

**THE NEIGHBORHOOD
PARTNERSHIP FUND**

**Audited Financial
Statements
Including Reports required by
OMB Circular A-133**

**For the Year Ended
June 30, 2005**



MCDONALD JACOBS

Jake Jacobs, CPA

Susan J. Marks, CPA

Dennis C. Johnson, CPA

Mark A. Clift, CPA

*James R. McDonald, CPA
of counsel*

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
The Neighborhood Partnership Fund
Portland, Oregon

We have audited the accompanying statement of financial position of The Neighborhood Partnership Fund (a nonprofit corporation) as of June 30, 2005, and the related statements of activities, functional expenses, and cash flows 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 Neighborhood Partnership Fund's 2004 financial statements, and in our report dated August 5, 2004, we expressed an unqualified opinion on those statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards 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 financial statements referred to above present fairly, in all material respects, the financial position of The Neighborhood Partnership Fund as of June 30, 2005, and changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Strength in Numbers

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In accordance with *Government Auditing Standards*, we have also issued our report dated August 23, 2005, on our consideration of The Neighborhood Partnership Fund'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 results of that testing, and not 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 performed for the purpose of forming an opinion on the basic financial statements of The Neighborhood Partnership Fund taken 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

McDonald Jacob, P.C.

August 23, 2005

THE NEIGHBORHOOD PARTNERSHIP FUND
STATEMENT OF FINANCIAL POSITION
June 30, 2005
(With comparative totals for 2004)

	<u>2005</u>	<u>2004</u>
ASSETS		
Cash and cash equivalents	\$ 472,365	\$ 907,266
Restricted cash	348,543	534,103
Grants receivable	1,280,547	360,490
Prepaid expenses and deposits	9,758	5,969
Property and equipment	<u>10,593</u>	<u>14,383</u>
 TOTAL ASSETS	 <u><u>\$ 2,121,806</u></u>	 <u><u>\$ 1,822,211</u></u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 19,376	\$ 29,684
Deferred revenue	12,200	-
Grants payable	<u>643,000</u>	<u>651,077</u>
 Total liabilities	 <u>674,576</u>	 <u>680,761</u>
Net assets:		
Unrestricted:		
Available for operations	256,340	327,901
Net property and equipment	<u>10,593</u>	<u>14,383</u>
Total unrestricted net assets	266,933	342,284
Temporarily restricted	<u>1,180,297</u>	<u>799,166</u>
 Total net assets	 <u>1,447,230</u>	 <u>1,141,450</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 2,121,806</u></u>	 <u><u>\$ 1,822,211</u></u>

See notes to financial statements.

THE NEIGHBORHOOD PARTNERSHIP FUND
STATEMENT OF ACTIVITIES
For the year ended June 30, 2005
(With comparative totals for 2004)

	2005			2004
	Unrestricted	Temporarily Restricted	Total	Total
Support and revenues:				
Foundation grants	\$ 78,250	\$ 1,808,229	\$ 1,886,479	\$ 415,427
Other contributions and grants	26,000	180,370	206,370	555,500
Government grants and contracts	16,150	107,511	123,661	39,550
Training and consulting fees	35,408	-	35,408	65,938
Investment income	7,703	-	7,703	5,621
Other income	-	-	-	5,565
Net assets released from restrictions:				
Satisfaction of program restrictions	1,714,979	(1,714,979)	-	-
Total support and revenues	<u>1,878,490</u>	<u>381,131</u>	<u>2,259,621</u>	<u>1,087,601</u>
Expenses:				
Program services	1,821,116	-	1,821,116	1,214,084
Management and general	105,694	-	105,694	93,124
Fundraising	27,031	-	27,031	43,286
Total expenses	<u>1,953,841</u>	<u>-</u>	<u>1,953,841</u>	<u>1,350,494</u>
Change in net assets	(75,351)	381,131	305,780	(262,893)
Net assets:				
Beginning of year	<u>342,284</u>	<u>799,166</u>	<u>1,141,450</u>	<u>1,404,343</u>
End of year	<u>\$ 266,933</u>	<u>\$ 1,180,297</u>	<u>\$ 1,447,230</u>	<u>\$ 1,141,450</u>

See notes to financial statements.

THE NEIGHBORHOOD PARTNERSHIP FUND
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2005
(With comparative totals for 2004)

	2005										
	Program Services							Management and general	Fund-raising	Total	2004 Total
	OCDC & PNDSC Coll-abratives	Resident Services	Conferences and Training	IDA Program	Policy and Advocacy	Other Programs	Total Program Services				
Salaries and related expenses	\$ 82,093	\$ 41,267	\$ 65,760	\$ 30,245	\$ 19,803	\$ 10,452	\$ 249,620	66,750	22,135	\$ 338,505	\$ 477,520
Contract services	14,120	17,801	90,102	35,150	99,941	1,700	258,814	14,901	555	274,270	281,868
Professional fees	1,435	678	1,428	523	417	203	4,684	1,770	760	7,214	10,042
Grants	707,500	235,000	-	-	-	-	942,500	-	-	942,500	458,954
Rent	5,992	3,713	6,018	2,821	1,818	924	21,286	7,322	1,834	30,442	35,326
Telephone and utilities	734	456	804	355	231	108	2,688	988	256	3,932	4,731
Postage and shipping	462	287	534	228	100	86	1,697	521	147	2,365	1,713
Printing	382	245	502	2,260	171	49	3,609	373	87	4,069	1,674
Office and computer expense	1,981	1,254	2,776	901	606	290	7,808	3,053	559	11,420	14,335
Facility rental, lodging, and food	-	-	296,508	-	1,526	-	298,034	185	-	298,219	40,580
Staff travel	2,606	95	2,389	2,853	793	-	8,736	599	36	9,371	4,785
Conferences and meetings	1,038	817	7,516	4,593	1,363	-	15,327	3,341	50	18,718	7,361
Insurance	300	169	304	129	84	32	1,018	342	124	1,484	460
Depreciation	927	566	916	422	268	172	3,271	1,080	293	4,644	7,018
Miscellaneous	231	184	460	67	1,068	14	2,024	4,469	195	6,688	4,127
Total expenses	<u>\$ 819,801</u>	<u>\$ 302,532</u>	<u>\$ 476,017</u>	<u>\$ 80,547</u>	<u>\$ 128,189</u>	<u>\$ 14,030</u>	<u>\$ 1,821,116</u>	<u>\$ 105,694</u>	<u>\$ 27,031</u>	<u>\$ 1,953,841</u>	<u>\$ 1,350,494</u>

See notes to financial statements.

THE NEIGHBORHOOD PARTNERSHIP FUND
STATEMENT OF CASH FLOWS
For the year ended June 30, 2005
(With comparative totals for 2004)

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Change in net assets	\$ 305,780	\$ (262,893)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	4,644	7,018
Gain on disposal of furniture	-	(971)
(Increase) decrease in:		
Grants receivable	(920,057)	910,579
Prepaid expenses	(3,789)	(812)
Increase (decrease) in:		
Accounts payable and accrued expenses	(10,308)	(38,457)
Deferred revenue	12,200	-
Grants payable	<u>(8,077)</u>	<u>(211,053)</u>
Net cash provided (used) by operating activities	<u>(619,607)</u>	<u>403,411</u>
Cash flows from investing activities:		
Purchase of property and equipment	(854)	(661)
Proceeds from the sale of furniture	<u>-</u>	<u>2,400</u>
Net cash provided (used) by investing activities	<u>(854)</u>	<u>1,739</u>
Net increase (decrease) in cash and cash equivalents	(620,461)	405,150
Cash and cash equivalents - beginning of year	<u>1,441,369</u>	<u>1,036,219</u>
Cash and cash equivalents - end of year	<u><u>\$ 820,908</u></u>	<u><u>\$ 1,441,369</u></u>
Cash and cash equivalents:		
Unrestricted	\$ 472,365	\$ 907,266
Restricted	<u>348,543</u>	<u>534,103</u>
Total cash and cash equivalents	<u><u>\$ 820,908</u></u>	<u><u>\$ 1,441,369</u></u>

See notes to financial statements.

THE NEIGHBORHOOD PARTNERSHIP FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

1. DESCRIPTION OF ORGANIZATION

The Neighborhood Partnership Fund (NPF) is an Oregon nonprofit corporation which was incorporated as a separate entity on December 31, 1998. Prior to incorporation, NPF operated as a fund of The Oregon Community Foundation (OCF). NPF, as a 501 (c)(3) supporting organization of OCF, exists to make distributions and provide services which benefit or carry out the charitable and educational purposes of OCF.

NPF receives support from public and private foundations, government agencies, and corporations. During the year ended June 30, 2005, NPF received approximately 72% of total support from one entity.

NPF's programs support three primary goal areas:

- To create thriving communities throughout Oregon which meet the housing needs of their residents
- To increase opportunities for low-income Oregonians to succeed in school and in life, by supporting quality programs that provide interwoven housing and services.
- To increase the household financial resources and stability for low-income Oregonians.

The program areas of NPF are:

Support for Oregon's Community Development Corporations (OCDC and PNDSC Collaboratives)

NPF works in partnership with The Enterprise Foundation, Portland's Bureau of Housing and Community Development, and Oregon Housing and Community Services to fund operating expenses of Oregon community development corporations. NPF is funding 9 groups through the Portland Neighborhood Development Support Collaborative (PNDSC), and 23 groups through the Oregon Community Development Collaborative (OCDC). These collaborative structures assist organizations in developing benchmarks for success, monitoring progress, and addressing organizational challenges. NPF's role as program administrator keep NPF integrally connected to the industry.

THE NEIGHBORHOOD PARTNERSHIP FUND
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2005

1. DESCRIPTION OF ORGANIZATION, Continued

Resident Services

Housing, while a critical component of family stability, is not always enough to allow low income families and individuals to make the most of their opportunities and succeed. Increasingly, NPF's partner organizations have realized that they must provide access to a variety of services to maximize resident success. NPF's resident services demonstration project and child care initiative make resources and technical assistance available to organizations providing housing plus services, and seeks to measure both individual outcomes (better grades in school, financial literacy) and system-related outcomes (lower involuntary turnover, lower maintenance costs).

Human Capital, Training and Technical Assistance (Conferences and Training)

NPF's human capital development efforts are an integral part of NPF's work. Without locally available ongoing training and technical assistance that responds to the ever-changing needs of the industry many of Oregon's CDCs would cease to thrive. This would endanger the stability of their existing portfolios and the stability of the residents they house.

NPF's training and technical delivery system has three components. First, NPF strives to provide national caliber trainings in leadership, management, and technical issues. Second, NPF works to nurture peer support networks so that staff have the ability to talk through approaches, problems and concerns in a supportive environment. Third, NPF partners to provide on-site technical assistance as a follow up to group learning so that lessons and new approaches can be fully implemented.

This program is never static, as the needs of the industry change rapidly. Emerging issues that NPF is addressing include succession planning, asset management, long term portfolio planning, program design and evaluation, resident service program best practices, cultural diversity among staff and residents, and leadership for emerging leaders.

THE NEIGHBORHOOD PARTNERSHIP FUND
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2005

1. DESCRIPTION OF ORGANIZATION, Continued

Asset Building through Individual Development Accounts (IDA)

NPF is the nonprofit partner for the State of Oregon's Individual Development Account (IDA) Tax Credit Program. NPF raises funds through the sale of tax credits that will be used to match individuals' savings towards higher education, a new home purchase, or a small business startup. The funds are utilized by a network of statewide partner organizations that provide financial literacy training, enterprise development assistance, and homeownership counseling.

Policy and Advocacy

The success of the affordable housing and community development industry is threatened by a lack of support and funding at the local and state level. NPF's policy and advocacy efforts are designed to develop long-term relationships with decision leaders and inspire them with a passion for community development. NPF also strives to support these efforts with research and dissemination of new ideas, creative strategies, and proven approaches.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

NPF reports 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 represent net assets not subject to donor-imposed stipulations.
- Temporarily restricted net assets represent net assets subject to donor-imposed stipulations that may or will be met by actions of the Organization and/or the passage of time.
- Permanently restricted net assets represent net assets subject to donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

NPF had only unrestricted and temporarily restricted net assets at June 30, 2005 and 2004.

THE NEIGHBORHOOD PARTNERSHIP FUND
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES, Continued

Cash and Cash Equivalents

NPF considers all highly liquid investments with maturities of three months or less at the time of purchase to be cash equivalents. Restricted cash includes cash designated for specific purposes by grantors.

Property and Equipment

Acquisitions of property and equipment in excess of \$500 are capitalized. Property and equipment purchased are recorded at cost. Donated assets are reflected as contributions at their estimated values on the date received.

Depreciation

Depreciation of property and equipment is computed on the straight-line method based on estimated useful lives of three to ten years.

Grants Receivable

Unconditional grants received from other organizations are recorded as revenue when NPF is notified of the award.

Deferred Revenue

Proceeds from trainings and conferences are recognized as revenues in the period the event occurs. Amounts received in advance for trainings and conferences are recorded as deferred revenue.

Grants Payable

Grants payable to other organizations are recorded as expense when they are approved by the Board of Directors for payment.

Grants received on behalf of others, in which NPF has no variance power over the grants, are recorded as a liability. Grants received under the IDA program, in which NPF has no variance power, are included in grants payable on the statement of financial position and approximate \$349,000 and \$534,000, at June 30, 2005 and 2004, respectively.

Unrestricted and Restricted Support, Revenues, and Contributions

Contributions received are recorded as unrestricted or temporarily restricted support, depending on the existence and/or nature of any donor restrictions. Temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions when the restriction expires (when a stipulated time restriction ends or purpose restriction is accomplished).

THE NEIGHBORHOOD PARTNERSHIP FUND
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES, Continued

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Tax Status

The Neighborhood Partnership Fund is a nonprofit corporation exempt from income tax under section 501(c)(3) of the Internal Revenue Code. No provision for income taxes is made in the accompanying financial statements, as the organization has no activities subject to unrelated business income tax. The Organization is not a private foundation.

Use of Estimates

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

Summarized Financial Information for 2004

The accompanying financial information as of and for the year ended June 30, 2004 is presented for comparative purposes only and is not intended to represent a complete financial statement presentation.

3. GRANTS RECEIVABLE

Grants receivable at June 30, 2005 are primarily from The Enterprise Foundation and expected to be received as follows:

Within one year	\$ 805,547
In two to five years	<u>475,000</u>
Total grants receivable	\$ <u>1,280,547</u>

THE NEIGHBORHOOD PARTNERSHIP FUND
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2005

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2005</u>	<u>2004</u>
Furniture and equipment	\$ 75,678	\$ 74,823
Less accumulated depreciation	<u>65,085</u>	<u>60,440</u>
Property and equipment, net	<u>\$ 10,593</u>	<u>\$ 14,383</u>

5. LINE OF CREDIT

NPF has a \$150,000 revolving line of credit with Wells Fargo Bank. The line of credit bears interest at prime plus 2.0% and is payable on demand. There were no outstanding advances on the line at June 30, 2005 and 2004.

6. RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30 are restricted for the following programs:

	<u>2005</u>	<u>2004</u>
PNDSC operating support	\$ 104,394	\$ -
OCDC operating support	-	7,500
Living Cities	800,000	-
Capacity building	33,492	791,666
Resident services	37,277	-
Trainings and conferences	95,591	-
Policy	25,148	-
IDA operating support	81,251	-
Other	<u>3,144</u>	<u>-</u>
Total temporarily restricted net assets	<u>\$ 1,180,297</u>	<u>\$ 799,166</u>

THE NEIGHBORHOOD PARTNERSHIP FUND
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2005

7. RETIREMENT PLAN

Employees of NPF may participate in The Oregon Community Foundation Retirement and Savings Plan. All employees over 20-1/2 years of age are eligible to participate. Employees may enter the plan on the first day of any month. NPF makes discretionary contributions to the plan for employees with over 1,000 hours of service in the plan year. NPF contributed \$22,520 during the year ended June 30, 2005, and \$35,739 during the year ended June 30, 2004. Amounts contributed by NPF become 100% vested after the employee has performed three years of service.

8. LEASE COMMITMENTS

NPF rents office space under an operating lease agreement which was renegotiated during the year ended June 30, 2004, to reflect a reduction in occupied space. The amended lease is in effect through February 2007. For the years ended June 30, 2005 and 2004, rent expense approximated \$30,000 and \$35,000, respectively.

Future minimum lease payments are as follows:

For the year ending June 30, 2006	\$	36,800
2007		<u>25,000</u>
	\$	<u>61,800</u>

9. CONTINGENCIES

Amounts received or receivable from various contracting agencies are subject to audit and potential adjustment by contracting agencies. Any disallowed claims, including amounts already collected, would become a liability of the Organization if so determined in the future. It is management's belief that no significant amounts received or receivable will be required to be returned in the future.

10. CONCENTRATIONS OF CREDIT RISK ARISING FROM CASH DEPOSITS IN EXCESS OF INSURED LIMITS

The Organization maintains its cash balances in several financial institutions located in Portland. The balances are insured by the Federal Deposit Insurance Corporation up to \$100,000 per institution. At June 30, 2005 and 2004, uninsured balances approximated \$611,000 and \$1,129,000, respectively.

REPORTS REQUIRED BY OMB CIRCULAR A-133

THE NEIGHBORHOOD PARTNERSHIP FUND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2005

Federal Grantor/Pass-through Grantor Program title	CFDA Number	Contract Number	Federal Expend- itures
US Department of Housing and Urban Development:			
HOME Technical Assistance	14.227		\$ 27,156
Passed through City of Portland:			
Community Development Block Grant/Brownfields Economic Development Initiative	14.246		21,862
Passed through Enterprise Foundation:			
Living Cities	14-XXX	B-00-NC-MD- 0002	315,000
Capacity Building	14-XXX	B-00-NC-MD- 0006	<u>309,797</u>
Total expenditures of federal awards			\$ <u><u>673,815</u></u>

THE NEIGHBORHOOD PARTNERSHIP FUND
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL
AWARDS
For the year ended June 30, 2005

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes all federal grant activity of The Neighborhood Partnership Fund 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."

Total expenditures of federal awards	\$ 673,815
Non federal expenditures	<u>1,280,026</u>
Total expenses per Statement of Activities	<u>\$ 1,953,841</u>

2. SUBRECIPIENTS

Of the federal expenditures presented in the schedule, The Neighborhood Partnership Fund provided federal awards to subrecipients as follows:

Program Title	Grant or CFDA Number	Amount Provided to Sub- recipients
Living Cities	B-00-NC-MD- 0002	315,000
Capacity Building	B-00-NC-MD- 0006	<u>277,500</u>
Total expenditures of federal awards		<u>\$ 592,500</u>

THE NEIGHBORHOOD PARTNERSHIP FUND
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the year ended June 30, 2005

There were no prior year audit findings.



MCDONALD JACOBS

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James R. McDonald, CPA
of counsel

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
The Neighborhood Partnership Fund
Portland, Oregon

We have audited the financial statements of The Neighborhood Partnership Fund (a nonprofit organization) as of and for the year ended June 30, 2005 and have issued our report thereon dated August 23, 2005. We conducted our audit in accordance with U. S. generally accepted auditing standards 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 The Neighborhood Partnership Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Strength in Numbers

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Neighborhood Partnership Fund'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 an instance of noncompliance with those requirements, which is required to be reported in accordance with *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as finding 1.

This report is intended solely for the information and use of the finance committee, management, others within the Organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "McDonald Jacobz, P.C." The signature is written in a cursive, flowing style.

August 23, 2005



MCDONALD JACOBS

Jake Jacobs, CPA

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**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

To the Board of Directors
The Neighborhood Partnership Fund
Portland, Oregon

Compliance

We have audited the compliance of The Neighborhood Partnership Fund (a nonprofit organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The Neighborhood Partnership Fund's 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 The Neighborhood Partnership Fund's management. Our responsibility is to express an opinion on The Neighborhood Partnership Fund's compliance based on our audit.

We conducted our audit of compliance in accordance with U. S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about The Neighborhood Partnership Fund'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. Our audit does not provide a legal determination of The Neighborhood Partnership Fund's compliance with those requirements.

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In our opinion, The Neighborhood Partnership Fund 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 June 30, 2005. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as finding 1.

Internal Control Over Compliance

The management of The Neighborhood Partnership Fund 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 The Neighborhood Partnership Fund's internal control over compliance with 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 the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the finance committee, management, others within the Organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

McDonald Jacobz, P.C.

August 23, 2005

THE NEIGHBORHOOD PARTNERSHIP FUND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2005

Section I: Summary of Auditor's Results

Financial Statements

- Type of auditor's report issued: unqualified
- Internal control over financial reporting:
 - Material weakness(es) identified? ___yes Xno
 - Reportable condition(s) identified that are not considered to be material weaknesses? ___yes Xnone reported
- Noncompliance material to financial statements noted? ___yes Xno

Federal Awards

- Internal control over major programs:
 - Material weakness(es) identified? ___yes Xno
 - Reportable condition(s) identified that are not considered to be material weaknesses? ___yes Xnone reported
- Type of auditor's report issued on compliance for major programs: unqualified
- Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? ___X_yes ___no
- Identification of major programs:
 - CFDA Number: 14-XXX, B-00-NC-MD-0002
 - Name of Federal Program: Living Cities
- Dollar threshold used to distinguish between type A and type B programs: \$300,000
- Auditee qualified as low-risk auditee ___yes Xno

THE NEIGHBORHOOD PARTNERSHIP FUND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued
For the year ended June 30, 2005

Section II: Financial Statements Findings

There were no audit findings.

Section III: Federal Award Findings and Questioned Costs

Finding No. 1: Living Cities Grant number: #B-00-NC-MD-0002
Subrecipient Responsibilities

Condition:

During the fiscal year, The Neighborhood Partnership Fund granted federal awards to subrecipients totaling \$592,500. Grants totaling \$430,000 were awarded to subrecipients, of which federal awards of approximately \$315,000 were included and passed-through to the subrecipients under the Living Cities program and were not identified as federal funds. These federal awards passed-through to subrecipients consisted of 7 grant awards, averaging \$61,000 each with the largest award being \$70,500. Other federal awards totaling \$277,500 passed-through to the subrecipients under the Capacity Building Program were properly identified as federal awards to the subrecipients.

Criteria:

The pass-through entity is ultimately responsible for complying with federal requirements at the subrecipient level. The pass-through entity is responsible for informing the subrecipient of sources of federal funding.

Effect:

Subrecipients could be subject to A-133 requirements if other sources of federal funds including the pass-through funds from The Neighborhood Partnership Fund exceed the A-133 threshold.

Cause:

The source of funding provided to The Neighborhood Partnership Fund that was ultimately passed-through to the subrecipient was not initially identified as federal funds and subrecipient contract language failed to include mention of the source of funds.

Recommendation:

The Neighborhood Partnership Fund should take immediate action and inform subrecipients of the amount and source of federal funds awarded.

THE NEIGHBORHOOD PARTNERSHIP FUND
CORRECTIVE ACTION PLAN
For the year ended June 30, 2005

Finding No. 1: Living Cities Grant number: B-00-NC-MD-0002
Subrecipient Responsibilities

Recommendation:

The Neighborhood Partnership Fund should take immediate action and inform subrecipients of the amount and source of federal funds awarded.

Action Taken:

We concur with the recommendation and we will immediately notify the subrecipients.