

HENRY & HORNE, LLP
CERTIFIED PUBLIC ACCOUNTANTS



NEIGHBORHOOD
M I N I S T R I E S

Phoenix, Arizona

FINANCIAL STATEMENTS

Years Ended December 31, 2011 and 2010





HENRY & HORNE, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors
Neighborhood Ministries, Inc.
Phoenix, Arizona

We have audited the accompanying statements of financial position of Neighborhood Ministries, Inc. (an Arizona not-for-profit organization) as of December 31, 2011 and 2010, and the related statements of activities, functional expenses and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 audits provide 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 Neighborhood Ministries, Inc. as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 15 to the financial statements, the 2010 financial statements have been restated to correct a misstatement.

Henry & Horne, LLP

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August 23, 2012

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NEIGHBORHOOD MINISTRIES, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 667,834	\$ 344,978
Grants receivable	23,534	129,600
Insurance settlement proceeds due	-	354,559
Due on lease sale	-	98,337
	<u>691,368</u>	<u>927,474</u>
PROPERTY AND EQUIPMENT, net	<u>2,986,300</u>	<u>2,949,704</u>
	<u>\$ 3,677,668</u>	<u>\$ 3,877,178</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 45,362	\$ 46,520
Accounts payable and accrued expenses	9,773	14,614
Line of credit	29,026	33,975
	<u>84,161</u>	<u>95,109</u>
LONG-TERM DEBT, net of current portion	<u>284,102</u>	<u>333,247</u>
	<u>368,263</u>	<u>428,356</u>
NET ASSETS		
Unrestricted	2,936,685	3,033,560
Temporarily restricted	372,720	415,262
	<u>3,309,405</u>	<u>3,448,822</u>
	<u>\$ 3,677,668</u>	<u>\$ 3,877,178</u>

See accompanying notes.

NEIGHBORHOOD MINISTRIES, INC.
STATEMENTS OF ACTIVITIES
Years Ended December 31, 2011 and 2010

	2011		
	Unrestricted	Temporarily Restricted	Total
PUBLIC SUPPORT AND OTHER REVENUE:			
PUBLIC SUPPORT			
Community contributions and donations	\$ 1,189,717	\$ 358,202	\$ 1,547,919
Grant income	352,905	13,390	366,295
Net assets released from restrictions	414,134	(414,134)	-
TOTAL PUBLIC SUPPORT	1,956,756	(42,542)	1,914,214
SPECIAL EVENTS			
Special events income	24,815	-	24,815
Less: direct benefit to donors	11,677	-	11,677
	13,138	-	13,138
RENTAL INCOME			
Rental income	46,385	-	46,385
Rental expenses	57,851	-	57,851
	(11,466)	-	(11,466)
OTHER REVENUE	39,223	-	39,223
TOTAL PUBLIC SUPPORT AND OTHER REVENUE	1,997,651	(42,542)	1,955,109
OPERATING EXPENSES			
Program services	1,693,302	-	1,693,302
Supporting services			
Management and general	267,831	-	267,831
Fundraising	166,955	-	166,955
TOTAL EXPENSES	2,128,088	-	2,128,088
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	(130,437)	(42,542)	(172,979)
NON-OPERATING INCOME			
Insurance settlement, net	33,562	-	33,562
Lease sale	-	-	-
TOTAL NON-OPERATING INCOME	33,562	-	33,562
CHANGE IN NET ASSETS	(96,875)	(42,542)	(139,417)
NET ASSETS AT BEGINNING OF YEAR	3,033,560	415,262	3,448,822
NET ASSETS AT END OF YEAR	\$ 2,936,685	\$ 372,720	\$ 3,309,405

See accompanying notes.

2010 (Restated)		
Unrestricted	Temporarily Restricted	Total
\$ 1,574,771	\$ 294,042	\$ 1,868,813
139,012	32,300	171,312
200,376	(200,376)	-
<u>1,914,159</u>	<u>125,966</u>	<u>2,040,125</u>
15,327	-	15,327
9,367	-	9,367
<u>5,960</u>	<u>-</u>	<u>5,960</u>
81,831	-	81,831
90,311	-	90,311
<u>(8,480)</u>	<u>-</u>	<u>(8,480)</u>
<u>11,744</u>	<u>-</u>	<u>11,744</u>
<u>1,923,383</u>	<u>125,966</u>	<u>2,049,349</u>
1,546,092	-	1,546,092
239,187	-	239,187
127,133	-	127,133
<u>1,912,412</u>	<u>-</u>	<u>1,912,412</u>
10,971	125,966	136,937
212,452	-	212,452
98,337	-	98,337
<u>310,789</u>	<u>-</u>	<u>310,789</u>
321,760	125,966	447,726
<u>2,711,800</u>	<u>289,296</u>	<u>3,001,096</u>
<u>\$ 3,033,560</u>	<u>\$ 415,262</u>	<u>\$ 3,448,822</u>

NEIGHBORHOOD MINISTRIES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2011

	Program Services					
	Iglesia De Neighborhood Ministries	Education Programs	Youth Development Programs	Leadership Development and Training Programs	Adult Development Programs	Assistance Programs
FUNCTIONAL EXPENSES						
Payroll						
Salaries and housing allowance	\$ 107,487	\$ 220,171	\$ 134,327	\$ 26,700	\$ 62,931	\$ 3,920
Payroll taxes	7,759	15,894	9,697	1,927	4,543	283
TOTAL PAYROLL	115,246	236,065	144,024	28,627	67,474	4,203
Occupancy costs	4,859	14,577	37,795	4,859	14,577	-
Repairs and maintenance	632	1,896	5,689	632	1,896	6,866
Transportation expense	-	2,008	15,283	769	779	5,576
Professional services	977	5,231	854	94	1,662	1,465
Employee related costs	337	2,509	807	84	227	12
Insurance expense	16,450	33,537	49,897	6,374	20,461	248
Interest expense	1,302	2,605	10,419	1,302	3,907	-
Activity expenses	2,548	139,112	62,532	39,388	16,055	228,520
Office supplies	-	1,239	3,304	413	1,239	-
Postage	-	744	1,985	248	744	-
Printing	8	1,046	1,270	-	988	-
Minor equipment	1,037	5,623	984	-	109	-
Other expenses	366	15,370	2,036	-	149	-
TOTAL OTHER EXPENSE	28,516	225,497	192,855	54,163	62,793	242,687
Depreciation expense	5,935	11,870	47,480	5,935	17,805	-
TOTAL FUNCTIONAL EXPENSES	\$ 149,697	\$ 473,432	\$ 384,359	\$ 88,725	\$ 148,072	\$ 246,890

See accompanying notes.

Job and Skills Development Programs	Supporting Services					Total Expenses
	Hope House Community	Total Program Services	Management and General	Fundraising	Total Supporting Services	
\$ 86,940	\$ 26,313	\$ 668,789	\$ 112,014	\$ 114,906	\$ 226,920	\$ 895,709
6,276	1,899	48,278	8,087	8,295	16,382	64,660
93,216	28,212	717,067	120,101	123,201	243,302	960,369
9,718	9,106	95,491	4,859	5,937	10,796	106,287
1,264	756	19,631	632	-	632	20,263
342	-	24,757	1,001	-	1,001	25,758
127	3	10,413	66,017	293	66,310	76,723
272	82	4,330	4,562	405	4,967	9,297
17,407	3,976	148,350	15,580	15,485	31,065	179,415
1,302	2,605	23,442	2,084	521	2,605	26,047
12,520	459	501,134	15,268	155	15,423	516,557
826	39	7,060	-	413	413	7,473
496	44	4,261	248	496	744	5,005
715	-	4,027	7,852	14,114	21,966	25,993
626	108	8,487	4,358	-	4,358	12,845
102	-	18,023	19,334	-	19,334	37,357
45,717	17,178	869,406	141,795	37,819	179,614	1,049,020
5,935	11,869	106,829	5,935	5,935	11,870	118,699
<u>\$ 144,868</u>	<u>\$ 57,259</u>	<u>\$ 1,693,302</u>	<u>\$ 267,831</u>	<u>\$ 166,955</u>	<u>\$ 434,786</u>	<u>\$ 2,128,088</u>

NEIGHBORHOOD MINISTRIES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2010 (Restated)

	Program Services					
	Iglesia De Neighborhood Ministries	Education Programs	Youth Development Programs	Leadership Development and Training Programs	Adult Development Programs	Assistance Programs
FUNCTIONAL EXPENSES						
Payroll						
Salaries and housing allowance	\$ 82,226	\$ 115,073	\$ 127,000	\$ 26,200	\$ 60,495	\$ 5,341
Payroll taxes	5,413	7,873	8,365	1,968	3,936	492
TOTAL PAYROLL	87,639	122,946	135,365	28,168	64,431	5,833
Occupancy costs	4,322	8,643	34,574	4,322	12,965	-
Repairs and maintenance	1,914	1,914	22,969	1,914	1,914	1,148
Transportation expense	-	857	13,708	514	857	-
Professional services	242	2,551	4,796	962	2,389	17
Employee related costs	-	-	-	-	-	-
Insurance expense	16,567	9,871	64,078	7,144	10,701	770
Interest expense	967	1,935	7,739	967	2,902	-
Activity expenses	23,800	75,115	105,342	37,456	12,431	302,606
Office supplies	-	53	3,158	53	158	-
Postage	-	84	2,098	84	84	-
Printing	-	502	13,804	251	753	-
Minor equipment	-	-	2,506	-	-	-
Other expenses	924	5,548	10,046	925	3,950	-
TOTAL OTHER EXPENSE	48,736	107,073	284,818	54,592	49,104	304,541
Depreciation expense	5,110	9,198	24,529	4,497	14,308	-
TOTAL FUNCTIONAL EXPENSES	\$ 141,485	\$ 239,217	\$ 444,712	\$ 87,257	\$ 127,843	\$ 310,374

See accompanying notes.

Supporting Services						
Job and Skills Development Programs	Hope House Community	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
\$ 93,871	\$ 19,300	\$ 529,506	\$ 109,109	\$ 89,193	\$ 198,302	\$ 727,808
6,397	1,476	35,920	7,381	5,905	13,286	49,206
100,268	20,776	565,426	116,490	95,098	211,588	777,014
4,322	8,643	77,791	4,322	4,322	8,644	86,435
1,914	766	34,453	3,828	-	3,828	38,281
-	-	15,936	857	343	1,200	17,136
1,161	58	12,176	33,473	720	34,193	46,369
-	-	-	16,503	-	16,503	16,503
11,032	11,807	131,970	35,556	7,131	42,687	174,657
967	1,935	17,412	1,548	387	1,935	19,347
10,731	-	567,481	1,991	-	1,991	569,472
158	-	3,580	1,158	526	1,684	5,264
84	-	2,434	503	5,454	5,957	8,391
753	-	16,063	1,506	7,530	9,036	25,099
-	627	3,133	9,399	-	9,399	12,532
924	2,948	25,265	7,965	921	8,886	34,151
32,046	26,784	907,694	118,609	27,334	145,943	1,053,637
5,110	10,220	72,972	4,088	4,701	8,789	81,761
<u>\$ 137,424</u>	<u>\$ 57,780</u>	<u>\$ 1,546,092</u>	<u>\$ 239,187</u>	<u>\$ 127,133</u>	<u>\$ 366,320</u>	<u>\$ 1,912,412</u>

NEIGHBORHOOD MINISTRIES, INC.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (139,417)	\$ 447,726
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	118,699	102,202
Loss on disposal of warehouse and equipment	-	136,800
Change in operating assets and liabilities:		
Decrease (increase) in:		
Rent and utilities receivables	-	4,692
Grants receivable	106,066	(83,457)
Insurance settlement proceeds due	354,559	(354,559)
Due on lease sale	98,337	(98,337)
Decrease in accounts payable and accrued expenses	(4,841)	(1,401)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>533,403</u>	<u>153,666</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(155,295)</u>	<u>(38,346)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(50,303)	(45,681)
Proceeds from advances on line of credit	61,877	88,035
Payments made on line of credit	<u>(66,826)</u>	<u>(54,060)</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>(55,252)</u>	<u>(11,706)</u>
NET INCREASE IN CASH	322,856	103,614
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>344,978</u>	<u>241,364</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 667,834</u>	<u>\$ 344,978</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 26,047</u>	<u>\$ 23,847</u>

See accompanying notes.

NEIGHBORHOOD MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

Nature of Activities

Neighborhood Ministries, Inc. (the Organization), was formed as an Arizona not-for-profit charitable organization in 1995 to provide tangible love and hope to distressed families of urban Phoenix, empowering them to transform their communities as they themselves have been transformed. The focus of the Organization's programs is holistic in nature. The Organization targets the most vulnerable urban poor families who are trapped in the cycle of poverty and have significant physical, emotional, mental and spiritual needs. The programs are designed to develop relationships through which love, help and hope can be inspired.

The Organization's key values are investing in long term relationships, expressing holistic ministry, being community based in ministry, mentoring and developing indigenous leaders, affirming the role of the local church and developing partnerships that unite the church at large.

Program Services

Following are the programs services administered by the Organization.

Iglesia De Neighborhood Ministries is the church that functions within Neighborhood Ministries. It is a bi-lingual Spanish/English church of approximately 100 weekly attendees. Sunday morning is the place and time where whole families meet together under the guidance of two pastors.

Education Programs

Education Programs encompass preschool through college age. Select children from the existing youth groups are resourced in these age appropriate programs. These programs are designed to build hope, trust and reliance on Jesus Christ through life long relationships that encourage kids to stay and be successful in school while learning to be healthy future thinkers. These programs consist of ***Wayne and Kit Danley Scholarship Fund, Education for Life, Head Start Wrap Around Program and Katy's Kids Preschool.***

Wayne and Kit Danley Scholarship Fund is the result of several donors' commitment to creating higher education opportunities for youth who do not otherwise qualify for government or private financial assistance. This program currently has 14 students attending Phoenix College and Arizona State University. Selection for these scholarships is very competitive as applicants are judged on academics, community involvement and volunteerism.

NEIGHBORHOOD MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Program Services (Continued)

Education for Life is designed to provide kindergarten through high school students with academic support through a tutor and mentor. This program coordinates social activities to provide the students and mentors the opportunity to interact with one another. Incentives are provided to the students for academic excellence. The high school students are also encouraged and assisted in planning for college by scheduling field trips and helping them with financial aid and registration forms.

Head Start Wrap Around Program provided Neighborhood Ministries, Inc. staff support to the City of Phoenix Head Start located at the Neighborhood Center. An Organization's intern helped in the classroom and assisted in connecting Head Start kids and their families to the wider programs offered within the Organization. This program was terminated in May 2010.

Katy's Kids Preschool is the successor program to the Head Start Wrap Around Program. Recognizing the importance of preschool to the future academic success of the neighborhood kids, the Organization began an aggressive project to create and fund a preschool located at the Neighborhood Center. The name, Katy's Kids, was chosen as a living memorial to Katy Reel, one of the preschool teachers who passed away in 2006. With generous support from her family and friends in Indiana and Arizona, the necessary funding was raised and the school received its certification from the state of Arizona in December 2010. The preschool formally opened in January 2011.

Youth Development Programs

Kids Life is a weekly youth group during the school year for kindergarteners through 7th graders, serving approximately 450 children. The Organization provides transportation for children from within a 100 square mile area for those who want to stay connected with the program. The program includes bible class time with a small group leader, time for singing and worship and activities, such as soccer, crafts, metal and wood shop, choir, dance, basketball and drama.

Kids Camp is a one-week camp for 65 4th through 6th graders at Mountain Meadows camp near Payson, Arizona. The goal of the camp is fun, spiritual development, and strengthening bonds with leaders before the new school year begins and the children progress another grade.

NEIGHBORHOOD MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Program Services (Continued)

Kids Club is a two-week summer day camp for 500 kindergarteners through 6th grade. Over 80 youth workers provide leadership for the camp. Youth workers are a mix of youth from urban and suburban backgrounds. The morning session begins with singing, skits and classroom time with a biblical based curriculum, and the afternoon session consists of fieldtrips and fun activities. Volunteers and churches from around Phoenix prepare the crafts and snacks for the children.

Senior High includes a weekly youth group during the school year combined with various camping and retreat opportunities. The weekly youth group includes small group biblical instruction and discussion combined with fun activities. Many of the young developing leaders are giving back in the youth groups for the younger ages.

Barrio Works is a hands-on workshop designed to create a safe environment for youth to discover and develop their trade skills that will be valuable for future employment. The workshop is multi-use including a bike shop, wood working and metal working. The goals for Barrio Works include development of healthy work habits, to provide opportunities for community fathers and father figures to participate in shop activities with their children, to teach successful micro-enterprise skills, to develop opportunities for older youth to serve younger youth and to help the youth grow in their relationship with Jesus Christ.

Leadership Development and Training Programs

Internships are a key area for leadership development and provide many opportunities for indigenous leaders to develop their heart, mind and skills in leading and serving others. Summer interns are provided paid work experience as emerging leaders. There are 20 to 30 summer interns that serve leadership roles for the summer youth camps. There are also one- and two-year internships for those who are in preparation to be urban ministers. Theological training and service learning are the methods used in leadership development.

Training and Program Development is the program through which the Organization provides specific semi-annual training for the volunteers. The mission, distinctives and overview are taught. Breakout sessions are provided as resources to help equip the volunteers and keep them encouraged in the difficult work among broken families of poverty. The Organization participates in the national training provided by The Christian Community Development Association.

NEIGHBORHOOD MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Program Services (Continued)

Adult Development Programs

Moms Place is a mentoring program for teenage mothers. The program is designed for mothers ages 12 through 24 and their children. The purpose is for mature Christian women to support young mothers from the inner city and to nurture and enhance their parental, spiritual, personal and communal development through caring, compassionate friendships. The relationship is designed to equip young mothers with tools to counteract negative influences that lead to family and social dysfunction. It is the Organization's desire to love each young mother unconditionally and encourage the opportunity for mature friendships and wise counsel.

Parent Volunteers consists of over 100 parents of the children that attend the youth groups. The purpose is to develop trusting relationships built on dignity that will lead to a growing personal relationship with Jesus and an increasing participation in the church and community. These relationships are developed by providing work opportunities that utilize and develop practical job skills, sponsoring seasonal stores where volunteer hours are redeemed for needed items, providing volunteer opportunities to serve the community, meeting the holistic needs of the parents and their families and providing opportunities for spiritual growth and nurture.

Assistance Programs

The Food Bank is part of the Neighborhood Center and is open once a week on Friday mornings. The Food Bank serves approximately 40 families each week. Families qualify for clothing distribution once per month and a food box every ninety days, and emergency distribution is available based on need. The Food Bank is supplied by volunteer donations and several churches around the Phoenix metropolitan area.

Distressed Families provides assistance to individuals and families with specific needs such as assistance with utility bills, phone bills and rent. This program was significantly scaled back due to lack of funding, however it still provides some financial assistance to families who suffer an unexpected, non-recurring financial setback that may impact their ability to remain in their home or remain employed.

NEIGHBORHOOD MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Job and Skills Development Programs

Neighbors at Work assists youth and young adults ages 15 – 35 in developing the skills and habits necessary to apply for a job and then succeed in that job. Funded in part by the Valley of the Sun United Way, this program teaches job search skills for effective long term employment through resume writing, interviewing readiness and effective job placement. An ongoing case manager assists in teaching of responsibility, accountability and effective communication in the workplace. Through networking channels and relationships with area employers, the program also provides information on current job openings.

Mercado de la Comunidad (thrift store) was opened in November 2009 to provide job opportunities and a low-cost convenient place to meet some of the community needs for clothing and household goods. Generous donations keep the store well-stocked and efforts are being made to market the store outside of the immediate neighborhood so that it can become self-sufficient.

Hope House Community provides safe, stable, affordable housing and personal development for adult women with or without children. The purpose of the Hope House Community is to provide, through life on life relationships, life skills, communication skills, emotional healing and spiritual growth so that when the women transition back to life on their own, they might be more successful. The house can hold up to 12 women.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly, reflect all significant receivables, payables and other liabilities.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and short term investments held in money market accounts are considered to be cash and cash equivalents.

NEIGHBORHOOD MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Grants Receivable and Promises to Give

Grants receivable include amounts due under cost reimbursement grant agreements, the United Way allocation and foundation contributions. Unconditional promises to give are recognized when the promises are received. Unconditional promises to give that are to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using rates as determined by management applicable to the years in which the promises are received.

Conditional promises to give are not included as support until the conditions are substantially met.

Property and Equipment

The Organization generally capitalizes property and equipment additions in excess of \$1,000. Property and equipment are recorded at cost or, if acquired through donation, at values representing fair value on acquisition dates. Additions, replacements and improvements, which significantly extend the life of an asset are capitalized. Repair and maintenance expenditures are expensed as incurred. When assets are sold or retired, the cost and accumulated depreciation is removed from the appropriate accounts and the resulting gain or loss is included in operations.

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets and amounted to \$118,699 and \$102,202 for the years ended December 31, 2011 and 2010, respectively.

NEIGHBORHOOD MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Taxes Collected from Tenants

The Organization collects sales taxes from tenants and remits these amounts to applicable taxing authorities. The Organization's policy is to record these taxes as liabilities and exclude these taxes from revenues and expenses.

Contributions

Contributions received are recorded as increases in unrestricted, temporarily restricted or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. Contributions received with donor restrictions that are met in the same year as received are reported as unrestricted contributions. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

When restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donated materials and services are recorded at their estimated fair value upon receipt. Donated services are recorded at their estimated fair value if they enhance the Organization's non-financial assets and require specialized skills that the Organization would normally purchase if needed and if not provided by donation. During the years ended December 31, 2011 and 2010, there were no donated services that met these criteria. Approximately 600 volunteers were utilized during each of the years ended December 31, 2011 and 2010, for food pantry services, work crew assistance and Kids Club.

Revenue Recognition

Grant income from cost reimbursement grant agreements is recognized in the period in which the related costs are incurred. Rental income is recognized in the period the income relates to.

Functional Allocation of Expenses

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.

NEIGHBORHOOD MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Income Tax Status

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(c)(2).

The Organization has unrelated business taxable income (UBTI) from rental income derived from the leasing of debt financed property and as a result has a net operating loss carryforward related to this UBTI. The deferred income tax benefit from these carryforwards has not been recorded as of December 31, 2011 and 2010 because the Organization does not expect to recognize the tax benefit in the future. The net operating loss carryforward available to offset any future taxable income is approximately \$41,000 at December 31, 2011. These net operating loss carryforwards will begin to expire in 2025.

The Organization recognizes uncertain tax positions in the financial statements when it is more likely-than-not the positions will not be sustained upon examination of the tax authorities. As of December 31, 2011 and 2010, the Organization had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

The Organization's federal and state informational returns (Forms 990 and 99) and federal and state exempt business income tax returns (Forms 990T and 99T) are no longer subject to examination by the internal Revenue Service and the State of Arizona for years prior to 2008 and 2007, respectively, generally three to four years after they were filed.

The Organization recognizes interest and penalties associated with income taxes in operating expenses. During the years ended December 31, 2011 and 2010, the Organization did not have any income tax related interest and penalty expense.

Use of Estimates

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

NEIGHBORHOOD MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Impairment of Long-Lived Assets

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. No impairment charges were recorded for the years ended December 31, 2011 and 2010.

Date of Management's Review

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through August 23, 2012, the date the financial statements were available to be issued.

NOTE 2 CONCENTRATIONS OF CREDIT RISK

Financial instruments that subject the Organization to potential concentrations of credit risk consist principally of cash and receivables.

The Organization maintains its cash in bank accounts, which at times may exceed federally insured limits. At December 31, 2011, the Organization's bank balances exceeded federally insured limits by approximately \$323,000. At December 31, 2010, the Organization's bank balances did not exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on these cash balances.

Concentrations of credit risk with respect to receivables are limited due to the nature of the receivables. The Organization requires no collateral on its receivables.

NEIGHBORHOOD MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 2 CONCENTRATIONS OF CREDIT RISK (Continued)

The following amounts are included in grants receivable at December 31:

	<u>2011</u>	<u>2010</u>
First Things First Grant	\$ 11,700	\$ -
College Access Grant	6,132	-
Snap Enrollment Grant	3,502	-
Diamondbacks Foundation	-	100,000
Valley of the Sun United Way	-	15,000
Mentoring Children of Prisoners	-	14,600
Other	2,200	-
	<u>\$ 23,534</u>	<u>\$ 129,600</u>

NOTE 3 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2011</u>	<u>2010</u>
Land	\$ 436,200	\$ 436,200
Buildings	3,157,473	3,157,473
Furniture and fixtures	90,412	90,412
Vehicles	175,819	68,504
Computers and telephones	102,906	54,926
	<u>3,962,810</u>	<u>3,807,515</u>
Accumulated depreciation and amortization	<u>976,510</u>	<u>857,811</u>
	<u>\$ 2,986,300</u>	<u>\$ 2,949,704</u>

NOTE 4 RENTAL INCOME

During the year ended December 31, 2011, the Organization had a verbal month-to-month operating lease agreement with one tenant for office space. In addition, the Organization also rented out storage space to two tenants. Rental income for the years ended December 31, 2011 and 2010 was \$46,385 and \$81,831, respectively. The associated land, building and accumulated depreciation is included in Note 3.

NEIGHBORHOOD MINISTRIES, INC.
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2011 and 2010

NOTE 5 LONG-TERM DEBT

Long-term debt consisted of the following at December 31:

	<u>2011</u>	<u>2010</u>
Mortgage note payable, due in monthly installments of \$5,681, including interest at 5.95%. This note is fully amortized and due July 2018 and is secured by a first deed of trust on the real property.	\$ 329,464	\$ 379,767
Current portion	<u>(45,362)</u>	<u>(46,520)</u>
	<u>\$ 284,102</u>	<u>\$ 333,247</u>

Annual principal payments due on long-term debt over then next five years and thereafter are as follows:

Years Ending December 31,

2012	\$ 45,362
2013	52,383
2014	55,587
2015	58,986
2016	62,593
Thereafter	<u>54,553</u>
	<u>\$ 329,464</u>

NOTE 6 COMMITMENTS

The Organization leases a copier under an operating lease. This lease expires in April 2013. Total rental expense paid under this operating lease for the years ended December 31, 2011 and 2010 was \$7,773 and \$10,497, respectively.

NEIGHBORHOOD MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 6 COMMITMENTS (Continued)

The following is a schedule of future minimum lease payments required under the above operating lease:

Years Ending December 31,

2012	\$	4,740
2013		<u>1,580</u>
	\$	<u><u>6,320</u></u>

NOTE 7 BANK LINE OF CREDIT

At December 31, 2011, the Organization had available an unsecured \$35,000 bank line of credit bearing a minimum interest rate of 9.95%, which matures on November 5, 2012. The outstanding balance on this line of credit at December 31, 2011 and 2010 was \$29,026 and \$33,975, respectively.

NEIGHBORHOOD MINISTRIES, INC.
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2011 and 2010

NOTE 8 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets have the following time and purpose restrictions at December 31:

	<u>2011</u>	<u>2010</u>
Purpose restricted:		
Isaiah 58 Capital Improvement Campaign	\$ 280,254	\$ 100,932
Scholarships	55,680	73,649
Website design	8,800	-
Distressed Families	8,361	8,430
Thrift store and Barrio Works program	6,758	-
Intern program	5,084	10,318
Food bank	4,590	21,685
Church	1,519	13,481
Other	1,674	1,315
Preschool	-	70,452
Time restricted:		
Valley of the Sun United Way	-	15,000
Transportation	-	100,000
	<u>\$ 372,720</u>	<u>\$ 415,262</u>

NOTE 9 CAPITAL IMPROVEMENT CAMPAIGN

In 2007, the Organization began the Isaiah 58 Capital Campaign, which is a campaign to raise \$13.9 million to complete the rehabilitation of an eight-acre Neighborhood Center in Phoenix, Arizona. This campaign was put on hold during 2009 and 2010 and resumed in 2011. The Organization's goal is to further develop these critical elements that will benefit the community:

- Provide a faith-based center as a rallying point for action in the face of escalating poverty that is robbing hope from those trapped in its destructive cycle.
- Provide opportunity for men to develop—personally and professionally.
- Expand opportunities for after school programs, including educational and recreational activities for our growing number of young people.
- Develop an art center that will facilitate the healing that comes from providing opportunity for the broken hearted to express their God given creativity.
- Develop income engines and social enterprises to contribute to the needs of Neighborhood Ministries and provide needed employment; including a thrift store and an additional 10,000 square feet of space for business development and/or leased space.

NEIGHBORHOOD MINISTRIES, INC.
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2011 and 2010

NOTE 9 CAPITAL IMPROVEMENT CAMPAIGN (Continued)

- Expand development of The Church at the Neighborhood Center, so that whole families have a place to grow and develop. Our families need a place for family gatherings, weddings, quinceañeras and other community activities.
- Add two residential homes for young mothers and young men.
- Pay off the mortgage for the Neighborhood Center.

Donations received and releases of restrictions relating to the Isaiah 58 Capital Campaign are as follows for the years ended December 31:

	<u>2011</u>	<u>2010</u>
Temporarily restricted net asset balance for Isaiah 58 Capital Campaign, beginning of year	\$ 100,932	\$ 203,004
Restricted contributions received	280,254	12,012
Capital improvements	-	(32,245)
Release for operating expense incurred	(27,077)	(14,639)
Release for payments toward mortgage principal and interest	<u>(73,855)</u>	<u>(67,200)</u>
Temporarily restricted net asset balance for Isaiah 58 Capital Campaign, end of year	<u>\$ 280,254</u>	<u>\$ 100,932</u>

The releases of these restrictions are based upon management's understanding of the donors' intentions.

NEIGHBORHOOD MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 10 GRANT INCOME

Total grant income received was from the following sources for the years ended December 31:

	<u>2011</u>	<u>2010</u>
Mentoring Children of Prisoners	\$ 174,301	\$ 73,482
First Things First	47,050	-
Arizona Community Foundation	30,000	-
Thunderbirds Mentoring Grant	20,000	-
College Access	18,787	8,592
Valley of the Sun United Way	15,000	30,000
Potters Hand	15,000	-
Snap Enrollment Grant	12,783	9,800
BHHS Legacy Foundation Care Grant	10,000	-
Weed and Seed	-	13,162
Governors Grant	-	8,776
RICO Grant	3,000	20,000
Various other grants	20,374	7,500
	<u>\$ 366,295</u>	<u>\$ 171,312</u>

NOTE 11 IN-KIND DONATIONS

Total In-kind donations consist of the following for the years ended December 31:

	<u>2011</u>	<u>2010</u>
Food and water	\$ 92,713	\$ 115,644
Clothing	25,044	38,905
Children's items	51,740	43,182
Household items and furniture	28,386	50,985
Miscellaneous	17,136	45,752
	<u>\$ 215,019</u>	<u>\$ 294,468</u>

NEIGHBORHOOD MINISTRIES, INC.
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2011 and 2010

NOTE 11 IN-KIND DONATIONS (Continued)

These amounts are included in community contributions and donations and program services expense on the accompanying statements of activities.

NOTE 12 RELATED PARTY TRANSACTIONS

During the years ended December 31, 2011 and 2010, the following related party transactions occurred:

- Board members made cash contributions to the Organization totaling approximately \$46,000 during the year ended December 31, 2010. There were no cash contributions received from board members during the year ended December 31, 2011.
- The Organization employed family members of board members. Total salaries paid to these family members amounted to approximately \$30,000 during each of the years ended December 31, 2011 and 2010. The Organization also paid salaries and housing allowances totaling approximately \$171,600 and \$109,650 to board members who were employed by the Organization during the years ended December 31, 2011 and 2010, respectively.

NOTE 13 INSURANCE SETTLEMENT PROCEEDS

A warehouse on the Organization's property was destroyed by a fire that occurred in June 2010. The Organization received insurance proceeds for the loss of the warehouse as well as proceeds for debris clean-up expenses within the surrounding area. The original cost of the warehouse and the related accumulated depreciation was removed from the books during the year ended December 31, 2010. Net insurance settlement proceeds included on the statement of activities for the year ended December 31, 2010 include the following:

Insurance proceeds:		
Replacement of warehouse	\$ 354,559	
Debris clean-up expenses	<u>25,334</u>	
		\$ 379,893
Book loss recognized on warehouse		(136,800)
Actual costs incurred for debris clean-up		<u>(30,641)</u>
Insurance settlement, net		<u><u>\$ 212,452</u></u>

NEIGHBORHOOD MINISTRIES, INC.
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2011 and 2010

NOTE 13 INSURANCE SETTLEMENT PROCEEDS (Continued)

During the year ended December 31, 2011, the Organization received an additional \$33,562 in insurance proceeds relating to the loss of the warehouse.

NOTE 14 LEASE SALE

During the year ended December 31, 2010, the Organization sold its cell phone tower lease agreement to an unrelated third party in the amount of \$102,000. Per the terms of this sale agreement, the Organization has granted the third party use of its property in order to comply with the lease terms currently in effect with the tenant. This agreement is in effect for fifty years commencing on the date of the sale. Proceeds net of related expenses, on this sale amounted to \$98,337.

NOTE 15 RESTATEMENT

During the year ended December 31, 2011, it was determined that in-kind donations received during the year ended December 31, 2010 were not recorded. Management has restated total public support and other revenue and expenses for the year ended December 31, 2010 in the amount of \$294,468 to include these in-kind donations received. This restatement had no effect on the change in net assets for the years ending December 31, 2011 and 2010.

	<u>As previously reported</u>	<u>Restated</u>
Community contribution and donations, unrestricted	\$ 1,280,303	\$ 1,574,771
Program services expense (activity expenses)	\$ 1,251,624	\$ 1,546,092

