

**MONTANA HOMEOWNERSHIP NETWORK, INC.  
dba NEIGHBORWORKS MONTANA**

**AUDITED FINANCIAL STATEMENTS**

**September 30, 2017  
(With Comparative Totals for September 30, 2016)**





**NEIGHBORWORKS MONTANA  
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**AUDITED FINANCIAL STATEMENTS**

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ACCOUNTING  
AUDIT  
TAX  
EMPLOYEE BENEFITS  
SPECIALIZED SERVICES

**The Board of Directors  
Montana HomeOwnership Network, Inc.  
dba NeighborWorks Montana  
Great Falls, Montana**

## **INDEPENDENT AUDITORS' REPORT**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Montana HomeOwnership Network, Inc. dba NeighborWorks Montana (a nonprofit organization), which comprise the statement of financial position as of September 30, 2017, and the related statements of activities, functional expenses, 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 Montana HomeOwnership Network, Inc. dba NeighborWorks Montana as of September 30, 2017, 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.

## **Report on Summarized Comparative Information**

We have previously audited Montana HomeOwnership Network, Inc. dba NeighborWorks Montana's 2016 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated December 8, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

## **Other Matters**

### *Other information*

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, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the 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.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated December 5, 2017, on our consideration of Montana HomeOwnership Network, Inc. dba NeighborWorks Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Montana HomeOwnership Network, Inc. dba NeighborWorks Montana's internal control over financial reporting and compliance.

***Junkermier, Clark, Campanella, Stevens, P.C.***

Great Falls, Montana  
December 5, 2017

**MONTANA HOMEOWNERSHIP NETWORK, INC.**  
**dba NEIGHBORWORKS MONTANA**  
**STATEMENT OF FINANCIAL POSITION**  
**September 30, 2017**  
**(With Comparative Totals for September 30, 2016)**

	<b>September 30</b>	
	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 2,387,631	\$ 2,563,433
Miscellaneous receivable	437,576	13,787
Grants receivable	205,779	385,688
Due from NeighborWorks Great Falls	-	2,584
Current portion of notes receivable	953,188	1,477,882
Current portion of loans receivable	226,019	266,695
Real estate property held for sale	1,574,954	1,068,050
Prepaid expenses	4,048	4,393
	<u>5,789,195</u>	<u>5,782,512</u>
<b>FIXED ASSETS</b>		
Buildings	163,853	156,034
Furniture and equipment	52,732	34,732
	<u>216,585</u>	<u>190,766</u>
Less accumulated depreciation	(71,640)	(59,356)
	<u>144,945</u>	<u>131,410</u>
<b>OTHER ASSETS</b>		
Cash - endowment	2,846	2,846
Cash - bond pool reserve	136,999	136,778
Investments	429,788	179,912
Notes receivable, net of allowance and current portion	5,485,768	1,709,969
Loans receivable, net of allowance, current portion, and NHTSA buyback discount	13,293,359	13,268,460
	<u>19,348,760</u>	<u>15,297,965</u>
Total assets	<u>\$ 25,282,900</u>	<u>\$ 21,211,887</u>

See notes to financial statements.

**MONTANA HOMEOWNERSHIP NETWORK, INC.**  
**dba NEIGHBORWORKS MONTANA**  
**STATEMENT OF FINANCIAL POSITION**  
**September 30, 2017**  
**(With Comparative Totals for September 30, 2016)**

	<b>September 30</b>	
	<b>2017</b>	<b>2016</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 270,597	\$ 181,697
Deferred revenue	690,189	607,347
Due to NeighborWorks Great Falls	183	-
Current portion of notes payable	1,045,940	1,390,000
	2,006,909	2,179,044
 <b>DEPOSITS</b>	 -	 80,214
<b>MORTGAGE ESCROW AND TRUST ACCOUNTS</b>	3,747,249	4,020,648
 <b>LONG-TERM LIABILITIES</b>		
CF loan fund	105,000	135,053
Notes payable, net of current portion	5,831,272	1,744,731
	5,936,272	1,879,784
Total liabilities	11,690,430	8,159,690
 <b>NET ASSETS</b>		
Unrestricted	5,720,575	4,591,982
Temporarily restricted	6,760,845	6,874,166
Permanently restricted	1,111,050	1,586,049
Total net assets	13,592,470	13,052,197
Total liabilities and net assets	\$ 25,282,900	\$ 21,211,887

See notes to financial statements.

**MONTANA HOMEOWNERSHIP NETWORK, INC.**  
**dba NEIGHBORWORKS MONTANA**  
**STATEMENT OF ACTIVITIES**  
**Year Ended September 30, 2017**  
**(With Comparative Totals for September 30, 2016)**

	<b>2017</b>			<b>Total</b>	<b>2016 Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>		
<b>REVENUE AND SUPPORT</b>					
Grants	\$ 1,454,635	\$ 166,637	\$ -	\$ 1,621,272	\$ 3,197,255
Contributions	51,774	-	-	51,774	61,739
Interest - loans	404,125	-	-	404,125	385,570
Interest - deposits	5,569	-	-	5,569	5,133
Loan fees	48,032	-	-	48,032	41,283
Conference income	77,795	-	-	77,795	64,028
Contract income	835,418	-	-	835,418	1,042,769
Other income	112,607	-	-	112,607	70,463
Gain on disposition of assets	-	-	-	-	24,433
Net assets released from restrictions:					
Satisfaction of program restrictions	279,958	(279,958)	-	-	-
Grantor released permanent restrictions	474,999	-	(474,999)	-	-
 Total revenue and support	<u>3,744,912</u>	<u>(113,321)</u>	<u>(474,999)</u>	<u>3,156,592</u>	<u>4,892,673</u>
<b>EXPENSES</b>					
Program services	2,359,497	-	-	2,359,497	2,428,826
Supporting services	256,822	-	-	256,822	369,551
 Total expenses	<u>2,616,319</u>	<u>-</u>	<u>-</u>	<u>2,616,319</u>	<u>2,798,377</u>
<b>CHANGE IN NET ASSETS</b>	1,128,593	(113,321)	(474,999)	540,273	2,094,296
 Net assets, beginning of year	<u>4,591,982</u>	<u>6,874,166</u>	<u>1,586,049</u>	<u>13,052,197</u>	<u>10,957,901</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 5,720,575</u>	<u>\$ 6,760,845</u>	<u>\$ 1,111,050</u>	<u>\$ 13,592,470</u>	<u>\$ 13,052,197</u>

See notes to financial statements.



**MONTANA HOMEOWNERSHIP NETWORK, INC.**  
**dba NEIGHBORWORKS MONTANA**  
**STATEMENT OF CASH FLOWS**  
**Year Ended September 30, 2017**  
**(With Comparative Totals for September 30, 2016)**

	<b>Year Ended September 30</b>	
	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 540,273	\$ 2,094,296
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Bad debt expense	243,094	202,295
Depreciation	12,284	16,277
Permanently restricted contributions	-	(953,049)
Gain on disposition of assets	-	(24,433)
Loss on disposition of real estate property held for sale	19,910	225,501
Change in operating assets and liabilities:		
Receivables	(241,113)	193,874
Prepaid expenses	345	6,085
Accounts payable	8,686	(1,493)
Deferred revenue	82,842	(45,866)
Mortgage escrow and trust accounts	(273,399)	(206,622)
Net cash provided by operations	392,922	1,506,865
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from real estate held for sale	1,312,212	930,442
Purchase of real estate held for sale	(1,839,026)	(107,844)
Cash received for property and equipment	-	125,966
Cash paid for property and equipment	(25,819)	(8,500)
Proceeds from sale of investments	5,460	10,500
Purchase of investments	(255,336)	(5,331)
Payments received on loans and notes receivable	2,669,423	2,041,340
Additional funds issued on loans and notes receivable	(6,147,845)	(3,056,321)
Net cash used by investing activities	(4,280,931)	(69,748)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from new debt	4,632,481	124,759
Payment on debt	(920,053)	(1,640,740)
Permanently restricted contributions	-	953,049
Net cash provided (used) by financing activities	3,712,428	(562,932)
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	(175,581)	874,185
Cash and cash equivalents, beginning of year	2,703,057	1,828,872
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ 2,527,476	\$ 2,703,057
<b>SCHEDULE OF INTEREST PAID</b>		
Interest paid	\$ 88,367	\$ 120,796
<b>SCHEDULE OF CASH</b>		
Cash - operating	\$ 2,387,631	\$ 2,563,433
Cash - endowment	2,846	2,846
Cash - bond pool reserve	136,999	136,778
	\$ 2,527,476	\$ 2,703,057

See notes to financial statements.

**MONTANA HOMEOWNERSHIP NETWORK, INC.**  
**dba NEIGHBORWORKS MONTANA**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**Year Ended September 30, 2017**  
**(With Comparative Totals for 2016)**

	<u>Supporting Services</u>			<b>Total Supporting Services</b>
	<u>Program Services</u>	<u>Management and General</u>	<u>Resource Development</u>	
Salaries, benefits and taxes	\$ 670,468	\$ 175,454	\$ 2,360	\$ 177,814
Audit	10,500	1,750	-	1,750
Bad debt expense	243,094	-	-	-
Advertising	304	-	-	-
Special events	1,060	-	-	-
Insurance	7,248	5,250	600	5,850
Cyber insurance	2,400	439	-	439
Computer support	27,193	7,251	3,165	10,416
Depreciation	4,572	7,361	351	7,712
Marketing	10,079	2,302	5	2,307
Meeting expense	9,583	3,055	-	3,055
Miscellaneous	11,728	6,507	486	6,993
HQS/environmental/home	3,640	-	-	-
Interest expense	88,367	-	-	-
Loan processing expense	17,523	-	-	-
Property costs	27,006	25	-	25
Repairs and maintenance	4,276	9,474	521	9,995
Real estate taxes	2,432	703	-	703
Office supplies	2,195	10,711	-	10,711
Outside professional services/consultants	51,229	61,782	-	61,782
Legal professional services	2,773	-	-	-
Partner conference expenses	47,393	-	-	-
Postage	3,757	260	-	260
Occupancy	62,327	(62,861)	534	(62,327)
Subscriptions/dues	11,129	4,253	1,924	6,177
Telephone	6,827	2,817	267	3,084
Training	29,314	325	-	325
Training-partners	31,208	325	-	325
Travel	41,049	7,008	-	7,008
Parking	200	487	-	487
Utilities	692	1,406	-	1,406
Credit reports	317	-	-	-
Loss on real estate sold	19,910	-	-	-
Grant expense	378,462	525	-	525
Distribution to partners	529,242	-	-	-
<b>Total expenses</b>	<b><u>\$ 2,359,497</u></b>	<b><u>\$ 246,609</u></b>	<b><u>\$ 10,213</u></b>	<b><u>\$ 256,822</u></b>

See notes to financial statements.

**MONTANA HOMEOWNERSHIP NETWORK, INC.**  
**dba NEIGHBORWORKS MONTANA**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**Year Ended September 30, 2017**  
**(With Comparative Totals for 2016)**

<u>2017</u> <u>Totals</u>	<u>2016</u> <u>Totals</u>
\$ 848,282	\$ 721,550
12,250	12,000
243,094	202,295
304	200
1,060	3,614
13,098	11,650
2,839	3,182
37,609	20,158
12,284	16,277
12,386	9,837
12,638	9,482
18,721	12,570
3,640	4,064
88,367	120,796
17,523	16,344
27,031	9,005
14,271	13,678
3,135	2,166
12,906	13,703
113,011	45,416
2,773	6,304
47,393	37,658
4,017	3,642
-	37,882
17,306	12,834
9,911	8,635
29,639	15,458
31,533	25,233
48,057	31,495
687	518
2,098	1,911
317	551
19,910	225,501
378,987	278,291
<u>529,242</u>	<u>864,477</u>
<u>\$2,616,319</u>	<u>\$2,798,377</u>

See notes to financial statements.

**MONTANA HOMEOWNERSHIP NETWORK, INC.**  
**dba NEIGHBORWORKS MONTANA**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2017**

**1. ORGANIZATION**

Montana HomeOwnership Network, Inc. dba NeighborWorks Montana (NWMT) is a nonprofit corporation dedicated to increasing home ownership and preserving affordable housing for low-income families throughout Montana. Revenue is mainly from earned income and government grants supplemented by donations. NWMT partners with other nonprofit agencies through service agreements, contracts and loans to provide services, encourage development, and finance construction. These agencies are commonly referred to as “partners,” but the use of the term in no way suggests a formal, legal partnership exists between NWMT and the individual agencies.

The services provided by NWMT are segregated in the following program categories:

*Homebuyer Education and Housing Counseling* - includes the operation of a statewide partner network of local agencies which provide individual homeownership planning services to homebuyers so they are knowledgeable of all aspects of the home buying process to create successful homeownership for the long-term. Foreclosure mitigation services provide counseling, loan servicer negotiations and foreclosure prevention loans to homeowners of all incomes. These services are contracted by NWMT with local agencies.

*Lending and Loan Servicing* - provides down payment loans to low and moderate income families to allow them to become homeowners. Deferred mortgages bridge the gap between the home price and an affordable mortgage for the family, while amortizing mortgages allow families to reduce their down payment and avoid mortgage insurance premiums. For current homeowners, NWMT offers foreclosure mitigation loans to allow them to retain homeownership.

*Real Estate Development and Acquisition Program (REDA)* - provides loans on projects for pre-development, land or building acquisition, bridge funds for equity and other structures crafted to serve the needs of development partners. As a Community Development Financial Institution (CDFI), NWMT can leverage grant funds with loans from numerous sources and offers financing to help housing developers complete their financing packages.

*Housing and Real Estate* - encompasses new home development including new construction, factory-built homes, replacement home development using manufactured homes, and conversion of manufactured housing communities into resident-owned cooperatives. Manufactured housing is Montana's largest unsubsidized form of affordable housing. This line of business works to preserve and enhance the assets of manufactured housing homeowners.

*Partner Support* - provides funding to the statewide network of local agencies that offer homebuyer education, housing counseling, matched savings accounts, and housing land trust development. Expenses in this program function are pass-through funds to third parties for services provided to homebuyers and homeowners throughout the state.

**MONTANA HOMEOWNERSHIP NETWORK, INC.**  
**dba NEIGHBORWORKS MONTANA**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**September 30, 2017**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Basis of Presentation*

The financial statements are presented in accordance with accounting principles generally accepted in the United States of America (GAAP), as codified by the Financial Accounting Standards Board (FASB). Under GAAP, NWMT is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

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 NWMT and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by NWMT. Generally the donors of these assets permit NWMT 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*

NWMT has received grants from the state and federal governments that are to be used for neighborhood revitalization to increase home ownership, increase the availability of affordable rentals among low-income individuals and to preserve affordable homes. These grants are reflected as temporarily restricted net assets due to restrictions as to their purpose and/or usage over time.

*Permanently Restricted Net Assets*

NWMT reports capital funds from Neighborhood Reinvestment Corporation as permanently restricted. These net assets are to remain in NWMT to provide stability and financial strength.

*Comparative Data*

The amounts shown for the year ended September 30, 2016, in the accompanying financial statements are included to provide a basis for comparison with 2017 and present summarized totals only. Accordingly, the 2016 totals are not intended to present all information necessary for a fair presentation in conformity with GAAP. Such information should be read in conjunction with NWMT's financial statements for the year ended September 30, 2016, from which the summarized information was derived.

*Reclassifications*

Certain reclassifications have been made to the 2016 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

*Income Tax Status*

NWMT is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes.

**MONTANA HOMEOWNERSHIP NETWORK, INC.**  
**dba NEIGHBORWORKS MONTANA**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**September 30, 2017**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Cash and Cash Equivalents*

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

*Concentration of Credit Risk for Cash Deposits*

NWMT maintains deposits in various financial institutions located in Montana. The deposits are insured by federal agencies for up to \$250,000 per bank. At September 30, 2017, the amount on deposit exceeding the federally insured limit is \$2,081,324, but the institution is committed to maintaining collateral covering the excess. NWMT maintains a repurchase account where large cash balances would be on deposit for more than 30 days.

*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. In the absence of donor stipulations regarding how long the contributed assets must be used, contributions of property and equipment are recorded as unrestricted support.

Depreciation is provided over the estimated useful lives of the assets using straight-line depreciation. Total depreciation expense for the year ended September 30, 2017, is \$12,284. Estimated useful lives are as follows:

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

*Estimates*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

*Subsequent Events*

NWMT has evaluated subsequent events through December 5, 2017, which is the date the financial statements were available to be issued.

**3. NOTES RECEIVABLE**

NWMT makes loans to multi-family housing developers to encourage the development and preservation of affordable rentals. Loan policies are approved by the Real Estate Development and Acquisition Committee of NWMT's Board of Directors. Notes receivable are carried at the unpaid principal balance. Interest on notes receivable is accrued using the simple interest method, based on the unpaid principal balance. Interest income is recognized over the contractual life of the note receivable. Notes are placed on nonaccrual status when management believes the notes are impaired or collection of interest is doubtful. Notes receivable are considered impaired if full principal or interest payments are not anticipated to be received in accordance with the terms of the note. There were no notes considered to be impaired, nor placed on nonaccrual status, at September 30, 2017.

**MONTANA HOMEOWNERSHIP NETWORK, INC.**  
**dba NEIGHBORWORKS MONTANA**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**September 30, 2017**

**3. NOTES RECEIVABLE (CONTINUED)**

It is NWMT's practice to charge off any note or portion of a note when management feels it will be uncollectible due to the borrower's failure to meet repayment terms, the borrower's deteriorating or deteriorated financial condition, or for other reasons. In mid-2015 NWMT's board approved a new risk rating process for its notes receivable and all outstanding loans will be reviewed using this process at least once a year. No additional allowance for uncollectible notes has been reported as management feels all notes receivable balances are fully collectible. Notes receivable are considered past due and delinquent when scheduled payments are 30 days late. None of the notes receivable balance of \$6,707,245 was in a past due status at September 30, 2017.

Notes receivable at September 30, 2017 consist of the following:

A note receivable from Homeword to incorporate environmentally friendly aspects into the Equinox II condominium complex in Missoula, Montana. There is a zero interest rate and no due date on this note.	\$ 45,000
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A note receivable from Confluence-Homeword for pre-development expenses of a low-income project in Missoula, Montana. There is a zero interest rate and no due date on this note.	115,000
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A note receivable from Trailer Terrace for infrastructure development financing for the Trailer Terrace park residence in Great Falls, Montana. The note receivable is due on April 1, 2028, with monthly payments commencing on the first day of the 181st month following the funding of the loan. Interest is at a rate of 5.0%. The note is secured by a lien on the property.	289,907
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A note receivable from Missouri Meadows Community for acquisition financing for their manufactured home park residence in Great Falls, Montana. The note receivable is deferred until January 15, 2022, with no principal payments required before that time. The note will then be amortizing at zero interest through December 15, 2037. The note is secured by a trust indenture agreement.	256,343
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A note receivable from Missouri Meadows Community for infrastructure financing for their manufactured home park residence in Great Falls, Montana. The note receivable is amortizing with monthly installments through January 15, 2045. Interest is due monthly at a rate of 3.0%. The note is secured by a trust indenture agreement.	113,435
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A note receivable from Green Acres for construction financing for their manufactured home park residence in Great Falls, Montana. The note receivable is amortizing and due on September 15, 2027. Interest is due monthly at a rate of 4.0%. The note is secured by a pledge fund agreement.	45,356
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A note receivable from Mountain Springs Villa for construction financing for their manufactured home park residence in Red Lodge, Montana. This is a zero interest loan. No payments will be made until December 1, 2021, after which monthly payments of \$750 will be made until November 1, 2031. The note is secured by a trust indenture agreement.	105,000
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**MONTANA HOMEOWNERSHIP NETWORK, INC.**  
**dba NEIGHBORWORKS MONTANA**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**September 30, 2017**

**3. NOTES RECEIVABLE (CONTINUED)**

A note receivable from Mountain Springs Villa for acquisition financing for their manufactured home park residence in Red Lodge, Montana. The note receivable is amortizing and due on February 1, 2027. Interest is due monthly at a rate of 5.5%. The note is secured by a trust indenture agreement. \$ 51,379

A note receivable from Community Action Partnership of Northwest Montana for the ReCAP 6+1 project. The note matures on April 30, 2018, and interest accrues at a rate of 5.5%. The note is secured by a lien on the property. Under the terms of the note, the borrower may draw up to \$825,000. 622,693

A note receivable from Buena Vista for infrastructure improvements. The note matures on November 27, 2023, and interest accrues at a rate of 6.0%. The note is secured by a lien on the property. Under the terms of the note, the borrower may draw up to \$164,313. 68,394

A note receivable from River Acres for acquisition of the property. The note matures on January 30, 2024. The loan is amortized monthly with interest at a rate of 6.0%. The note is secured by a lien on the property. 70,573

A note receivable from Northwood Community. The note matures on November 5, 2024, and interest accrues at a rate of 4.0%. The note is secured by a lien on the property. Under the terms of the note, the borrower may draw up to \$194,728. 188,194

A note receivable from NWGF Beargrass Village for acquisition financing for the Kranz Floral Site in Great Falls, Montana. The note is due on June 1, 2019, with principal payments as individual units are sold. Interest is due quarterly at a rate of 5.0%. The note is secured by a guarantee by NeighborWorks Great Falls (NWGF). 330,000

A note receivable from Morning Star Apartments in Kalispell, Montana for acquisition of the property. The note is due on June 6, 2027. The loan is amortized monthly with interest at a rate of 5.5%. The note is secured by trust indenture on the property. 152,655

A note receivable from the YMCA in Helena, Montana. The note matures on October 20, 2021, and interest accrues at a rate of 4.5%. The note is secured by a lien on the YMCA's main building. 71,160

A note receivable from GMD Development, LLC & NWGF Development, for predevelopment funding for Rockcross Commons in Great Falls, Montana. The note matures on August 31, 2018, and interest accrues at a rate of 6.0%. The note is secured by a guarantee from one of the developers. Under the terms of the note, the borrower may draw up to \$450,000. 220,028

A note receivable from Creekside Apartments in Missoula, Montana for acquisition funding. The note matures on August 31, 2027, and interest accrues at a rate of 2.5%. The note is secured by a second lien behind the first mortgage. 3,687,500



**MONTANA HOMEOWNERSHIP NETWORK, INC.**  
**dba NEIGHBORWORKS MONTANA**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**September 30, 2017**

**3. NOTES RECEIVABLE (CONTINUED)**

A note receivable from Roosevelt Villas in Wolf Point and Culbertson, Montana for predevelopment. The note is due on July 6, 2018. Interest is due quarterly at a rate of 6.0%. The note is secured by a guarantee from the developer. Under the term so of the note, the borrower may draw up to \$320,000. \$ 93,200

A note receivable from Community Action Partnership of Northwest Montana for the Westgate Senior project. The note matures on March 31, 2045, and interest accrues at a rate of 1.00%. The note is secured by a lien on the property. 49,000

A note receivable from Community Action Partnership of Northwest Montana for the Teakettle Vista project. The note matures on March 31, 2045, and interest accrues at a rate of 1.00%. The note is secured by a lien on the property. 53,251

A note receivable from Community Action Partnership of Northwest Montana for the Courtyard project. The note matures on October 31, 2045, and interest accrues at a rate of 1.66%. The note is secured by a lien on the property. 79,177

Total \$ 6,707,245  
Less current portion 953,188

Total notes receivable, net of current portion \$ 5,754,057

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

Year Ending September 30,	
2018	\$ 953,188
2019	347,268
2020	17,268
2021	88,428
2022	17,268
Thereafter	<u>5,283,825</u>
Total	<u><u>\$ 6,707,245</u></u>

NWMT has a reserve for loss on loans of \$268,289 for the notes receivable.

NWMT has set aside a CD for \$60,800 in connection with the Missouri Meadows loan. A six month income reserve was required by ROC in their acquisition loan for the park in case of flooding. NWMT provided the guarantee. This was a 15 year loan commencing October 3, 2011.

**4. LOANS RECEIVABLE**

NWMT grants credit to low to moderate income home owners, all of whom are in Montana. The Board of Directors approves all loan policies and procedures. The Board is also 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.

**MONTANA HOMEOWNERSHIP NETWORK, INC.**  
**dba NEIGHBORWORKS MONTANA**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**September 30, 2017**

**4. LOANS RECEIVABLE (CONTINUED)**

Loans receivable with a face value of \$13,742,565, for which NWMT has the intent and the ability to hold for the foreseeable future or until either maturity or earlier prepayment, are stated net of the allowance for uncollectible loans of \$208,860 and a purchase discount of \$14,327. Management's views regarding the foreseeable future and, consequently, the intent with respect to holding these loans receivable may change due to changes in business strategies, the economic environments of the markets in which NWMT operates, general market conditions, and the availability of various government programs in which NWMT participates. Loans receivable are reviewed annually for impairment. Loans receivable are considered impaired if the face value plus accrued interest is less than the book value of the property collateralizing the mortgage. No loans receivable were considered to be impaired at September 30, 2017.

Interest on the loans receivable is accrued based on the outstanding principal balance. Interest income is recognized over the contractual life of the loan receivable using the simple interest method, which results in a constant effective yield over the contractual life of the loan. Amortizing loans are interest-bearing at rates ranging between 1.0% and 7.25% per annum. Federal HOME funds are used for deferred mortgages for low to moderate income homebuyers below 80% of median income. The deferred mortgages are made at zero interest and require the borrower to repay the loan when the home is sold. Loans receivable are placed on nonaccrual status when management believes the loans are impaired. There were no loans receivable on hand that were not accruing interest because of impairment at September 30, 2017.

The following table presents informative data of loans receivable regarding their age at September 30, 2017:

	Past due				Total Past Due	Total Loans Receivable
	0-29 days	30-59 days	60-89 days	over 90 days		
Loans receivable	<u>\$13,661,845</u>	<u>\$ -</u>	<u>\$ 5,499</u>	<u>\$ 75,221</u>	<u>\$ 80,720</u>	<u>\$13,742,565</u>

*Credit Risk Policies*

Loans receivable are considered past due and delinquent when payments are 30 days late. The total amount of loan payments that are past due 30 days or over and still accruing interest as of September 30, 2017, is \$80,720. A loan that is 120 days past due is written off as uncollectible.

If repayment of a past due loan is expected to be obtained solely from the proceeds of selling the property that is collateral for the loan, the loan is designated as being collateral-dependent. When a collateral-dependent loan is over 120 days past due, a fair value assessment of the property that is pledged as collateral for the loan is initiated. NWMT considers the sufficiency of a loan's collateral by comparing the estimated fair value of the collateral less an estimate to cover potential expenses of foreclosure to the recorded investment in the loan, adjusted for any superior liens to which the collateral is subject. If the estimated fair value of the collateral, net of estimated foreclosure-related expenses equals or exceeds the adjusted recorded investment in the loan, the loan is judged to be sufficiently collateralized.

NWMT recognizes the allowance for uncollectible loans in an amount believed to be sufficient to absorb losses inherent in the loan portfolio, including those losses not yet specifically identifiable. Any receivables that are written off will be forgiven by Neighborhood Reinvestment Corporation, and Neighborhood Reinvestment Corporation will allow capital funds to supplement those written off. An allowance for uncollectible loans has been established based on review of loans that are in default. The allowance is established at the three year average plus one percent of each year-end pool balance.

**MONTANA HOMEOWNERSHIP NETWORK, INC.**  
**dba NEIGHBORWORKS MONTANA**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**September 30, 2017**

**4. LOANS RECEIVABLE (CONTINUED)**

Loan Reserve Balance, October 1, 2016	\$ 221,636
Loans Written Off	(120,144)
Reserve Replenished	<u>107,368</u>
Loan Reserve Balance, September 30, 2017	<u><u>\$ 208,860</u></u>

*NHSA Loan Buy Back*

In 2010, Neighborhood Housing Services of America (NHSA) sold loans back to NWMT that they had previously purchased from NWMT. The total principal of the loans as of September 30, 2017, is \$31,837 with a purchase discount of \$14,327 for a net purchase of \$17,510. The discount is amortized to interest income over the life of the loans effectively increasing the interest rate earned on the loans. The net purchase amount is included in the loans receivable balance at September 30, 2017.

*Glacier Affordable Housing*

NWMT operates a revolving loan fund of \$3,743,366 made up of grants assigned to Glacier Affordable Housing between 1995 and 2005. NWMT has no liability for these grants. \$3,683,745 of this amount is in loans receivable at September 30, 2017.

Maturities of loans receivable for the next five years are as follows:

Year Ending September 30,		
2018	\$	226,019
2019		220,400
2020		213,489
2021		204,672
2022		195,630
Thereafter		<u>12,682,355</u>
Total		<u><u>\$ 13,742,565</u></u>

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

**5. REAL ESTATE PROPERTY HELD FOR SALE**

NWMT has purchased properties with the intention of selling them to qualifying buyers in accordance with NWMT's mission. All costs associated with the property including reacquisition, acquisition, development, and construction costs are capitalized and included in the total cost of the property. The real estate property held for sale is stated at the lower of the carrying value or fair value.

The reconciliation of the changes in the real estate property is as follows:

October 1, 2016	\$ 1,068,050
Real Estate Purchased	1,365,000
Net expenses FY17	474,026
Sales Proceeds	(1,312,212)
Loss on Real Estate	<u>(19,910)</u>
September 30, 2017	<u><u>\$ 1,574,954</u></u>

**MONTANA HOMEOWNERSHIP NETWORK, INC.**  
**dba NEIGHBORWORKS MONTANA**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**September 30, 2017**

**5. REAL ESTATE PROPERTY HELD FOR SALE (CONTINUED)**

*Livingston property:*

On May 31, 2017, NWMT purchased the former Livingston Memorial Hospital in Livingston, Montana. The cost of the property was \$1,200,000.

NWMT paid \$900,000 and Homeword will pay NWMT 4.5% on this balance plus any additional out of pocket costs by NWMT. NWMT has a \$300,000 zero percent note due to the seller for the balance of the purchase. The note is for 18 months and NWMT pays \$1,000 a month towards the loan. Interest will then shift to 5.0% with the three year balloon payment amortized over 25 years.

NWMT also has an agreement with Homeword who will purchase the property from NWMT by May 31, 2019.

**6. CASH – LOAN LOSS RESERVE**

NWMT currently maintains a cash reserve of \$136,999 in an account at D.A. Davidson against payments due to borrowers in Note 12.

**7. INVESTMENTS**

In July 2012, NWMT invested \$179,500 into an LLC, along with Homeword in Missoula, to partner together to fund the development and renovation of housing units in Missoula. NWMT's investment in this entity was initially recorded at cost and is adjusted annually for its 21% share of the current year income or loss (equity method). The current balance as of September 30, 2017, is \$179,788.

NWMT has provided a \$250,000 loan to the Great Falls Development Authority. The loan is for two years at 8.0% and matures on 11/1/2018. This was done with the purpose of generating revenue from surplus cash, and is therefore considered an investment rather than classified with the notes or loans receivable from general operations lending.

**8. DEFERRED REVENUE**

NWMT has received funds from NeighborWorks America (\$602,188) and Assets for Independence Individual Development Account program (\$88,000), but had not yet used all those funds for their intended purpose as of September 30, 2017. These unused funds are reported as deferred revenue until used by NWMT.

**9. LINE OF CREDIT**

NWMT has a line-of-credit with Stockman Bank for up to \$1,000,000. The interest rate is fixed at 3.75%. The balance outstanding at September 30, 2017, is \$0. The line-of-credit is due June 10, 2018.

**MONTANA HOMEOWNERSHIP NETWORK, INC.**  
**dba NEIGHBORWORKS MONTANA**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**September 30, 2017**

**10. ENDOWMENT**

In December of 2010, the NeighborWorks Great Falls Board of Directors voted to permanently restrict certain memorial contributions received to create the NeighborWorks Endowment. The endowment was established to preserve funds for future operations of the total, \$2,846 was designated for NWMT. Funds have been passed back to NWMT and will be carried in a Certificate of Deposit until the organization decides on a course of action. NWMT also owns an insurance policy, the proceeds of which are designated to the endowment.

**11. NOTES PAYABLE**

Notes payable consists of the following at September 30:

	<b>2017</b>
NWMT has notes payable of varying amounts with nine financial institutions for the EQ2 loan program to promote community and economic development. Interest only payments are due quarterly at rates varying between 2% and 3.25%. The first note for \$50,000 reaches maturity in January 2019. The remaining agreements totaling \$5,312,500 will reach maturity at staggered intervals through 2026. Interest of \$12,542 is due at September 30, 2017.	\$ 5,362,500
A note with Goodworks Ventures, LLC for loan funds. The note matures on August 1, 2019. Interest at 4.00% is paid quarterly.	250,000
A note with Opportunity Finance Network for loan funds. The note matures on November 30, 2017. Interest at 3.75% is paid quarterly. Interest due at December 31, 2017 is \$4,687.	500,000
NWMT has a note as a private offering for loan funds. The note matures on September 15, 2024. Interest at 2.00% is paid quarterly.	50,000
A note with Domestic and Foreign Missionary Society of the Protestant Episcopal Church for loan funds. The note matures on December 31, 2017. Interest at 3.75% is paid quarterly.	250,000
NWMT has a note as a private offering for loan funds. The note matures on April 1, 2020. Interest at 2.00% is paid annually.	10,000
NWMT has a note as a private offering for loan funds. The note matures on August 25, 2026. Interest at 2.00% is paid quarterly.	9,772
NWMT has a note as a private offering for loan funds. The note matures on December 20, 2026. Interest at 2.0% is paid quarterly.	49,000
NWMT has a note as a private offering for loan funds. The note matures on January 30, 2022. Interest at 2.0% is paid quarterly.	100,000
A zero percent note due to the seller for the balance of the Livingston Hospital purchase. See Note 5 for additional details.	295,940
Total	\$ 6,877,212
Less current portion	1,045,940
Total long-term debt, net of current portion	\$ 5,831,272

**MONTANA HOMEOWNERSHIP NETWORK, INC.**  
**dba NEIGHBORWORKS MONTANA**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**September 30, 2017**

**11. NOTES PAYABLE (CONTINUED)**

The following is a summary of estimated maturities due on notes payable as of September 30, 2017.

Year Ending September 30,		
2018	\$	1,045,940
2019		300,000
2020		260,000
2021		375,000
2022		100,000
Thereafter		<u>4,796,272</u>
Total		<u>\$ 6,877,212</u>

Included above are the notes referenced as private offerings. NWMT filed for an exemption under MT law to offer investments in its loan fund in 2014. The Commissioner of Securities and Insurance (Office of the State Auditor) issued a letter stating the offer and sale of these investments is exempt by virtue of 30-10-104(1) and/or (8), MCA. The Circular is updated annually. The Investment Circular is provided to potential investors and is available upon request from NWMT. Each investment is structured as a term loan with NWMT paying periodic interest at 2%. NWMT anticipates additional investments in its loan pool through this structure.

**12. TEMPORARILY RESTRICTED NET ASSETS**

As of September 30, 2017, temporarily restricted net assets were available for the following purposes:

Downpayment and purchase assistance for first time home buyers	\$	5,318,840
Acquisition of additional properties		100,000
Manufactured home park preservation		-
Development of rental properties		1,182,005
Improvement of properties		<u>160,000</u>
Total		<u>\$ 6,760,845</u>

Net assets of \$279,958 were released from donor restrictions by incurring expenses satisfying the purpose of restrictions specified by donors. These releases consist of recognizing an administrative portion of the revenue, recognizing a gain or loss on sales of real estate property, write offs of any loans funded under the original revenue, and closing of grants when they are complete.

**13. GRANTS – PERMANENTLY RESTRICTED**

NWMT has a Revolving Loan and Capital Projects Fund (RLF) agreement with Neighborhood Reinvestment Corporation (NRC). The agreement calls for NWMT to maintain a revolving loan and capital projects fund with at least \$1,000,000 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 NWMT.

No capital grants were received in the current period. The required balance is reflected as permanently restricted funds, and is part of the NRC/RLF fund as required.

**MONTANA HOMEOWNERSHIP NETWORK, INC.**  
**dba NEIGHBORWORKS MONTANA**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**September 30, 2017**

**13. GRANTS – PERMANENTLY RESTRICTED (CONTINUED)**

As of September 30, 2017, the balance of permanently restricted grants is composed of the following:

Property	\$ 70,747
Loan Loss Reserve	136,999
Loans Receivable	<u>903,304</u>
Total	<u>\$ 1,111,050</u>

Neighborhood Reinvestment Corporation allows exemplary rated organizations to apply for the conversion of permanently restricted capital funds to unrestricted expendable funds. NWMT received approval to convert \$474,999 to unrestricted for the current year. This is reflected in the statement of activities as "grantor released permanent restrictions."

**14. RELATED PARTY TRANSACTIONS**

Neighborhood Housing Service, Inc. dba NeighborWorks Great Falls (NWGF) and NWMT have two common board members. NWMT has entered into a Professional Service Agreement with NWGF. The agreement requires each organization to reimburse the other for administrative services, such as staff, supplies and office space. The total paid to NWGF for the year ended September 30, 2017, was \$101,711. The total received from NWGF was \$167,127. The accounts payable to NWGF for the year ended September 30, 2017, was \$183.

**15. PENSION PLAN**

NWMT maintains a 401(k) plan administered by D.A. Davidson covering all full-time employees. Employee contributions are matched as made. NWMT will match up to 5% on a 1 for 1 basis. Total match expense for fiscal year 2017 was \$28,144.

## **SUPPLEMENTAL INFORMATION**



**MONTANA HOMEOWNERSHIP NETWORK, INC.**  
**dba NEIGHBORWORKS MONTANA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year Ended September 30, 2017**

<b>Federal Grantor/Pass-through Grantor/Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass Through Grantor's Number</b>	<b>Total Federal Award</b>	<b>Grant Revenues</b>	<b>Federal Expenditures</b>	<b>Passed through to Sub-recipients</b>
<u>Neighborhood Reinvestment Corporation Public Law 106-377 105th Congress District Programs</u>						
Capital Grants	N/A	N/A	\$ 192,000	\$ 192,000	\$ 192,000	\$ -
Expendable Grants	N/A	N/A	<u>333,241</u>	<u>333,241</u>	<u>333,241</u>	<u>-</u>
Total			<u>525,241</u>	<u>525,241</u>	<u>525,241</u>	<u>-</u>
<u>NeighborWorks America Public Law 106-377 105th Congress Pass-Through from:</u>						
Neighborhood Reinvestment Corporation:						
NFMC Foreclosure Counseling Grant	21.000	N/A	<u>20,487</u>	<u>20,487</u>	<u>20,487</u>	<u>10,309</u>
<u>U.S. Department of Housing and Urban Development Pass-Through Program from:</u>						
Montana Board of Housing:						
HUD Counseling Grant	14.169	N/A	392,140	358,826	358,826	166,949
HUD Counseling Grant	14.169	N/A	<u>459,160</u>	<u>259,696</u>	<u>259,696</u>	<u>167,244</u>
Total			851,300	618,522	618,522	334,193
City of Great Falls:						
CDBG - Entitlement Grant Cluster						
CDBG Program Income	14.218	N/A	72,972	72,972	30,000	-
Montana Department of Commerce:						
HOME Program Income	14.239	N/A	<u>3,691,000</u>	<u>1,043,409</u>	<u>1,043,409</u>	<u>-</u>
Total			<u>4,615,272</u>	<u>1,734,903</u>	<u>1,691,931</u>	<u>334,193</u>
<u>Department of Health and Human Services</u>						
AFI	93.602	N/A	<u>26,970</u>	<u>26,970</u>	<u>26,970</u>	<u>-</u>
Total programs			<u>\$ 5,187,970</u>	<u>\$ 2,307,601</u>	<u>\$ 2,264,629</u>	<u>\$ 344,502</u>

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Montana HomeOwnership Network, Inc. dba NeighborWorks Montana and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with requirements of the Uniform Guidance, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. The 10% de minimis indirect cost rate has not been elected.



To the Board of Directors  
Montana HomeOwnership Network, Inc.  
dba NeighborWorks Montana  
Great Falls, Montana

**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***

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 Montana HomeOwnership Network, Inc. dba NeighborWorks Montana (a nonprofit organization), which comprise the statement of financial position as of September 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 5, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Montana HomeOwnership Network, Inc. dba NeighborWorks Montana'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 Montana HomeOwnership Network, Inc. dba NeighborWorks Montana's internal control. Accordingly, we do not express an opinion on the effectiveness of the Montana HomeOwnership Network, Inc. dba NeighborWorks Montana's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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. 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 Montana HomeOwnership Network, Inc. dba NeighborWorks Montana's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control and compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

***Junkermier, Clark, Campanella, Stevens, P.C***

Great Falls, Montana  
December 5, 2017



**To the Board of Directors  
Montana HomeOwnership Network, Inc.  
dba NeighborWorks Montana  
Great Falls, Montana**

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

**Report on Compliance for Each Major Federal Program**

We have audited Montana HomeOwnership Network, Inc. dba NeighborWorks Montana's (a nonprofit organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Montana HomeOwnership Network, Inc. dba NeighborWorks Montana's major federal programs for the year ended September 30, 2017. Montana HomeOwnership Network, Inc. dba NeighborWorks Montana'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 Montana HomeOwnership Network, Inc. dba NeighborWorks Montana's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Montana HomeOwnership Network, Inc. dba NeighborWorks Montana'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 on Montana HomeOwnership Network, Inc. dba NeighborWorks Montana's compliance.

## **Opinion on Each Major Federal Program**

In our opinion, Montana HomeOwnership Network, Inc. dba NeighborWorks Montana 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, 2017.

## **Report on Internal Control Over Compliance**

Management of Montana HomeOwnership Network, Inc. dba NeighborWorks Montana 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 Montana HomeOwnership Network, Inc. dba NeighborWorks Montana's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Montana HomeOwnership Network, Inc. dba NeighborWorks Montana'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 the internal control over compliance was for the limited purpose in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

***Junkermier, Clark, Campanella, Stevens, P.C.***

Great Falls, Montana  
December 5, 2017

**MONTANA HOMEOWNERSHIP NETWORK, INC.**  
**dba NEIGHBORWORKS MONTANA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended September 30, 2017**

**A. SUMMARY OF AUDITORS' RESULTS**

1. The auditors' report expresses an unmodified opinion on the financial statements of Montana HomeOwnership Network, Inc. dba NeighborWorks Montana.
2. No significant deficiencies relating to the audit of the financial statements are reported in the 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*.
3. No instances of noncompliance material to the financial statements of Montana HomeOwnership Network, Inc. dba NeighborWorks Montana, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditors' 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 the Uniform Guidance.
5. The auditors' report on compliance for the major federal award programs for Montana HomeOwnership Network, Inc. dba NeighborWorks Montana expresses an unmodified opinion.
6. There were no audit findings relating to the major programs that we are required to report.
7. The program tested as a major program is as follows:

HOME Program Income, CFDA # 14.239
8. The threshold for distinguishing Type A and B programs was \$750,000.
9. Montana HomeOwnership Network, Inc. dba NeighborWorks Montana did qualify as a low-risk auditee.

**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

No findings were noted during the audit.

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL PROGRAM AWARD AUDIT**

No findings or questioned costs were noted during the audit.

**MONTANA HOMEOWNERSHIP NETWORK, INC.  
dba NEIGHBORWORKS MONTANA  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
Year Ended September 30, 2017**

There were no prior year audit findings relative to federal award programs.