

HENRY & HORNE, LLP
CERTIFIED PUBLIC ACCOUNTANTS



NEIGHBORHOOD
M I N I S T R I E S

Phoenix, Arizona

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2013 and 2012





HENRY & HORNE, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors
Neighborhood Ministries, Inc.

We have audited the accompanying consolidated financial statements of Neighborhood Ministries, Inc. and Subsidiary (a not-for-profit corporation), which comprise the consolidated statements of financial position as of December 31, 2013 and 2012, 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. Those standards require that we plan and perform the audits 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.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Neighborhood Ministries, Inc. and Subsidiary as of December 31, 2013 and 2012, 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.

Emphasis of Matter

As discussed in Note 12 to the financial statements, the 2012 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Henry + Home, LLP

Tempe, Arizona
August 27, 2014

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2013 and 2012 (Restated)

	2013	2012 (Restated)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 344,686	\$ 433,243
Investments	100,331	-
Grants receivable	24,869	23,627
Accounts receivable	5,672	-
Employee receivables	2,436	-
Promises to give, current portion	15,000	15,000
TOTAL CURRENT ASSETS	492,994	471,870
PROMISE TO GIVE, net of current portion	-	15,000
PROPERTY AND EQUIPMENT, net	3,816,724	3,434,653
TOTAL ASSETS	<u>\$ 4,309,718</u>	<u>\$ 3,921,523</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 98,411	\$ 121,633
Accounts payable and accrued expenses	27,310	59,391
Line of credit	108,342	30,578
TOTAL CURRENT LIABILITIES	234,063	211,602
LONG-TERM DEBT, net of current portion	657,854	195,459
TOTAL LIABILITIES	891,917	407,061
NET ASSETS		
Unrestricted	3,358,991	3,189,123
Temporarily restricted	58,810	325,339
TOTAL NET ASSETS	3,417,801	3,514,462
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,309,718</u>	<u>\$ 3,921,523</u>

See accompanying notes.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES
Years Ended December 31, 2013 and 2012 (Restated)

	2013		
	Unrestricted	Temporarily Restricted	Total
SUPPORT AND OTHER REVENUE:			
SUPPORT			
Community contributions and donations	\$ 1,388,979	\$ 43,810	\$ 1,432,789
Grant income	471,920	-	471,920
Net assets released from restrictions	310,339	(310,339)	-
	<u>2,171,238</u>	<u>(266,529)</u>	<u>1,904,709</u>
RETAIL SALES			
Sales	183,714	-	183,714
Cost of sales	(121,591)	-	(121,591)
	<u>62,123</u>	<u>-</u>	<u>62,123</u>
SPECIAL EVENTS			
Special events income	23,374	-	23,374
Direct benefit to donors	(10,459)	-	(10,459)
	<u>12,915</u>	<u>-</u>	<u>12,915</u>
RENTAL INCOME			
Rental income	1,305	-	1,305
Rental expenses	-	-	-
	<u>1,305</u>	<u>-</u>	<u>1,305</u>
OTHER REVENUE	<u>29,282</u>	<u>-</u>	<u>29,282</u>
TOTAL SUPPORT AND OTHER REVENUE	<u>2,276,863</u>	<u>(266,529)</u>	<u>2,010,334</u>
OPERATING EXPENSES			
Program services	1,600,469	-	1,600,469
Supporting services			
Management and general	248,400	-	248,400
Fundraising	137,655	-	137,655
Opportunities expenses	120,471	-	120,471
TOTAL EXPENSES	<u>2,106,995</u>	<u>-</u>	<u>2,106,995</u>
CHANGE IN NET ASSETS	169,868	(266,529)	(96,661)
NET ASSETS AT BEGINNING OF YEAR	<u>3,189,123</u>	<u>325,339</u>	<u>3,514,462</u>
NET ASSETS AT END OF YEAR	<u>\$ 3,358,991</u>	<u>\$ 58,810</u>	<u>\$ 3,417,801</u>

See accompanying notes.

2012 (Restated)		
Unrestricted	Temporarily Restricted	Total
\$ 1,557,432	\$ 258,268	\$ 1,815,700
328,315	-	328,315
305,649	(305,649)	-
<u>2,191,396</u>	<u>(47,381)</u>	<u>2,144,015</u>
-	-	-
-	-	-
-	-	-
27,344	-	27,344
(11,438)	-	(11,438)
<u>15,906</u>	<u>-</u>	<u>15,906</u>
14,817	-	14,817
(49,390)	-	(49,390)
<u>(34,573)</u>	<u>-</u>	<u>(34,573)</u>
<u>31,950</u>	<u>-</u>	<u>31,950</u>
<u>2,204,679</u>	<u>(47,381)</u>	<u>2,157,298</u>
1,555,662	-	1,555,662
249,280	-	249,280
147,299	-	147,299
-	-	-
<u>1,952,241</u>	<u>-</u>	<u>1,952,241</u>
252,438	(47,381)	205,057
<u>2,936,685</u>	<u>372,720</u>	<u>3,309,405</u>
<u>\$ 3,189,123</u>	<u>\$ 325,339</u>	<u>\$ 3,514,462</u>

NEIGHBORHOOD MINISTRIES, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2013

	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	\$ 42,367	\$ 234,050	\$ 137,882	\$ 35,973	\$ 64,903	\$ 2,495
Payroll taxes	3,090	17,070	10,056	2,624	4,734	182
TOTAL PAYROLL	45,457	251,120	147,938	38,597	69,637	2,677
Occupancy costs	6,617	19,852	52,938	6,617	19,852	-
Repairs and maintenance	1,466	4,397	13,192	1,466	4,397	6,866
Transportation expense	-	1,494	12,306	-	-	868
Professional services	2	2,428	2,767	40	139	660
Employee related costs	-	251	4,298	80	2,345	-
Insurance expense	9,675	33,398	59,060	7,241	26,960	298
Interest expense	-	-	-	-	-	-
Activity expenses	4,908	131,548	79,017	3,593	19,905	26,999
Office supplies	224	671	1,566	224	671	-
Postage	207	620	1,447	207	620	-
Printing	1,740	5,219	12,178	1,740	5,219	-
Depreciation expense	6,526	13,053	52,214	6,526	19,579	-
Minor equipment	273	3,155	3,065	-	-	-
Other expenses	1,462	4,365	51,822	1,462	4,387	-
TOTAL FUNCTIONAL EXPENSES	78,557	471,571	493,808	67,793	173,711	38,368
Direct donor benefit	-	-	-	-	-	-
TOTAL EXPENSES	\$ 78,557	\$ 471,571	\$ 493,808	\$ 67,793	\$ 173,711	\$ 38,368

Job and Skills Development Programs	Hope House Community	Total Program Services	Supporting Services		Opportunities		Total Expenses
			Management and General	Fundraising	Total Supporting Services	Expenses	
\$ 88,310	\$ 53,556	\$ 659,536	\$ 107,202	\$ 69,286	\$ 176,488	\$ 92,511	\$ 836,024
6,441	3,906	48,103	7,819	5,053	12,872	-	60,975
94,751	57,462	707,639	115,021	74,339	189,360	92,511	896,999
13,234	-	119,110	6,617	6,617	13,234	737	132,344
2,931	756	35,471	1,466		1,466	6,281	36,937
78	312	15,058	91	-	91	205	15,149
1,565	579	8,180	44,284	24,488	68,772	11,480	76,952
60	-	7,034	1,715	1,536	3,251	-	10,285
16,297	7,810	160,739	10,909	11,974	22,883	-	183,622
-	-	-	41,186		41,186	-	41,186
36,846	4,942	307,758	15,574	8,555	24,129	-	331,887
447	224	4,027	243	224	467	1,469	4,494
413	207	3,721	206	207	413	-	4,134
3,479	1,740	31,315	1,738	1,740	3,478	-	34,793
6,526	13,053	117,477	6,532	6,526	13,058	3,020	130,535
8,439	-	14,932	999	-	999	-	15,931
2,902	1,608	68,008	1,819	1,449	3,268	4,768	71,276
187,968	88,693	1,600,469	248,400	137,655	386,055	120,471	2,106,995
-	-	-	-	10,459	10,459	-	10,459
<u>\$ 187,968</u>	<u>\$ 88,693</u>	<u>\$ 1,600,469</u>	<u>\$ 248,400</u>	<u>\$ 148,114</u>	<u>\$ 396,514</u>	<u>\$ 120,471</u>	<u>\$ 2,117,454</u>

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2012 (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	\$ 49,406	\$ 224,032	\$ 147,233	\$ 20,017	\$ 67,391	\$ 3,293
Payroll taxes	3,958	15,902	7,995	2,635	4,366	-
TOTAL PAYROLL	53,364	239,934	155,228	22,652	71,757	3,293
Occupancy costs	4,985	15,101	43,335	4,985	15,097	375
Repairs and maintenance	877	3,190	8,034	877	2,633	7,226
Transportation expense	-	4,252	13,920	-	1,153	118
Professional services	217	290	705	148	353	1,618
Employee related costs	-	295	85	-	-	-
Insurance expense	8,468	30,051	42,646	5,707	25,254	256
Interest expense	-	-	-	-	-	-
Activity expenses	1,858	99,243	55,743	-	18,173	183,443
Office supplies	26	326	215	-	115	-
Postage	-	79	971	-	11	-
Printing	1,719	5,156	12,032	1,719	5,159	-
Depreciation expense	6,065	12,131	48,526	6,065	18,196	-
Minor equipment	-	1,563	87	-	-	-
Other expenses	1,275	1,735	21,511	-	5,964	-
TOTAL FUNCTIONAL EXPENSES	\$ 78,854	\$ 413,346	\$ 403,038	\$ 42,153	\$ 163,865	\$ 196,329

Supporting Services

Job and Skills Development Programs	Hope House Community	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
\$ 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
87,247	41,209	674,684	119,437	96,535	215,972	890,656
11,733	6,256	101,867	4,452	4,985	9,437	111,304
2,185	1,195	26,217	-	-	-	26,217
47	75	19,565	1,008	-	1,008	20,573
8,390	564	12,285	38,070	7,311	45,381	57,666
-	-	380	9,807	176	9,983	10,363
16,575	9,711	138,668	16,349	13,712	30,061	168,729
-	-	-	21,724	-	21,724	21,724
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
6,065	12,131	109,179	6,071	6,065	12,136	121,315
-	204	1,854	3,330	-	3,330	5,184
1,768	92	32,345	22,848	-	22,848	55,193
<u>\$ 182,279</u>	<u>\$ 75,798</u>	<u>\$ 1,555,662</u>	<u>\$ 249,280</u>	<u>\$ 147,299</u>	<u>\$ 396,579</u>	<u>\$ 1,952,241</u>

NEIGHBORHOOD MINISTRIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2013 and 2012 (Restated)

	<u>2013</u>	<u>2012 (Restated)</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (96,661)	\$ 205,057
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	133,555	121,315
Non-cash contribution of stock	(100,331)	-
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	15,000	(30,000)
Grants receivable	(1,242)	(93)
Accounts receivable	(5,672)	-
Employee receivables	(2,436)	-
Increase (decrease) in:		
Decrease in accounts payable and accrued expenses	(32,081)	48,335
	<u>(89,868)</u>	<u>345,142</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>(89,868)</u>	<u>345,142</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash received in acquisition of Opportunees, LLC	-	9,445
Construction in progress purchases	(470,172)	(518,129)
Purchases of property and equipment	(45,454)	(23,229)
	<u>(515,626)</u>	<u>(531,913)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(515,626)</u>	<u>(531,913)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on notes payable	473,473	-
Payments on long-term debt	(34,300)	(49,372)
Proceeds from advances on line of credit	120,172	30,000
Payments made on line of credit	(42,408)	(28,448)
	<u>516,937</u>	<u>(47,820)</u>
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>516,937</u>	<u>(47,820)</u>
NET DECREASE IN CASH	(88,557)	(234,591)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>433,243</u>	<u>667,834</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 344,686</u>	<u>\$ 433,243</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 36,838</u>	<u>\$ 21,237</u>

See accompanying notes.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

Nature of Activities

Neighborhood Ministries, Inc., 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.

OpportuniTees, LLC, a wholly owned subsidiary of Neighborhood Ministries, Inc., is a silkscreen and embroidery business that operates together with Neighborhood Ministries, Inc. by developing and empowering men and women with essential life skills. Employees of OpportuniTees, LLC are under-resourced men and women within the community that Neighborhood Ministries, Inc. serves.

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 and Katy's Kids Preschool.***

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013 and 2012

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

Program Services (Continued)

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.

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, 2013 and 2012

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, 2013 and 2012

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, 2013 and 2012

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 OpportuniTees, LLC, a wholly owned subsidiary of Neighborhood Ministries, Inc., collectively “the Organization”. All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements.

Basis of Accounting

The consolidated 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 consolidated statements 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, 2013 and 2012

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. 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.

Fair Value Measurements

A framework for measuring fair value has been established by the Accounting Standards Codification and provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

- | | |
|---------|---|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access. |
| Level 2 | Inputs to the valuation methodology include: <ul style="list-style-type: none">• Quoted prices for similar assets or liabilities in active markets;• Quoted prices for identical or similar assets or liabilities in inactive markets;• Inputs other than quoted prices that are observable for the asset or liability;• Inputs that are derived principally from or corroborated by observable market data by correlation or other means. |

If the asset or liability has a specified term (contractual term), the Level 2 input must be observable for substantially the full term of the asset or liability.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013 and 2012

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

Fair Value Measurements (continued)

- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement, and usually reflect the Organization's own assumptions about the assumptions that market participants would use in pricing the assets (i.e. real estate valuations, broker quotes).

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

Investments

Investments are recorded at fair value as determined by quoted market prices in active markets or by net asset value as determined by third parties. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in the change in net assets in the accompanying consolidated statements of activities, unless the income or loss is restricted by donor or law.

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 \$133,555 and \$121,315 for the years ended December 31, 2013 and 2012, respectively.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013 and 2012

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, 2013 and 2012.

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 consolidated statements 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, 2013 and 2012, there were no donated services that met these criteria. Approximately 550 volunteers were utilized during each of the years ended December 31, 2013 and 2012, for food pantry services, work crew assistance and Kids Club.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013 and 2012

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

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. Retail sales consist of t-shirt embroidery sales and are recognized at the time of sale.

Functional Allocation of Expenses

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

Income Tax Status

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

Neighborhood Ministries, Inc. 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, 2013 and 2012 because Neighborhood Ministries, Inc. 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 \$35,000 at December 31, 2013. These net operating loss carryforwards will begin to expire in 2025.

OpportuniTees, LLC is treated as a disregarded entity for tax reporting purposes. All transactions and account balances of OpporituniTees, LLC are reported for tax purposes by Neighborhood Ministries, Inc., the sole member of OpportuniTees, LLC.

The Organization recognizes uncertain tax positions in the consolidated 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, 2013 and 2012, the Organization had no uncertain tax positions that qualify for either recognition or disclosure in the consolidated financial statements.

Neighborhood Ministries, Inc.'s federal and state exempt returns are no longer subject to examination by the Internal Revenue Service or the State of Arizona for years ending prior to December 31, 2010 and 2009, generally for three to four years, respectively, after they were filed.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013 and 2012

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

Income Tax Status (Continued)

The Organization recognizes interest and penalties associated with income taxes in operating expenses. During the years ended December 31, 2013 and 2012, the Organization did not have any income tax related interest and penalty expense.

Use of Estimates

The preparation of consolidated 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 consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through August 27, 2014, the date the consolidated 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, promises to give, and receivables.

The Organization maintains its cash in bank accounts, which at times may exceed federally insured limits. At December 31, 2013, the Organization's bank balances did not exceed federally insured limits. At December 31, 2012, the Organization's bank balances exceeded federally insured limits by approximately \$138,000. 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 promises to give and receivables are limited due to the nature of the receivables. The Organization requires no collateral on its receivables.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2013 and 2012

NOTE 3 INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Investments with readily determinable fair values are measured at fair value in the consolidated statements of financial position as determined by quoted market prices in active markets. The following is a summary of financial instruments measured at fair value on a recurring basis at December 31, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity securities	<u>\$ 100,331</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 100,331</u>
Total assets at fair value	<u>\$ 100,331</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 100,331</u>

This investment was acquired through a donation at the end of 2013. Therefore, there is no investment income activity recognized.

NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2013</u>	<u>2012</u>
Land	\$ 436,200	\$ 436,200
Buildings	3,217,951	3,175,385
Furniture and fixtures	91,800	90,412
Equipment	30,100	30,100
Vehicles	158,519	157,019
Computers and telephones	<u>108,223</u>	<u>108,223</u>
	4,042,793	3,997,339
Accumulated depreciation	<u>(1,214,370)</u>	<u>(1,080,815)</u>
	2,828,423	2,916,524
Construction in progress	<u>988,301</u>	<u>518,129</u>
	<u>\$ 3,816,724</u>	<u>\$ 3,434,653</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, 2013 and 2012

NOTE 5 LONG-TERM DEBT

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

	<u>2013</u>	<u>2012</u>
Mortgage note payable, due in monthly installments of \$4,544, including interest at 4.69%. This note is amortized over seven years with the remaining balance due March 2020 and is secured by a first deed of trust on the real property.	\$ 680,265	\$ 280,092
Note payable to unrelated third party with no repayment terms and interest at 0%.	<u>76,000</u>	<u>37,000</u>
	756,265	317,092
Current portion	<u>(98,411)</u>	<u>(89,633)</u>
	<u>\$ 657,854</u>	<u>\$ 227,459</u>

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

Years Ending December 31,

2014	98,411
2015	24,000
2016	24,556
2017	25,836
2018	27,091
Thereafter	<u>556,371</u>
	<u>\$ 756,265</u>

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2013 and 2012

NOTE 6 LINES OF CREDIT

At December 31, 2013, 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, 2013 and 2012 was \$30,762 and \$30,578, respectively.

At December 31, 2013, the Organization also had available an unsecured \$100,000 line of credit bearing a minimum interest rate of 2%, which matures on December 31, 2015. This line of credit is from a nonprofit organization whose Board President is also the Board Chairman of the Organization. The outstanding balance on this line of credit at December 31, 2013 was \$77,580. There was no balance for the year ended December 31, 2012.

NOTE 7 TEMPORARILY RESTRICTED NET ASSETS

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

	2013	2012
Purpose restricted:		
Isaiah 58 Capital Improvement Campaign	\$ -	\$ 214,185
Scholarships	27,992	62,380
Distressed Families	3,729	4,081
Social enterprise	-	14,141
Intern program	2,156	-
Food bank	3,845	-
Senior high	6,088	-
Other	-	552
Time restricted:		
Promise to give	15,000	30,000
	\$ 58,810	\$ 325,339

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE 7 TEMPORARILY RESTRICTED NET ASSETS

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.
- 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, 2013 and 2012

NOTE 8 GRANT INCOME

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

	<u>2013</u>	<u>2012</u>
Workforce Initiative Association	\$ 130,419	\$ 29,489
First Things First	127,787	55,800
Arizona Community Foundation	15,000	15,000
College Access	22,340	13,055
Christian Community Development Association	60,004	-
Snap Enrollment Grant	17,140	22,553
BHHS Legacy Foundation Care Grant	-	10,000
Canyon Institute	50,000	50,000
School districts (Roosevelt, Murphy, Isaac)	-	81,332
Diamondbacks Foundation	5,000	5,000
RICO Grant	5,000	10,000
City of Phoenix	10,000	-
Various other grants	29,230	36,086
	<u>\$ 471,920</u>	<u>\$ 328,315</u>

NOTE 9 IN-KIND DONATIONS

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

	<u>2013</u>	<u>2012</u>
Food and water	\$ 46,518	\$ 49,947
Clothing	35,953	29,924
Childrens items	3,000	6,212
Household items and furniture	26,609	32,392
Miscellaneous	8,669	48,091
	<u>\$ 120,749</u>	<u>\$ 166,566</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, 2013 and 2012

NOTE 10 RELATED PARTY TRANSACTIONS

During the years ended December 31, 2013 and 2012, the Organization employed family members of board members. Total salaries paid to these family members amounted to approximately \$29,000 and \$30,000 during the years ended December 31, 2013 and 2012, respectively. The Organization also paid salaries and housing allowances totaling approximately \$98,000 and \$110,000 to board members who were employed by the Organization during the years ended December 31, 2013 and 2012, respectively.

NOTE 11 ACQUISITION

In December 2012, the Organization acquired 100% of the membership interest of OpportuniTees, 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 OpportuniTees, 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 acquired and liabilities assumed 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 OpportuniTees, LLC is included on the accompanying consolidated statement of activities for the year ended December 31, 2012.

NOTE 12 RESTATEMENT

During the year ended December 31, 2013, management discovered that certain construction costs incurred during the year ended December 31, 2012 were expensed rather than capitalized. As a result of this discovery, management has restated the December 31, 2012 consolidated financial statements to properly reflect these costs incurred as fixed assets. The effect of this restatement decreased expenses for the year ended December 31, 2012 and increased property and equipment as of December 31, 2012 by \$49,575. This restatement had no effect on the change in net assets for the year ended December 31, 2013.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2013 and 2012

NOTE 12 RESTATEMENT (Continued)

The effect of this restatement on the December 31, 2012 consolidated financial statements is as follows:

	<u>As previously reported</u>	<u>Restated</u>	<u>Difference</u>
Property and equipment, net	\$ 3,385,078	\$ 3,434,653	\$ 49,575
Total expenses	\$ 2,001,816	\$ 1,952,241	\$ (49,575)
Change in net assets	\$ 155,482	\$ 205,057	\$ 49,575
Unrestricted net assets	\$ 3,139,548	\$ 3,189,123	\$ 49,575

