



NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY

Phoenix, Arizona

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2016 and 2015



## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Neighborhood Ministries, Inc.

We have audited the accompanying consolidated financial statements of Neighborhood Ministries, Inc. (an Arizona not-for-profit corporation) and Subsidiary, which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of activities, functional expenses, and cash flows for the years 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 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 consolidated 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 audits. We conducted our audits 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 entity'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 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 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 Neighborhood Ministries, Inc. and Subsidiary as of December 31, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Henry + Horne, LLP

Tempe, Arizona  
June 27, 2017

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 746,073	\$ 351,486
Grants receivable	53,754	15,000
Accounts receivable	19,897	7,497
Promises to give, current portion, net of allowance	<u>130,400</u>	<u>1,086,400</u>
TOTAL CURRENT ASSETS	950,124	1,460,383
PROMISE TO GIVE, net of current portion, discount, and allowance	-	124,164
PROPERTY AND EQUIPMENT, net	<u>5,121,231</u>	<u>3,680,844</u>
TOTAL ASSETS	<u>\$ 6,071,355</u>	<u>\$ 5,265,391</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 329,853	\$ 14,717
Deferred revenue	-	3,780
Line of credit	34,750	-
Current portion of capital lease	2,649	2,495
Current portion of long-term debt	<u>25,836</u>	<u>84,031</u>
TOTAL CURRENT LIABILITIES	393,088	105,023
CAPITAL LEASE, net of current portion	1,151	3,800
LONG-TERM DEBT, net of current portion	<u>589,397</u>	<u>615,233</u>
TOTAL LIABILITIES	<u>983,636</u>	<u>724,056</u>
NET ASSETS		
Unrestricted	4,911,688	3,018,954
Temporarily restricted	<u>176,031</u>	<u>1,522,381</u>
TOTAL NET ASSETS	<u>5,087,719</u>	<u>4,541,335</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,071,355</u>	<u>\$ 5,265,391</u>

See accompanying notes.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF ACTIVITIES  
Years Ended December 31, 2016 and 2015

	2016		
	Unrestricted	Temporarily Restricted	Total
<b>SUPPORT AND OTHER REVENUE</b>			
Community contributions and donations	\$ 2,143,252	\$ 35,519	\$ 2,178,771
Grant income	508,326	-	508,326
Thrift store sales	24,016	-	24,016
Other revenue	126,168	-	126,168
Net assets released from restrictions	1,381,869	(1,381,869)	-
	<u>4,183,631</u>	<u>(1,346,350)</u>	<u>2,837,281</u>
<b>RETAIL SALES</b>			
Sales	180,927	-	180,927
Cost of sales	(103,268)	-	(103,268)
	<u>77,659</u>	<u>-</u>	<u>77,659</u>
<b>SPECIAL EVENTS</b>			
Special events income	28,135	-	28,135
Direct benefit to donors	(10,963)	-	(10,963)
	<u>17,172</u>	<u>-</u>	<u>17,172</u>
	<b>TOTAL SUPPORT AND OTHER REVENUE</b>		
	<u>4,278,462</u>	<u>(1,346,350)</u>	<u>2,932,112</u>
<b>OPERATING EXPENSES</b>			
Program services	1,684,308	-	1,684,308
Supporting services			
Management and general	379,145	-	379,145
Fundraising	203,562	-	203,562
OpportuniTees expenses	118,713	-	118,713
	<u>2,385,728</u>	<u>-</u>	<u>2,385,728</u>
	<b>TOTAL EXPENSES</b>		
	<u>2,385,728</u>	<u>-</u>	<u>2,385,728</u>
CHANGE IN NET ASSETS	1,892,734	(1,346,350)	546,384
NET ASSETS AT BEGINNING OF YEAR	<u>3,018,954</u>	<u>1,522,381</u>	<u>4,541,335</u>
NET ASSETS AT END OF YEAR	<u>\$ 4,911,688</u>	<u>\$ 176,031</u>	<u>\$ 5,087,719</u>

2015		
Unrestricted	Temporarily Restricted	Total
\$ 1,560,953	\$ 689,102	\$ 2,250,055
992,693	-	992,693
31,884	-	31,884
51,144	-	51,144
67,647	(67,647)	-
<u>2,704,321</u>	<u>621,455</u>	<u>3,325,776</u>
187,527	-	187,527
(124,556)	-	(124,556)
<u>62,971</u>	<u>-</u>	<u>62,971</u>
39,445	-	39,445
(13,000)	-	(13,000)
<u>26,445</u>	<u>-</u>	<u>26,445</u>
<u>2,793,737</u>	<u>621,455</u>	<u>3,415,192</u>
2,292,555	-	2,292,555
274,213	-	274,213
212,025	-	212,025
132,382	-	132,382
<u>2,911,175</u>	<u>-</u>	<u>2,911,175</u>
(117,438)	621,455	504,017
<u>3,136,392</u>	<u>900,926</u>	<u>4,037,318</u>
<u>\$ 3,018,954</u>	<u>\$ 1,522,381</u>	<u>\$ 4,541,335</u>

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
Year Ended December 31, 2016

FUNCTIONAL EXPENSES	Program Services					
	Iglesia De Neighborhood Ministries	Education Programs	Youth Development Programs	Social Justice	Leadership Development and Training Programs	Adult Development Programs
Payroll						
Salaries and housing allowance	\$ 71,793	\$ 124,752	\$ 54,938	\$ 55,372	\$ 1,629	\$ 63,425
Payroll taxes	4,047	9,544	4,060	4,236	125	3,687
<b>TOTAL PAYROLL</b>	<b>75,840</b>	<b>134,296</b>	<b>58,998</b>	<b>59,608</b>	<b>1,754</b>	<b>67,112</b>
Occupancy costs	2,862	14,311	21,467	35,779	7,156	12,880
Repairs and maintenance	888	4,442	8,880	8,880	2,220	3,996
Transportation expense	-	1	8,980	2,791	-	787
Professional services	281	2,097	3,083	-	38	31
Employee related costs	-	3,097	3,161	2,565	-	656
Insurance expense	8,106	23,553	44,256	12,177	6,088	21,565
Interest expense	312	3,118	6,236	4,677	1,559	4,677
Activity expenses	818	75,217	68,635	1,002	300	9,124
Cost of goods sold	-	-	-	-	-	-
Office supplies	342	1,028	2,055	342	342	1,027
Postage	282	846	1,975	-	282	846
Printing	1,541	3,081	9,243	3,081	1,541	4,622
Special events venue and meals	-	-	-	-	-	-
Depreciation expense	1,480	7,399	81,392	4,440	7,399	22,198
Minor equipment	-	-	-	-	-	-
Other expenses	1,497	4,491	10,478	-	1,497	4,491
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>94,249</b>	<b>276,977</b>	<b>328,839</b>	<b>135,342</b>	<b>30,176</b>	<b>154,012</b>
Amounts reported in total support and other revenue on the statement of activities:						
Cost of sales	-	-	-	-	-	-
Direct benefit to donors	-	-	-	-	-	-
<b>TOTAL EXPENSES</b>	<b>\$ 94,249</b>	<b>\$ 276,977</b>	<b>\$ 328,839</b>	<b>\$ 135,342</b>	<b>\$ 30,176</b>	<b>\$ 154,012</b>



Program Services				Supporting Services					
Assistance Programs	Job and Skills Development Programs	Hope House Community	Total Program Services	Management and General	Fundraising	Direct Benefit to Donors	Total Supporting Services	OpportuniTees	Total Expenses
\$ -	\$ 156,812	\$ 30,198	\$ 558,919	\$ 259,369	\$ 139,527	\$ -	\$ 398,896	\$ 79,548	\$ 1,037,363
-	11,995	2,310	40,004	17,364	10,446	-	27,810	5,881	73,695
-	168,807	32,508	598,923	276,733	149,973	-	426,706	85,429	1,111,058
21,467	8,587	4,293	128,802	8,587	5,725	-	14,312	631	143,745
6,660	2,664	1,332	39,962	2,664	1,776	-	4,440	8,592	52,994
-	1,070	162	13,791	1,262	2,375	-	3,637	354	17,782
7,482	8,766	296	22,074	37,439	14,910	-	52,349	12,373	86,796
25	435	-	9,939	4,366	1,213	-	5,579	-	15,518
-	24,299	5,266	145,310	22,090	16,793	-	38,883	-	184,193
3,118	1,559	3,118	28,374	2,180	624	-	2,804	-	31,178
302,621	32,069	221	490,007	11,280	1,631	-	12,911	-	502,918
-	-	-	-	-	-	-	-	103,268	103,268
-	685	343	6,164	864	342	-	1,206	5,868	13,238
-	564	282	5,077	282	282	-	564	-	5,641
-	3,081	1,541	27,731	1,540	1,540	-	3,080	-	30,811
-	-	-	-	-	-	10,963	10,963	-	10,963
-	8,879	7,399	140,586	4,439	2,960	-	7,399	3,392	151,377
-	623	-	623	3,673	1,921	-	5,594	-	6,217
-	2,994	1,497	26,945	1,746	1,497	-	3,243	2,074	32,262
341,373	265,082	58,258	1,684,308	379,145	203,562	10,963	593,670	221,981	2,499,959
-	-	-	-	-	-	-	-	(103,268)	(103,268)
-	-	-	-	-	-	(10,963)	(10,963)	-	(10,963)
<u>\$ 341,373</u>	<u>\$ 265,082</u>	<u>\$ 58,258</u>	<u>\$ 1,684,308</u>	<u>\$ 379,145</u>	<u>\$ 203,562</u>	<u>\$ -</u>	<u>\$ 582,707</u>	<u>\$ 118,713</u>	<u>\$ 2,385,728</u>

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
Year Ended December 31, 2015

	Program Services					
	Iglesia De Neighborhood Ministries	Education Programs	Youth Development Programs	Leadership Development and Training Programs	Adult Development Programs	Assistance Programs
<b>FUNCTIONAL EXPENSES</b>						
Payroll						
Salaries and housing allowance	\$ 14,409	\$ 145,659	\$ 72,737	\$ 9,636	\$ 62,261	\$ 501,692
Payroll taxes	464	14,576	6,050	473	3,381	37,412
<b>TOTAL PAYROLL</b>	<b>14,873</b>	<b>160,235</b>	<b>78,787</b>	<b>10,109</b>	<b>65,642</b>	<b>539,104</b>
Occupancy costs	3,023	15,116	60,463	7,558	13,604	22,674
Repairs and maintenance	996	4,980	19,918	2,490	4,482	7,470
Transportation expense	-	335	10,063	839	3,354	839
Professional services	20	376	2,959	725	23	11,292
Employee related costs	-	-	6,766	-	-	24,989
Insurance expense	6,169	34,503	52,956	6,781	26,679	24,521
Interest expense	402	4,024	14,081	2,012	6,035	4,024
Activity expenses	-	59,237	36,983	35,226	12,823	232,617
Cost of goods sold	-	-	-	-	-	-
Office supplies	370	1,111	2,592	370	1,111	-
Postage	224	671	1,566	224	671	-
Printing	2,164	6,492	15,149	2,164	6,492	-
Special events venue and meals	-	-	-	-	-	-
Depreciation expense	1,710	8,548	94,031	5,129	8,548	25,645
Minor equipment	12	7	14	-	-	4,991
Other expenses	1,814	5,442	12,697	1,814	5,442	-
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>31,777</b>	<b>301,077</b>	<b>409,025</b>	<b>75,441</b>	<b>154,906</b>	<b>898,166</b>
Amounts reported in total support and other revenue on the statement of activities:						
Cost of sales	-	-	-	-	-	-
Direct benefit to donors	-	-	-	-	-	-
<b>TOTAL EXPENSES</b>	<b>\$ 31,777</b>	<b>\$ 301,077</b>	<b>\$ 409,025</b>	<b>\$ 75,441</b>	<b>\$ 154,906</b>	<b>\$ 898,166</b>

Program Services			Supporting Services						
Job and Skills Development Programs	Hope House Community	Total Program Services	Management and General	Fundraising	Direct Benefit to Donors	Total Supporting Services	OpportuniTees	Total Expenses	
\$ 188,231	\$ 48,800	\$ 1,043,425	\$ 160,572	\$ 125,428	\$ -	\$ 286,000	\$ 85,685	\$ 1,415,110	
7,235	3,898	73,489	12,891	9,134	-	22,025	7,334	102,848	
195,466	52,698	1,116,914	173,463	134,562	-	308,025	93,019	1,517,958	
9,069	4,535	136,042	9,071	6,046	-	15,117	1,686	152,845	
2,988	1,494	44,818	2,988	1,992	-	4,980	7,276	57,074	
335	335	16,100	169	503	-	672	783	17,555	
2,225	208	17,828	57,311	39,470	-	96,781	17,426	132,035	
-	-	31,755	2,794	1,226	-	4,020	-	35,775	
18,533	8,757	178,899	10,922	16,703	-	27,625	-	206,524	
2,012	4,024	36,614	2,816	805	-	3,621	-	40,235	
78,470	4,789	460,145	1,571	207	-	1,778	-	461,923	
-	-	-	-	-	-	-	124,556	124,556	
741	370	6,665	371	371	-	742	5,554	12,961	
448	224	4,028	224	224	-	448	-	4,476	
4,328	2,164	38,953	2,165	2,164	-	4,329	-	43,282	
-	-	-	-	2,041	13,000	15,041	-	15,041	
10,259	8,548	162,418	5,129	3,419	-	8,548	3,133	174,099	
3,416	287	8,727	1,249	478	-	1,727	-	10,454	
3,627	1,813	32,649	3,970	1,814	-	5,784	3,505	41,938	
331,917	90,246	2,292,555	274,213	212,025	13,000	499,238	256,938	3,048,731	
-	-	-	-	-	-	-	(124,556)	(124,556)	
-	-	-	-	-	(13,000)	(13,000)	-	(13,000)	
\$ 331,917	\$ 90,246	\$ 2,292,555	\$ 274,213	\$ 212,025	\$ -	\$ 486,238	\$ 132,382	\$ 2,911,175	

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2016 and 2015

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 546,384	\$ 504,017
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	151,377	174,099
Forgiveness of debt	(59,475)	(98,322)
Contributions restricted for capital campaign	-	(466,000)
Change in discount on promises to give	(5,836)	(26,146)
Change in allowance for uncollectable promises to give	-	(141,885)
Change in operating assets and liabilities:		
Decrease (increase) in:		
Promises to give	-	30,000
Grants receivable	(38,754)	5,592
Accounts receivable	(12,400)	(7,470)
Employee receivables	-	2,536
Increase (decrease) in:		
Accounts payable and accrued expenses	315,136	(103,276)
Deferred revenue	(3,780)	(46,691)
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<u>892,652</u>	<u>(173,546)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Construction in progress purchases	(1,466,137)	(10,209)
Purchases of property and equipment	(125,627)	(25,635)
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<u>(1,591,764)</u>	<u>(35,844)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Collection of contributions restricted for capital campaign	1,086,000	165,500
Payments on long-term debt	(24,556)	(18,630)
Payments on capital lease obligation	(2,495)	(1,388)
Proceeds from advances on line of credit	65,000	45,000
Payments made on line of credit	(30,250)	(64,293)
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<u>1,093,699</u>	<u>126,189</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	394,587	(83,201)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>351,486</u>	<u>434,687</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 746,073</u>	<u>\$ 351,486</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the year for interest	<u>\$ 31,178</u>	<u>\$ 40,235</u>
Equipment acquired through capital lease	<u>\$ -</u>	<u>\$ 7,683</u>

See accompanying notes.