,955	9,600	-	9,600	13,555	19,277
21,917	10,024	-	10,024	31,941	18,721
4,966	17,666	2,263	19,929	24,895	19,938
2,092	4,190	404	4,594	6,686	9,683
37,929	(9,687)	528	(9,159)	28,770	18,455
2,544	4,766	-	4,766	7,310	5,019
10,039	2,891	82	2,973	13,012	13,157
147,693	-	-	-	147,693	329,553
-	(250)	1,834	1,584	1,584	-
24,408	-	-	-	24,408	61,347
131,249	-	2,479	2,479	133,728	102,719
26,480	41,820	1,211	43,031	69,511	70,240
\$ 1,326,851	\$ 328,499	\$ 27,005	\$ 355,504	\$ 1,682,355	\$ 1,894,292

See the accompanying notes to the financial statements.

NEIGHBORHOOD HOUSING SERVICE, INC. OF GREAT FALLS
d/b/a NEIGHBORWORKS GREAT FALLS

GREAT FALLS, MONTANA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 1: ORGANIZATION:

Neighborhood Housing Services, Inc. of Great Falls d/b/a Neighborworks Great Falls (NWGF) is a nonprofit corporation dedicated to residential revitalization in Great Falls, and the promotion of home ownership for low to moderate income families in Montana. Revenue is received from federal grants, earned income and contributions. Beginning May 1, 2007 the Organization began doing business as Neighborworks Great Falls.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting – The financial statements are presented on the accrual basis of accounting. Revenue is recognized in the period in which it is earned and expenses recognized when incurred.

Basis of Presentation: Net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that will be met either by actions of the Organization and/or the passage of time.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restriction.

Temporarily Restricted Net Assets – The Organization has reported funds received from CDBG and HOME Program as being temporarily restricted for the purchase, rehab, or revitalization of real estate and housing for lower income families in the Great Falls area. Certain multifamily and exterior funds are also considered temporarily restricted. Restrictions placed on temporarily restricted net assets are released when the condition of restriction has been substantially met.

Permanently Restricted Net Assets – The Organization reports capital funds from Neighborhood Reinvestment Corporation as permanently restricted. These net assets are to remain in the Organization to provide stability and financial strength.

September 30, 2010 Financial Information – The statements include certain prior-year summarized financial information. Such information does not include sufficient detail to constitute presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements as of and for the year ended September 30, 2010.

Income Taxes – In a letter dated June 24, 1980, the Internal Revenue Service determined that the Corporation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. For the years prior to 2008 the organization's tax returns are generally no longer subject to examination.

Cash Equivalents – For purposes of the statement of cash flows, the Organization considers all short-term investments with a maturity of three months or less and all certificates of deposit to be cash equivalents.

Notes Receivable – Mortgages and notes receivable are stated at face value. The allowance is estimated based on historical collection analysis. Loans are considered past due and delinquent when payments are 30 days late. Loans are written off when they are deemed uncollectible. Interest income is recognized as it is earned.

Management Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events – Accounting standards establish principles setting forth the period after the balance sheet date during which management is required to evaluate events and transactions that may occur for potential recognition or disclosure in the financial statements. The organization has evaluated subsequent events through January 12, 2012, which is the date the financial statements were available to be issued.

NOTE 3: UNINSURED DEPOSITS:

The Organization maintains deposits in various financial institutions located in Great Falls. The deposits are insured by federal agencies for up to \$250,000 per bank. At September 30, 2011, the amount on deposit exceeding the federally insured limit is \$68,340.

NOTE 4: RELATED PARTY TRANSACTION:

Montana HomeOwnership Network, Inc., (MHN) and Neighborhood Housing Services, Inc. of Great Falls have two common board members. The Organization has entered into a Management and Fee Agreement with MHN. The agreement requires Montana HomeOwnership Network, Inc. to reimburse Neighborhood Housing Services, Inc. of Great Falls for administrative services, such as staff, supplies and office space. The total of reimbursable expenses incurred by Neighborhood Housing Services, Inc. of Great Falls for the year ended September 30, 2011 was \$317,596 and the accounts receivable balance was zero.

NOTE 5: REAL ESTATE PROPERTY HELD FOR SALE:

Neighborhood Housing Services, Inc. of Great Falls has purchased properties in the neighborhood with the intention of either improving the property or clearing the land of existing structures to provide a building lot. The Organization also constructs properties within the neighborhood. All costs associated with the property including preacquisition, acquisition, development, and construction costs are capitalized and included in the total cost of the property. Purchased and constructed properties are eventually sold to qualifying buyers in accordance with the Organization's mission. NWGF determines the fair value of its real estate property through the application of FASB Accounting Standards Codification (ASC) No. 820, Fair Market Measurements and Disclosures. These standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted observable 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 these standards are described below.

Basis of Fair Value Measurement:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 - Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;

Level 3 - Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The real estate property is stated at the lower of cost or market using significant unobservable (Level 3) inputs. The Level 3 input for market represents the replacement cost or the estimated net realizable value.

The reconciliation of the changes in the real estate inventory measured on a recurring basis using significant unobservable inputs (Level 3) is as follows:

September 30, 2010	\$ 1,737,291
Real Estate Purchased	396,742
Development and Construction Costs	1,562,047
Real Estate Sold	(1,854,864)
September 30, 2011	<u>\$ 1,841,216</u>

Included in program service expense is a realized loss of \$147,693 related to the real estate sold.

NOTE 6: PROPERTY AND EQUIPMENT:

Property and equipment are recorded at cost for purchased assets and fair market value as of the date of donation for donated assets. Those assets over \$2,500 are capitalized.

Depreciation is provided over the estimated useful lives of the assets using straight-line depreciation. Total depreciation expense for the year ended September 30, 2011 is \$69,511.

Estimated useful lives are as follows:

Building	27.5 years
Furniture	3-5 years
Equipment	3-7 years

NOTE 7: MORTGAGES AND NOTES RECEIVABLE:

The Organization grants credit to low to moderate income home owners, substantially all of whom are in Montana. Loans for homebuyers who are above the HUD income guidelines are amortizing and interest-bearing. Federal HOME funds are used for deferred mortgages for low and moderate income homebuyers. The deferred mortgages are made at zero interest and require the borrower to repay the loan when the home is sold.

The Corporation has a loan committee with a minimum of seven members. The loan committee is responsible for the review and approval of eligible loan applications and the interest rate and repayment terms of loans that fall outside of the designated parameters.

Mortgages and notes receivable are stated at face value. Allowance for uncollectible loans has been established in the amount of \$139,632. Mortgages and notes receivable of \$8,829,031 are net of the allowance account. The allowance is estimated based on historical collection analysis. Loans are considered past due and delinquent when payments are 30 days late.

Loan Reserve at October 1, 2010	\$ 127,685
Loans Written-Off	(119,302)
Reserve Replenished	131,249
Loan Reserve at September 30, 2011	<u>\$ 139,632</u>

Loans are written off when they are deemed uncollectible. The total amount of loan payments that are ninety days past due and still accruing as of September 30, 2011 is \$ 149,218.

Maturities of mortgages and notes receivable for the next five years are as follows:

Year Ended	
September 30,	
2012	\$ 147,771
2013	139,868
2014	130,234
2015	124,673
2016	119,007
Thereafter	8,167,478
	<u>\$ 8,829,031</u>

Included in the "Thereafter" category are mortgages that are due on sale of the customers' home.

NOTE 8: PLEDGES RECEIVABLE:

Pledges receivable at September 30, 2011 total \$29,163. Management considers all pledges receivable to be collectible. Pledges are stated at net realizable value. This is not materially different than if the pledges were stated at a discounted value.

Pledges are due as follows:

Year Ended September 30,	
2012	\$ 27,763
2013	1,400
	\$ 29,163

NOTE 9: ENDOWMENT:

In December of 2010, the Board of Directors voted to permanently restrict certain memorial contributions received to create the NeighborWorks Endowment. A contribution of \$100,000 was made to the endowment in June of 2011 and permanently restricted by donor intent. NWGF also owns an insurance policy, the proceeds of which is designated to the endowment.

NWGF's endowment was established to preserve funds for future operations. This endowment includes funds designated by the Board of Directors to function as an endowment. As required by generally accepted accounting principles in the United States, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Endowment Spending Policy

It is the goal of the NWGF to establish this endowment for fund preservation. This goal needs to be balanced with an equally important goal of growing the principal of the Endowment Funds in real terms. The Board has taken into consideration the impact cash withdrawals play upon the volatility of a portfolio over time.

Endowment Investment Policy

Investment Objective – The obligations of NWGF are long-term in nature; consequently, the investment of the endowment assets has a long-term focus. The endowment assets are invested in accordance with sound investment practices that emphasize long-term investment fundamentals. The primary investment objectives are preservations of purchasing power of the principal. This objective is achieved through a well diversified portfolio structure in a manner consistent with the investment policy when read in its entirety.

Risk Tolerance – The Board of Directors examined two important factors that affect the portfolio risk tolerance: financial ability to accept risk within the investment program and the willingness to accept return volatility. The Board of Directors is comfortable with a low to moderate risk strategy. However, safety and soundness is considered essential in the selection of securities. Specifically, approved investments may be in blue chip stocks, corporate bonds, time certificates of deposit, commercial paper US Treasury securities, government agency offerings and money market funds, bank security agreements and savings accounts.

Strategies for Achieving Objectives – To satisfy its long-term objectives, NWGF relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

**Endowment Net Assets Composition by Type of Fund
As of September 30, 2011**

Permanently Restricted	\$ 100,000
Board Designated	2,999
	\$ 102,999

**Changes in Endowment Net Assets
For the Year Ended September 30, 2011**

Endowment Net Assets, Beginning	\$ -
Contributions	100,299
Endowment Net Assets, Ending	\$ 100,299

NOTE 10: LINE-OF-CREDIT:

NWGF has a line-of-credit with US Bank for up to \$800,000. The interest rate is prime less 1.25% with a minimum of 4%. The balance outstanding at September 30, 2011 is zero. The line-of-credit is due March 15, 2012.

NOTE 11: DUE TO COMMUNITY FRAMEWORKS:

NWGF has an on-going relationship with Community Frameworks, a non-profit that provides financing for affordable housing construction. Community Frameworks has provided zero-interest loan capital for land acquisition and infrastructure development. Recovery upon the sale of a property creates a revolving fund used for second mortgages. NWGF currently has \$693,978 for use in its Self Help project and general affordable housing activities.

NOTE 12: GRANTS:

August 15, 2000, Neighborhood Housing Services, Inc. of Great Falls signed a new Revolving Loan and Capital Projects Fund (RLF) agreement with Neighborhood Reinvestment Corporation (NRC). The agreement calls for the Organization to maintain a revolving loan and capital projects fund with at least \$1,220,493 in equity to be used in support and maintenance of this fund. The amount represents capital grants given by Neighborhood Reinvestment Corporation over the years to Neighborhood Housing Services, Inc. of Great Falls. Capital grants in the current period were \$275,000. The required balance is reflected as permanently restricted funds and are part of the NRC/RLF fund as required.

The activity related to these funds is as follows:

Balance at September 30, 2010	\$ 1,167,274
Grants Received	275,000
Released to Operations	<u>(221,780)</u>
Balance at September 30, 2011	<u><u>\$ 1,220,494</u></u>

The permanent restriction is composed of the following:

Loan Loss Reserve	\$ 93,543
Property	387,212
Loans Receivable	<u>739,739</u>
	<u><u>\$ 1,220,494</u></u>

Neighborhood Reinvestment Corporation allows exemplary rated organizations to apply for the conversion of permanently restricted capital funds to unrestricted expendable funds. NWGF received approval to convert \$221,780 to unrestricted for the current year. This is reflected in the statement of activities as grantor released permanent restriction and shown above as "released to operations".

NeighborWorks America also provided two grants for \$337,499 and one grant for \$213,750. NWGF has until June 30, 2012 to satisfy the \$337,499 grant requirements and until December 31, 2012 to satisfy the \$213,750 grant requirements. Upon satisfaction 90% will be converted to restricted capital and 10% will be released to unrestricted for administrative costs.

NOTE 13: COMMITMENT AND CONTINGENCIES:

The Organization's loan committee can approve certain loans to homeowners at the end of the year. Before the loan becomes a loan in process, the homeowner may have to meet certain criteria. If the homeowners meet the criteria for the loans, Neighborhood Housing Services, Inc. of Great Falls is contingently liable to loaning out these funds. The amount of these contingent loans at September 30, 2011 was \$2,757.

Neighborhood Housing Services, Inc. of Great Falls is contingently liable for loans that have been funded by MBOH in the amount of \$388,787. None of these loans exceed \$5,000 and all are secured by a lien on the property. Neighborhood Housing Services, Inc. of Great Falls also has a money market account that is available to cover any loans that become uncollectible. The balance in this account at September 30, 2011 is \$50,000.

NOTE 14: PENSION PLAN:

In 2007, the Organization adopted a 401(k) plan administered by D.A. Davidson covering all full-time employees. Employee contributions are matched as made. The Organization will match up to 5% on a maximum 2.5% contribution, a 2 for 1 basis. Total match expense for fiscal year 2011 was \$35,284.

NOTE 15: CONSTRUCTION ADMINISTRATION FEE:

NWGF allocates administration costs to the construction activity and charges the construction fund for these interfund costs. The amount is 8% of total cost of new construction and rehabilitation costs. Included in Development and Design Fee income and property costs is \$104,001 related to this activity.

NOTE 16: NHSA LOAN BUY-BACK:

In the previous year Neighborhood Housing Services of America sold loans back to NWGF that NHSA had previously purchased from NWGF. The total principal of the loans totaled \$980,217 with a purchase discount of \$377,768 for a net purchase of \$602,449. The current net value receivable as of September 30, 2011 is \$509,605. The discount is amortized to interest income over the life of the loans effectively increasing the interest rate earned on the loans. Included in the \$846,358 is \$336,753 related to the discount for this purchase.

NOTE 17: PRIOR PERIOD ADJUSTMENT:

Unrestricted property sale losses on two houses totaling \$101,722 were recorded as temporarily restricted losses in fiscal year 2010 and opening fund balances have been adjusted accordingly.

NEIGHBORHOOD HOUSING SERVICES, INC. OF GREAT FALLS
d/b/a NEIGHBORWORKS GREAT FALLS

DRAFT

GREAT FALLS, MONTANA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

<u>Funding Agency</u>	<u>Federal CFDA Number</u>	<u>Program Number</u>	<u>Total Federal Award</u>	<u>Grant Revenues Received</u>	<u>Expenditures</u>
<u>Neighborhood Reinvestment Corporation Public Law 106-377 105th Congress Direct Programs:</u>					
Capital Grants	N/A	N/A	\$ 275,000	\$ 275,000	\$ 275,000
Expendable Grants	N/A	N/A	212,353	212,353	212,353
Total			487,353	487,353	487,353
<u>U.S. Department of Housing and Urban Development Pass-Through Programs from:</u>					
City of Great Falls:					
HOME Investment Partnership Program	14.239	M-00-MC-300218	136,198	136,198	136,198
HOME Program Income			-	176,260	176,260
Community Development Block Grant	14.218	B-02-MC300-2	150,000	150,000	150,000
CDBG Program Income			-	79,699	79,699
Neighborhood Stabilization Program:					
Program Income	14.228	MT-NSP-005-01-001	-	953,833	953,833
Community Frameworks:					
Self-Help Housing Opportunity Program	14.247		690,000	690,000	690,000
Montana Board of Housing:					
Foreclosure Counseling	21.000	N/A	49,319	49,319	49,319
Total			1,025,517	2,235,309	2,235,309
<u>U.S. Department of Agriculture Rural Development Direct Program:</u>					
Self Help 523	10.420	N/A	304,436	304,436	304,436
Self Help 502	10.420	N/A	1,018,465	1,018,465	1,018,465
Total			1,322,901	1,322,901	1,322,901
<u>U.S. Department of Justice Direct Program:</u>					
Weed and Seed	N/A	N/A	154,536	154,536	154,536
Total			154,536	154,536	154,536
Total Federal Awards			\$ 2,990,307	\$ 4,200,099	\$ 4,200,099

NOTE: BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Neighborhood Housing Service, Inc. of Great Falls and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

Board of Directors
Neighborhood Housing Services, Inc. of Great Falls
d/b/a NeighborWorks Great Falls
Great Falls, Montana

**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**

We have audited the financial statements of Neighborhood Housing Services, Inc. of Great Falls d/b/a NeighborWorks Great Falls as of and for the year ended September 30, 2011, and have issued our report thereon dated January 12, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Neighborhood Housing Services, Inc. of Great Falls d/b/a NeighborWorks Great Falls' internal control over financial reporting as a basis for designing our auditing procedures 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 Neighborhood Housing Services, Inc. of Great Falls d/b/a NeighborWorks Great Falls' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

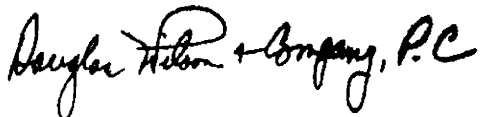
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended for the information and use of the Board of Directors, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature in black ink that reads "Douglas Wilson + Company, P.C." in a cursive script.

Great Falls, Montana
January 12, 2012

Board of Directors
Neighborhood Housing Services, Inc. of Great Falls
d/b/a Neighborworks Great Falls
Great Falls, Montana

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH REQUIREMENTS THAT COULD HAVE A DIRECT
AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Compliance

We have audited Neighborhood Housing Services, Inc. of Great Falls d/b/a Neighborworks Great Falls' compliance with the types of compliance requirements' described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2011. Neighborhood Housing Services, Inc. of Great Falls d/b/a Neighborworks Great Falls' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Neighborhood Housing Services, Inc. of Great Falls d/b/a Neighborworks Great Falls' management. Our responsibility is to express an opinion on Neighborhood Housing Services, Inc. of Great Falls d/b/a Neighborworks Great Falls' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Neighborhood Housing Services, Inc. of Great Falls d/b/a Neighborworks Great Falls' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Neighborhood Housing Services, Inc. of Great Falls d/b/a Neighborworks Great Falls' compliance with those requirements.

In our opinion, Neighborhood Housing Services, Inc. of Great Falls d/b/a Neighborworks Great Falls complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2011.

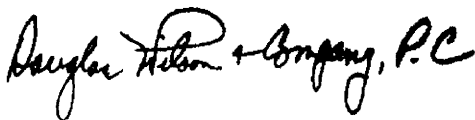
Internal Control Over Compliance

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

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information and use of the Board of Directors, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



Great Falls, Montana
January 12, 2012

NEIGHBORHOOD HOUSING SERVICE, INC. OF GREAT FALLS
d/b/a NEIGHBORWORKS GREAT FALLS

GREAT FALLS, MONTANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

SUMMARY OF AUDITOR RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Neighborhood Housing Services, Inc. of Great Falls.
2. There were no material weaknesses or significant control deficiencies disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Neighborhood Housing Services, Inc. of Great Falls, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. There were no material or significant deficiencies in internal control over major federal award programs disclosed during the audit.
5. The auditor's report on compliance for the major federal award programs for Neighborhood Housing Services, Inc. of Great Falls expresses an unqualified opinion on all major federal programs.
6. There were no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs included: Self-Help 502 and 523 Funds and Self-Help Housing Opportunity Program.
8. The threshold used for distinguishing Type A and B programs was \$300,000 in expenditures.
9. Neighborhood Housing Services, Inc. of Great Falls qualified as a low-risk auditee.
10. Findings related to financial statements: None.
11. Findings relating to federal awards: None.

FINDINGS-FINANCIAL STATEMENT AUDIT

None.

FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.

**NEIGHBORHOOD HOUSING SERVICE, INC. OF GREAT FALLS
d/b/a NEIGHBORWORKS GREAT FALLS**

DRAFT

GREAT FALLS, MONTANA

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

FINDING:

None.