

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, 2012 and 2011





HENRY & HORNE, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Neighborhood Ministries, Inc. and Subsidiary
Phoenix, Arizona

We have audited the accompanying financial statements of Neighborhood Ministries, Inc. and Subsidiary (a not-for-profit corporation), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Neighborhood Ministries, Inc. and Subsidiary as of December 31, 2012 and 2011, and the changes in its net assets and its 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
November 25, 2013

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
 STATEMENTS OF FINANCIAL POSITION
 December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 433,243	\$ 667,834
Promise to give, current portion	15,000	-
Grants receivable	<u>23,627</u>	<u>23,534</u>
TOTAL CURRENT ASSETS	471,870	691,368
PROMISE TO GIVE, net of current portion	15,000	-
PROPERTY AND EQUIPMENT, net	<u>3,385,078</u>	<u>2,986,300</u>
TOTAL ASSETS	<u>\$ 3,871,948</u>	<u>\$ 3,677,668</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 89,633	\$ 45,362
Accounts payable and accrued expenses	59,391	9,773
Line of credit	<u>30,578</u>	<u>29,026</u>
TOTAL CURRENT LIABILITIES	179,602	84,161
LONG-TERM DEBT, net of current portion	<u>227,459</u>	<u>284,102</u>
TOTAL LIABILITIES	<u>407,061</u>	<u>368,263</u>
NET ASSETS		
Unrestricted	3,139,548	2,936,685
Temporarily restricted	<u>325,339</u>	<u>372,720</u>
TOTAL NET ASSETS	<u>3,464,887</u>	<u>3,309,405</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,871,948</u>	<u>\$ 3,677,668</u>

See accompanying notes.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
 STATEMENTS OF ACTIVITIES
 Years Ended December 31, 2012 and 2011

	2012		
	Unrestricted	Temporarily Restricted	Total
PUBLIC SUPPORT AND OTHER REVENUE:			
PUBLIC SUPPORT			
Community contributions and donations	\$ 1,557,432	\$ 258,268	\$ 1,815,700
Grant income	328,315	-	328,315
Net assets released from restrictions	305,649	(305,649)	-
TOTAL PUBLIC SUPPORT	<u>2,191,396</u>	<u>(47,381)</u>	<u>2,144,015</u>
SPECIAL EVENTS			
Special events income	27,344	-	27,344
Direct benefit to donors	(11,438)	-	(11,438)
	<u>15,906</u>	<u>-</u>	<u>15,906</u>
RENTAL INCOME			
Rental income	14,817	-	14,817
Rental expenses	49,390	-	49,390
	<u>(34,573)</u>	<u>-</u>	<u>(34,573)</u>
OTHER REVENUE	<u>30,712</u>	<u>-</u>	<u>30,712</u>
TOTAL PUBLIC SUPPORT AND OTHER REVENUE	<u>2,203,441</u>	<u>(47,381)</u>	<u>2,156,060</u>
OPERATING EXPENSES			
Program services	1,555,662	-	1,555,662
Supporting services			
Management and general	298,855	-	298,855
Fundraising	147,299	-	147,299
TOTAL EXPENSES	<u>2,001,816</u>	<u>-</u>	<u>2,001,816</u>
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	201,625	(47,381)	154,244
NON-OPERATING INCOME (EXPENSES)			
Interest income	1,238	-	1,238
Insurance settlement	-	-	-
TOTAL NON-OPERATING INCOME	<u>1,238</u>	<u>-</u>	<u>1,238</u>
CHANGE IN NET ASSETS	202,863	(47,381)	155,482
NET ASSETS AT BEGINNING OF YEAR	<u>2,936,685</u>	<u>372,720</u>	<u>3,309,405</u>
NET ASSETS AT END OF YEAR	<u>\$ 3,139,548</u>	<u>\$ 325,339</u>	<u>\$ 3,464,887</u>

See accompanying notes.

2011		
Unrestricted	Temporarily Restricted	Total
\$ 1,189,717	\$ 358,202	\$ 1,547,919
352,905	13,390	366,295
414,134	(414,134)	-
<u>1,956,756</u>	<u>(42,542)</u>	<u>1,914,214</u>
24,815	-	24,815
(11,677)	-	(11,677)
<u>13,138</u>	<u>-</u>	<u>13,138</u>
46,385	-	46,385
57,851	-	57,851
<u>(11,466)</u>	<u>-</u>	<u>(11,466)</u>
<u>39,223</u>	<u>-</u>	<u>39,223</u>
<u>1,997,651</u>	<u>(42,542)</u>	<u>1,955,109</u>
1,693,302	-	1,693,302
267,831	-	267,831
166,955	-	166,955
<u>2,128,088</u>	<u>-</u>	<u>2,128,088</u>
(130,437)	(42,542)	(172,979)
-	-	-
<u>33,562</u>	<u>-</u>	<u>33,562</u>
<u>33,562</u>	<u>-</u>	<u>33,562</u>
(96,875)	(42,542)	(139,417)
<u>3,033,560</u>	<u>415,262</u>	<u>3,448,822</u>
<u>\$ 2,936,685</u>	<u>\$ 372,720</u>	<u>\$ 3,309,405</u>

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
 STATEMENT OF FUNCTIONAL EXPENSES
 Year Ended December 31, 2012

	Program Services				
	Iglesia De Neighborhood Ministries	Education Programs	Youth Development Programs	Leadership Development and Training Programs	Adult Development Programs
FUNCTIONAL EXPENSES					
Payroll					
Salaries and housing allowance	\$ 49,406	\$ 224,032	\$ 147,233	\$ 20,017	\$ 67,391
Payroll taxes	3,958	15,902	7,995	2,635	4,366
TOTAL PAYROLL	53,364	239,934	155,228	22,652	71,757
Occupancy costs	4,985	15,101	43,335	4,985	15,097
Repairs and maintenance	877	3,190	8,034	877	2,633
Transportation expense	-	4,252	13,920	-	1,153
Professional services	217	290	705	148	353
Employee related costs	-	295	85	-	-
Insurance expense	8,468	30,051	42,646	5,707	25,254
Interest expense	-	-	-	-	-
Activity expenses	1,858	99,243	55,743	-	18,173
Office supplies	26	326	215	-	115
Postage	-	79	971	-	11
Printing	1,719	5,156	12,032	1,719	5,159
Minor equipment	-	1,563	87	-	-
Other expenses	1,275	1,735	21,511	-	5,964
TOTAL OTHER EXPENSE	19,425	161,281	199,284	13,436	73,912
Depreciation expense	6,065	12,131	48,526	6,065	18,196
TOTAL FUNCTIONAL EXPENSES	\$ 78,854	\$413,346	\$403,038	\$ 42,153	\$163,865

			Supporting Services				
Job and Skills Assistance Programs	Development Programs	Hope House Community	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
\$ 3,293	\$ 82,333	\$38,560	\$ 632,265	\$ 104,848	\$ 91,863	\$196,711	\$ 828,976
-	4,914	2,649	42,419	14,589	4,672	19,261	61,680
3,293	87,247	41,209	674,684	119,437	96,535	215,972	890,656
375	11,733	6,256	101,867	4,452	4,985	9,437	111,304
7,226	2,185	1,195	26,217	-	-	-	26,217
118	47	75	19,565	1,008	-	1,008	20,573
1,618	8,390	564	12,285	38,070	7,311	45,381	57,666
-	-	-	380	9,807	176	9,983	10,363
256	16,575	9,711	138,668	16,349	13,712	30,061	168,729
-	-	-	-	21,724	-	21,724	21,724
183,443	44,660	2,534	405,654	577	14,024	14,601	420,255
-	171	108	961	2,212	352	2,564	3,525
-	-	-	1,061	1,680	2,420	4,100	5,161
-	3,438	1,719	30,942	1,715	1,719	3,434	34,376
-	-	204	1,854	3,330	-	3,330	5,184
-	1,768	92	32,345	72,423	-	72,423	104,768
193,036	88,967	22,458	771,799	173,347	44,699	218,046	989,845
-	6,065	12,131	109,179	6,071	6,065	12,136	121,315
<u>\$ 196,329</u>	<u>\$182,279</u>	<u>\$75,798</u>	<u>\$ 1,555,662</u>	<u>\$298,855</u>	<u>\$147,299</u>	<u>\$446,154</u>	<u>\$ 2,001,816</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

Supporting Services

Job and Skills Development Programs	Hope House Community	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
\$ 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	-	521	521	23,963
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	21,418	-	21,418	39,441
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. AND SUBSIDIARY
 STATEMENTS OF CASH FLOWS
 Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 155,482	\$ (139,417)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	121,315	118,699
Loss on disposal of equipment	1,790	-
Opportunees, LLC- transfer of membership interest	(1,262)	-
Change in operating assets and liabilities:		
Decrease (increase) in:		
Promise to give	(30,000)	-
Grants receivable	(93)	106,066
Insurance settlement proceeds due	-	354,559
Due on lease sale	-	98,337
Increase (decrease) in:		
Accounts payable and accrued expenses	48,335	(4,841)
	<u>295,567</u>	<u>533,403</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		
	<u>295,567</u>	<u>533,403</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash received in acquisition of Opportunees, LLC	9,445	-
Construction in progress purchases	(468,554)	-
Purchases of property and equipment	(23,229)	(155,295)
	<u>(482,338)</u>	<u>(155,295)</u>
NET CASH USED BY INVESTING ACTIVITIES		
	<u>(482,338)</u>	<u>(155,295)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(49,372)	(50,303)
Proceeds from advances on line of credit	30,000	61,877
Payments made on line of credit	(28,448)	(66,826)
	<u>(47,820)</u>	<u>(55,252)</u>
NET CASH USED BY FINANCING ACTIVITIES		
	<u>(47,820)</u>	<u>(55,252)</u>
NET INCREASE (DECREASE) IN CASH	(234,591)	322,856
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>667,834</u>	<u>344,978</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 433,243</u>	<u>\$ 667,834</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 21,237</u>	<u>\$ 26,047</u>

See accompanying notes.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

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. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

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.

Katy's Kids Preschool, 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. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

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. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

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. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

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.

Principles of Consolidation

The consolidated financial statements include Neighborhood Ministries, Inc. and Opportunees, LLC, a wholly owned subsidiary of Neighborhood Ministries, Inc., Opportunees, LLC. All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements.

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. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

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 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 \$121,315 and \$118,699 for the years ended December 31, 2012 and 2011, respectively.

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, 2012 and 2011.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

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, 2012 and 2011, there were no donated services that met these criteria. Approximately 600 volunteers were utilized during each of the years ended December 31, 2012 and 2011, 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. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

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, 2012 and 2011 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 \$75,000 at December 31, 2012. 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, 2012 and 2011, 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 December 31, 2009 and 2008, 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, 2012 and 2011, 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.

Date of Management's Review

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 25, 2013, the date the financial statements were available to be issued.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

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, 2012, the Organization's bank balances exceeded federally insured limits by approximately \$138,000. At December 31, 2011, the Organization's bank balances exceeded federally insured limits by approximately \$323,000. 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.

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

	<u>2012</u>	<u>2011</u>
First Things First Grant	\$ 13,800	\$ 11,700
College Access Grant	3,332	6,132
Snap Enrollment Grant	6,495	3,502
Other	-	2,200
	<u>\$ 23,627</u>	<u>\$ 23,534</u>

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2012 and 2011

NOTE 3 PROMISE TO GIVE

Promise to give as of December 31, 2012 includes an amount due from one donor. \$15,000 of this promise is due in 2013 and the remaining \$15,000 is due in 2014. The concentration of credit risk with respect to this promise to give is limited due to the Organization's relationship with the donor.

NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2012</u>	<u>2011</u>
Land	\$ 436,200	\$ 436,200
Buildings	3,175,385	3,157,473
Furniture and fixtures	90,412	90,412
Equipment	30,100	-
Vehicles	157,019	175,819
Computers and telephones	<u>108,223</u>	<u>102,906</u>
	3,997,339	3,962,810
Accumulated depreciation and amortization	<u>1,080,815</u>	<u>976,510</u>
	2,916,524	2,986,300
Construction in progress	<u>468,554</u>	<u>-</u>
	<u><u>\$ 3,385,078</u></u>	<u><u>\$ 2,986,300</u></u>

During the year ended December 31, 2012, the Organization began construction on a community center.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2012 and 2011

NOTE 5 LONG-TERM DEBT

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

	<u>2012</u>	<u>2011</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.	\$ 280,092	\$ 329,464
Note payable to unrelated third party with no repayment terms and interest at 0%.	<u>37,000</u>	<u>-</u>
	317,092	329,464
Current portion	<u>(89,633)</u>	<u>(45,362)</u>
	<u>\$ 227,459</u>	<u>\$ 284,102</u>

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

Years Ending December 31,

2013	\$ 89,633
2014	55,587
2015	58,986
2016	62,593
2017	<u>50,293</u>
	<u>\$ 317,092</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, 2012 and 2011 was \$6,879 and \$7,773, respectively.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2012 and 2011

NOTE 7 BANK LINE OF CREDIT

At December 31, 2012, 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, 2014. The outstanding balance on this line of credit at December 31, 2012 and 2011 was \$30,578 and \$29,026, respectively.

NOTE 8 TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2012</u>	<u>2011</u>
Purpose restricted:		
Isaiah 58 Capital Improvement Campaign	\$ 214,185	\$ 280,254
Scholarships	62,380	55,680
Website design	-	8,800
Distressed Families	4,081	8,361
Social enterprise	14,141	6,758
Intern program	-	5,084
Food bank	-	4,590
Church	-	1,519
Other	552	1,674
Time restricted:		
Promise to give	<u>30,000</u>	<u>-</u>
	<u>\$ 325,339</u>	<u>\$ 372,720</u>

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 8 TEMPORARILY RESTRICTED NET ASSETS (Continued)

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, and during 2012, construction began on the property. 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.
- 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.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2012 and 2011

NOTE 9 GRANT INCOME

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

	<u>2012</u>	<u>2011</u>
Mentoring Children of Prisoners	\$ -	\$ 174,301
First Things First	55,800	47,050
Arizona Community Foundation	15,000	30,000
Thunderbirds Mentoring Grant	-	20,000
College Access	-	18,787
Valley of the Sun United Way	-	15,000
Potters Hand	-	15,000
Snap Enrollment Grant	22,553	12,783
BHHS Legacy Foundation Care Grant	10,000	10,000
Canyon Institute	50,000	-
School districts (Roosevelt, Murphy, Isaac)	81,332	-
RICO Grant	10,000	3,000
Various other grants	83,630	20,374
	<u>\$ 328,315</u>	<u>\$ 366,295</u>

NOTE 10 IN-KIND DONATIONS

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

	<u>2012</u>	<u>2011</u>
Food and water	\$ 49,947	\$ 92,713
Clothing	29,924	25,044
Children's items	6,212	51,740
Household items and furniture	32,392	28,386
Miscellaneous	48,091	17,136
	<u>\$ 166,566</u>	<u>\$ 215,019</u>

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

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 11 RELATED PARTY TRANSACTIONS

During the years ended December 31, 2012 and 2011, the following related party transactions occurred:

- Board members made cash contributions to the Organization totaling approximately \$50,000 during the year ended December 31, 2012. 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, 2012 and 2011. The Organization also paid salaries and housing allowances totaling approximately \$110,162 and \$171,600 to board members who were employed by the Organization during the years ended December 31, 2012 and 2011, respectively.

NOTE 12 ACQUISITION

In December 2012, the Organization acquired 100% of the membership interest of Opportunees, LLC. The Organization plans to use the T-shirt shop business to provide job skills training to those in the community it serves. There was no consideration paid for the acquisition of Opportunees, LLC. The following table summarizes the amounts of the assets acquired and liabilities assumed recognized at the acquisition date.

Cash	\$	9,445
Equipment		30,100
Accounts payable		(1,283)
Notes payable		<u>(37,000)</u>
Contribution income	\$	<u>1,262</u>

The assets and liabilities acquired are included on the accompanying consolidated statement of financial position at December 31, 2012. The contribution representing the amount of excess assets over liabilities acquired in the acquisition of Opportunees, LLC is included on the accompanying consolidated statement of activities for the year ended December 31, 2012.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 13 SUBSEQUENT EVENTS

Subsequent to December 31, 2012, the Organization obtained an additional line of credit in the amount of \$100,000 from a not-for-profit organization. A board member of the Organization is also a board member of this not-for-profit organization.

In February 2013, the Organization refinanced the mortgage on the property. As part of that refinance, the Organization drew approximately \$400,000 in additional cash to use toward construction projects. As a result, the mortgage balance was increased by that amount. The refinanced mortgage is due in monthly installments of \$4,544 through March 2020 at an interest rate of 4.69%.