KPMG

NORTH AMERICAN FAMILY INSTITUTE, INC.
AND SUBSIDIARIES

Consolidated Financial Statements

June 30, 2016

(With Independent Auditors' Report Thereon)

**NORTH AMERICAN FAMILY INSTITUTE, INC.
AND SUBSIDIARIES**

Consolidated Financial Statements

June 30, 2016

Table of Contents

KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

Independent Auditors' Report

The Board of Directors
North American Family Institute, Inc.:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of North American Family Institute, Inc. and subsidiaries (NAFI), which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the consolidated 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 organization'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of NAFI as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2016 on our consideration of NAFI'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 NAFI's internal control over financial reporting and compliance.

KPMG LLP

September 29, 2016

NORTH AMERICAN FAMILY INSTITUTE, INC.
AND SUBSIDIARIES

Consolidated Statement of Financial Position

June 30, 2016

Assets

Current assets:		
Cash and equivalents	$	14,583,881
Restricted cash		119,412
Accounts receivable, net (note 2)		8,276,483
Prepaid expenses and other current assets		372,127
Total current assets		23,351,903
Property and equipment (note 5):		
Buildings and improvements		26,080,983
Land		4,773,823
Equipment and furnishings		3,679,485
Motor vehicles		1,852,719
		36,387,010
Less accumulated depreciation		(17,462,037)
Property and equipment, net		18,924,973
Investments (note 4)		815,324
Other assets (note 5)		866,704
Total assets	$	43,958,904

Liabilities and Net Assets

Current liabilities:		
Current portion of long-term debt (note 5)	$	1,591,679
Accounts payable		1,294,883
Line of credit (note 3)		1,535,981
Accrued payroll and related liabilities		2,929,442
Other accrued expenses		2,081,386
Deferred revenue (note 8)		2,497,347
Total current liabilities		11,930,718
Long-term liabilities:		
Long-term debt, net of current portion (note 5)		10,423,330
Total liabilities		22,354,048
Net assets:		
Unrestricted		21,433,735
Temporarily restricted		171,121
Total net assets		21,604,856
Total liabilities and net assets	$	43,958,904

See accompanying notes to consolidated financial statements.

NORTH AMERICAN FAMILY INSTITUTE, INC.
AND SUBSIDIARIES

Consolidated Statement of Activities

Year ended June 30, 2016

Changes in unrestricted net assets:		
Revenues and other support:		
Contracts, net (note 2)	$	98,763,972
Contributions:		
In-kind		1,780,370
Other		277,552
Interest and dividends		243,274
Miscellaneous		319,724
		101,384,892
Net assets released from program restrictions		62,458
Total revenues and other support		101,447,350
Expenses:		
Program services		88,967,520
Supporting services		11,059,224
Total expenses		100,026,744
Increase in unrestricted net assets before nonoperating activities		1,420,606
Nonoperating revenues (expenses):		
Net realized and unrealized loss on investments		(12,801)
Net realized and unrealized gain on equity investments		15,816
Change in value of interest rate swap (note 5)		76,822
Loss on sale of property and equipment		(48,818)
Increase in unrestricted net assets		1,451,625
Changes in temporarily restricted net assets:		
Contributions		42,256
Net assets released from program restrictions		(62,458)
Decrease in temporarily restricted net assets		(20,202)
Increase in net assets		1,431,423
Net assets at beginning of year		20,173,433
Net assets at end of year	$	21,604,856

See accompanying notes to consolidated financial statements.

NORTH AMERICAN FAMILY INSTITUTE, INC.
AND SUBSIDIARIES

Consolidated Statement of Functional Expenses

Year ended June 30, 2016

		Program services	Supporting services	Total
Personnel expenses:				
Salaries, payroll taxes and employee benefits	$	65,651,160	7,829,487	73,480,647
Other expenses:				
Contracted services		6,266,900	1,221,067	7,487,967
Occupancy		3,796,701	530,975	4,327,676
Consumables		3,765,609	—	3,765,609
Other direct expenses		2,843,023	741,798	3,584,821
Transportation		2,165,009	259,179	2,424,188
In-kind		1,776,135	4,235	1,780,370
Equipment		675,959	119,619	795,578
Interest		481,195	24,818	506,013
		21,770,531	2,901,691	24,672,222
Depreciation and amortization		1,545,829	328,046	1,873,875
Total expenses	$	88,967,520	11,059,224	100,026,744

See accompanying notes to consolidated financial statements.

NORTH AMERICAN FAMILY INSTITUTE, INC.
AND SUBSIDIARIES

Consolidated Statement of Cash Flows

Year ended June 30, 2016

Cash flows from operating activities:		
Increase in net assets	$	1,431,423
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization		1,873,875
Loss on disposal of property and equipment		48,819
Net realized and unrealized loss on investments		12,801
Net realized and unrealized gain on equity investments		(15,816)
Change in value of interest rate swap		(76,822)
Changes in assets and liabilities:		
Accounts receivable, net		501,569
Prepaid expenses and other current assets		222,388
Other assets		79,148
Accounts payable		8,146
Accrued payroll and related liabilities		608,609
Other accrued expenses		346,602
Deferred revenue		482,731
Net cash provided by operating activities		5,523,473
Cash flows from investing activities:		
Net change in restricted cash		1,671
Purchases of property and equipment		(1,548,206)
Purchases of investments		(356,810)
Proceeds from sale of property and equipment		10,500
Proceeds from sale of investments		356,810
Net cash used in investing activities		(1,536,035)
Cash flows from financing activities:		
Issuance of long-term debt		430,213
Repayments of long-term debt		(1,204,823)
Advances from line of credit		1,535,981
Repayments of line of credit		(2,670,000)
Net cash used in financing activities		(1,908,629)
Net increase in cash and equivalents		2,078,809
Cash and equivalents at beginning of year		12,505,072
Cash and equivalents at end of year	$	14,583,881
Supplemental data:		
Cash paid for interest	$	507,648

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

The accompanying consolidated financial statements include the activities and balances of North American Family Institute, Inc. and its subsidiaries, including NAFI Connecticut, Inc. (NAFICT), NFI Massachusetts, Inc. (NFI), NFI North, Inc. (NFIN), and NFI Vermont, Inc. (NFIV) (collectively NAFI). NAFI is a not-for-profit organization whose purpose is to provide community-based social services to individuals and their families. NAFI's revenues are derived primarily from services contracted with the states of Connecticut, Florida, Maine, Massachusetts, New Hampshire, New York, Rhode Island, Vermont, and Virginia; the federal government; and certain commercial payers.

(a) Basis of Presentation

All intercompany transactions and balances have been eliminated in consolidation.

The accompanying consolidated financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on NAFI as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met by actions of NAFI and/or the passage of time.

Unrestricted net assets – Net assets not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions and/or time restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or law. Expirations of temporary restrictions on net assets are reported as reclassifications between the applicable classes of net assets. Expirations of temporary restrictions occur when donor-imposed stipulated purposes have been accomplished and/or the stipulated time period has elapsed. If an expense is incurred for a purpose for which both unrestricted and temporarily restricted net assets are available, a donor-imposed restriction is fulfilled to the extent of the expense incurred unless the expense is for a purpose that is directly attributable to another specified external source of revenue.

(b) Revenue Recognition

Under cost reimbursement contracts, revenues are recognized as expenses are incurred. Under units-of-service contracts, revenues are recognized when services are provided.

(c) Income Taxes

North American Family Institute, Inc. and each of its subsidiaries are organizations described under Section 501(c)(3) of the Internal Revenue Code (IRC) and are generally exempt from income taxes under IRC Section 501(a). NAFI has taken no significant uncertain tax positions.

(d) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The current economic environment increases the uncertainty of those estimates.

(e) Concentration of Risk

NAFI receives the majority of its funding from state and federal contracts that are renewable annually. Legislative budgets could significantly impact NAFI's ability to start new programs and to continue existing programs.

(f) Cash Equivalents

All short-term investments with an original maturity at purchase of three months or less are considered cash equivalents for purposes of the statement of cash flows. Restricted cash consists of funds reserved in connection with the bonds issuance as described in note 5.

(g) Property and Equipment

Property and equipment are recorded at cost or, in the case of donated property, at fair value at the date of gift. Depreciation is provided using the straight-line method over the following estimated useful lives:

Building and improvements	15–33.3 years
Equipment and furnishings	2–10 years
Motor vehicles	3–5 years

Leasehold improvements are depreciated or amortized according to the organization's normal depreciation policy except that the time period shall be the shorter of: (1) the useful life of the leasehold improvements, or (2) the remaining years of the lease. The remaining years of the lease include the years in the lease renewals that are reasonably assured.

(h) Self-Insurance

NAFI is self-insured for employee medical healthcare costs. At June 30, 2016, the estimated liability for healthcare claims incurred but not yet reported or paid was $474,826 and is included in accrued payroll and related liabilities in the accompanying consolidated statement of financial position.

(i) In-Kind Contributions

In-kind contributions are generally recognized at fair value on the date received. During fiscal 2016, NAFI received in-kind contributions of rent, services, equipment and furnishings, utilities and consumables amounting to $1,780,370.

(Continued)

(j) Fair Value of Financial Instruments

Fair value represents the price that NAFI would receive upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date. NAFI uses a three-tier hierarchy to categorize those assets and liabilities based on those valuation methodologies employed. The three-tier hierarchy of inputs is summarized in the three broad levels listed below.

- Level 1 – quoted prices in active markets for identical financial instruments.
- Level 2 – other significant observable inputs (including quoted prices for similar financial instruments, interest rates, credit risk, etc.).
- Level 3 – significant unobservable inputs (including NAFI's own assumptions in determining the fair value of financial instruments).

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. NAFI utilizes valuation techniques that maximize the use of observable inputs and minimizes the use of unobservable inputs to the extent possible.

(k) Subsequent Events

NAFI has evaluated events subsequent to June 30, 2016 and through September 29, 2016 which is the date that the consolidated financial statements were available to be issued.

(2) Accounts Receivable

Accounts receivable of $8,276,483 is carried net of allowances for estimated contractual adjustments and doubtful accounts receivable of $437,392. Contract revenues of $98,763,972 in 2016 have been decreased by estimated contractual adjustments of $207,602.

(3) Line of Credit

NAFI makes available to its subsidiaries, including NAFICT, NFIV, NFI and NFIN, an on demand $8,000,000 line of credit from TD Bank. The line of credit bears interest at a fluctuating rate per annum equal to the Wall Street Journal Prime Rate, plus 0.50% per annum, (4.00% at June 30, 2016). Borrowings under the line are jointly guaranteed by NAFI, NAFICT, NFIV, NFI, and NFIN and are collateralized by substantially all of their assets.

Borrowings under the line of credit are due upon demand, and the line is subject to annual renewal. At June 30, 2016, $1,535,981 was outstanding under this line of credit.

In addition, NAFI has entered into letter of credit agreements with TD Bank for the year ended June 30, 2016 for a total of $2,565,830. The letter of credit agreements can be utilized by all subsidiaries in the aggregate of $8,000,000 and are not collateralized with additional cash. The letter of credit agreements are a requirement of NAFI's workers' compensation carrier.

(4) Investments

Investments are carried at fair value. Investments at June 30, 2016 consisted of the following:

Equities	$	585,472
Cash and equivalents		43,617
Corporate bonds		186,235
Total investments	$	815,324

All investments are valued using Level 1 inputs in accordance with the fair value hierarchy, except corporate bonds that are considered Level 2. There were no transfers between fair value levels during the year.

(5) Long-Term Debt

Long-term debt at June 30, 2016 consisted of the following:

Interest rate at June 30, 2016	Fiscal year due		Amount
Bonds payable:			
2.7141% fixed	2023	$	415,158
3.750% – 4.700% variable, 4.20% as of 6/30/16	2025		768,788
0.405% variable	2027		1,710,000
3.400% fixed	2041		313,106
Total bonds payable			3,207,052
Mortgages payable, secured by real estate:			
3.50% fixed	2017	$	86,252
0.00% fixed**	2017		63,000
3.75% fixed	2017		36,494
3.75% fixed	2017		4,221
3.99% fixed	2018		424,295
3.59% fixed	2018		202,843
4.11% fixed	2018		100,095
3.98% fixed	2018		48,437
3.49% fixed	2018		21,627
4.35% fixed	2019		297,992
4.30% fixed	2019		152,713
4.35% fixed	2019		121,869
3.95% fixed	2020		244,625
4.30% fixed	2020		213,037

Interest rate at June 30, 2016	Fiscal year due		Amount
4.30% fixed	2020	$	77,177
3.90% fixed	2020		69,311
3.95% fixed	2021		595,677
3.95% fixed	2021		246,492
3.95% fixed	2021		245,331
3.95% fixed	2021		131,049
3.95% fixed	2022		382,910
4.29% fixed	2022		204,742
4.29% variable	2022		204,113
2.00% fixed	2023		63,637
3.95% fixed	2025		26,112
3.95% fixed	2026		271,022
3.95% fixed	2026		147,762
3.95% variable	2026		131,772
4.42% fixed	2026		125,694
8.50% fixed	2026		92,033
4.24% variable	2027		746,006
0.00% fixed*	2027		160,000
8.00% fixed	2027		42,368
3.63% fixed	2028		265,838
0.00% fixed*	2028		160,000
8.00% fixed	2028		42,374
3.97% fixed	2029		395,083
5.50% fixed	2030		209,668
7.00% fixed	2030		129,008
0.00% fixed*	2030		125,000
7.00% fixed	2030		119,762
0.00% fixed*	2030		116,767
7.00% fixed	2031		300,720
4.50% variable	2031		293,667
0.00% fixed**	2031		179,296
0.00% fixed*	2031		100,000
0.00% fixed**	2034		75,000
Total mortgages payable			8,492,891

Interest rate at June 30, 2016	Fiscal year due		Amount
Vehicle notes, secured by automobiles:			
0.00% - 5.99% fixed	2017 - 2021	$	315,066
Total vehicle notes payable			315,066
Total long-term debt			12,015,009
Less current portion			(1,591,679)
Total long-term debt, net of current portion		$	10,423,330

* Certain mortgages payable to housing authorities provide that a portion of the principal will be forgiven at the end of the loan period if the underlying properties are used to provide housing in accordance with stipulated conditions. In addition, certain mortgages payable contain various prepayment penalties.

** Mortgages payable to North Shore Home Consortium, Federal Home Loan Bank and Community Economic Development Assistance (CEDAC) provide that the principal will be forgiven at the end of the loan period if the underlying properties are used to provide housing in accordance with stipulated conditions.

On May 2, 2003, NFI entered into a bond agreement with TD Bank, N.A. for $2,000,000 at a variable interest rate of 4.510% (currently at 2.7141%). The bond was acquired for the purpose of financing projects and refinancing outstanding debt. The bond is guaranteed by North American Family Institute, Inc.

On June 21, 2007, NFI entered into a bond agreement with Deutsche Bank Trust Company Americas for $2,600,000 at a variable interest rate (rate at June 30, 2016 was 0.4050%). At the same time, NFI entered into an interest rate swap agreement with TD Bank, N.A. to fix the interest rate at 4.320% for the 20 year life of the bond. The fair value of the instrument was a liability of $64,287 as of June 30, 2016 and is included in other accrued expenses. This swap is considered a Level 2 input in accordance with the fair value hierarchy. The bond was acquired for the purpose of financing projects and paying off two existing mortgages totaling $1,142,558. The bond is guaranteed by North American Family Institute, Inc. Bond issuance costs of $88,099 are being amortized over the term of the bonds and are included net of amortization of $68,670 in other assets in the accompanying consolidated statement of financial position.

On September 13, 2006, NFIV entered into a bond agreement with the Vermont Educational and Health Buildings Financing Agency for a tax-exempt offering of $995,000 Series 2006A revenue bonds issued by the Developmental and Mental Health Acquisitions Pool with maturities beginning in 2010 and ending in 2024 with interest rates ranging between 3.75% and 4.70%. Bond issuance costs of $101,223 are being amortized over the term of the bonds and are included net of amortization of $64,108 in other assets in the accompanying consolidated statement of financial position.

On December 1, 2010, NAFICT entered into a bond agreement with the Connecticut Housing Finance Authority (CHFA) for $354,211 at a fixed interest rate of 3.40%. The bond was acquired for the purpose of financing property and its renovation projects. The repayment also includes payments to the CHFA Repair and Replacement Reserve Fund for the purpose of funding capital repairs and replacements in excess of $2,500 per occurrence. Bond issuance costs of $7,374 are being amortized over the term of the bond and are included net of amortization of $1,352 in other assets in the accompanying consolidated statement of financial position.

NAFI is required to maintain certain debt service coverage ratios. NAFI and its subsidiaries are in compliance with all of their debt covenants.

Scheduled repayments of long-term debt are as follows:

		Amount due
Year ending June 30:		
2017	$	1,591,679
2018		1,497,432
2019		1,195,706
2020		766,456
2021		1,027,152
Thereafter		5,936,584
	$	12,015,009

Interest expense was $506,013 for the year ended June 30, 2016.

(6) Operating Leases

NAFI leases certain property, motor vehicles, and equipment under noncancelable (except under certain circumstances) operating lease arrangements. Rental and lease expense amounted to $2,308,494 for the year ended June 30, 2016. Future minimum lease payments as of June 30, 2016 are as follows:

		Amount due
Year ending June 30:		
2017	$	1,425,809
2018		964,949
2019		845,359
2020		631,823
2021		392,824
Thereafter		470,650
	$	4,731,414

(7) Retirement Plan

NAFI has a qualified defined contribution retirement plan for eligible employees to which annual contributions are made at the discretion of NAFI's board of directors. NAFI elected to make a contribution of $499,614 for the year ended June 30, 2016.

(8) Contingencies

Through June 30, 2016, NAFI had received a total of $6,623,939 in bonding grants from the State of Connecticut for improvements to five properties. With these grants NAFI is required to set up liens against the five properties and maintain its operations for 10 years in these locations. If NAFI is not in compliance with these and other restrictions, the State of Connecticut has the ability to request repayment of the funds on a percentage basis. NAFI is in compliance of all restrictions as of June 30, 2016. Revenue from these grants will be recognized over a 10 year period with the unrecognized portion of $25,236 included in deferred revenue in the accompanying consolidated statement of financial position as of June 30, 2016.

(9) Collaborative Agreement

NFIV participates in a collaborative agreement with two unrelated organizations to operate the Centerpoint Adolescent Treatment Services program. The agreement among the three parties established the collaborative through June 30, 2010, with an option for renewal. The agreement contains a provision that states "nine months before the end of the agreement, discussions shall begin for negotiation of a continuation agreement." As there was no agreement as of June 30, 2010, this agreement shall be considered to be continuing for successive one year periods unless otherwise agreed upon or unless the collaborative ceases to exist. There has been no decision to terminate the agreement and negotiations for renewal are currently ongoing. This agreement provides for cost and revenue sharing above certain pre-defined thresholds. Revenue generated from this collaborative for the year ended June 30, 2016 by NFIV was $2,107,767, which was included in contract revenue in the consolidated statement of activities. Expenses incurred by NFIV for the collaborative were $1,922,733 for the year ended June 30, 2016 and are included in program expenses in the consolidated statement of activities.

(10) Matching Funds

Pursuant to Federal Regulations, Title 42, Chapter 4, Part 433, Sections 433.50 and 433.51, revised October 1, 2008, NFIV received funds from state/local government sources for the year ended June 30, 2016 which provide a basis for state and local units of government to participate in financing the nonfederal portion of medical assistance expenditures. These funds exceed the matching funds minimum requirement amount of $254,873, as determined by the State of Vermont Department of Mental Health.

KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

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*

The Board of Directors
North American Family Institute, Inc.:

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 consolidated financial statements of North American Family Institute, Inc. and subsidiaries (NAFI), which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 29, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered NAFI'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of NAFI's internal control. Accordingly, we do not express an opinion on the effectiveness of NAFI'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 NAFI's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

KPMG LLP

September 29, 2016