

NEIGHBORHOOD MINISTRIES, INC. and SUBSIDIARY

Consolidated Financial Statements
With Independent Auditors' Report

December 31, 2023 and 2022

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying consolidated financial statements of Neighborhood Ministries, Inc. and Subsidiary (a nonprofit corporation), which comprise the consolidated statements of financial position as of December 31, 2023 and 2022, 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Neighborhood Ministries, Inc. and Subsidiary as of December 31, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are required to be independent of Neighborhood Ministries, Inc. and Subsidiary and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Neighborhood Ministries, Inc. and Subsidiary's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

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

Auditors' Responsibility for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Neighborhood Ministries, Inc. and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Neighborhood Ministries, Inc. and Subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Capin Crouse LLP

Lawrenceville, Georgia
August 5, 2024

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY

Consolidated Statements of Financial Position

	December 31,	
	2023	2022
ASSETS:		
Cash and cash equivalents	\$ 1,927,016	\$ 1,556,126
Grants receivable	777,297	561,019
Other receivables and current assets	99,511	33,763
Property and equipment—net	4,744,826	5,187,894
Investments held for long-term purposes	468,903	198,471
	<u>\$ 8,017,553</u>	<u>\$ 7,537,273</u>
Total Assets	\$ 8,017,553	\$ 7,537,273
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable and accrued expenses	\$ 915,518	\$ 547,473
Refundable advance	41,154	182,970
Note payable	393,335	430,498
Total liabilities	1,350,007	1,160,941
Net assets:		
Without donor restrictions	5,169,195	5,452,531
With donor restrictions:		
Restricted by purpose or time	1,045,925	768,551
Restricted in perpetuity	452,426	155,250
	1,498,351	923,801
Total net assets	6,667,546	6,376,332
Total Liabilities and Net Assets	\$ 8,017,553	\$ 7,537,273

See notes to consolidated financial statements

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY

Consolidated Statement of Activities

Year Ended December 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING SUPPORT AND REVENUE:			
Contributions	\$ 413,179	\$ 490,177	\$ 903,356
Donated goods	441,390	-	441,390
Federal and state contracts and grants	2,185	16,529,364	16,531,549
Other revenue	32,428	-	32,428
Total Operating Support and Revenue	889,182	17,019,541	17,908,723
RECLASSIFICATIONS:			
Satisfaction of purpose restrictions	16,462,655	(16,462,655)	-
OPERATING EXPENSES:			
Program services:			
Nueva Esperanza	8,209,406	-	8,209,406
Nueva Camino	4,348,672	-	4,348,672
Neighbors at Work	1,500,851	-	1,500,851
Neighborhood Spiritual Development	332,233	-	332,233
Education for Life	1,066,760	-	1,066,760
Neighborhood Family Services	748,081	-	748,081
	16,206,003	-	16,206,003
Supporting activities:			
General and administrative	1,088,280	-	1,088,280
Fundraising	340,890	-	340,890
	1,429,170	-	1,429,170
Total Operating Expenses	17,635,173	-	17,635,173
Change in Net Assets from Operating Activities	(283,336)	556,886	273,550
NONOPERATING ACTIVITY:			
Investment return net of amount designated for current operations	-	17,664	17,664
Change in Net Assets from Nonoperating Activities	-	17,664	17,664
Change in Net Assets	(283,336)	574,550	291,214
Net Assets, Beginning of Year	5,452,531	923,801	6,376,332
Net Assets, End of Year	\$ 5,169,195	\$ 1,498,351	\$ 6,667,546

See notes to consolidated financial statements

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY

Consolidated Statement of Activities

Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING SUPPORT AND REVENUE:			
Contributions	\$ 888,629	\$ 355,375	\$ 1,244,004
Donated goods	561,330	-	561,330
Federal and state contracts and grants	55,041	12,477,706	12,532,747
Product sales	148,736	-	148,736
Other revenue	24,220	-	24,220
Total Operating Support and Revenue	1,677,956	12,833,081	14,511,037
RECLASSIFICATIONS:			
Satisfaction of purpose restrictions	13,599,311	(13,599,311)	-
OPERATING EXPENSES:			
Program services:			
Nueva Esperanza	6,937,311	-	6,937,311
Nueva Camino	1,925,100	-	1,925,100
Neighbors at Work	1,889,044	-	1,889,044
Neighborhood Spiritual Development	221,777	-	221,777
Education for Life	1,071,631	-	1,071,631
Neighborhood Family Services	809,794	-	809,794
	12,854,657	-	12,854,657
Supporting activities:			
General and administrative	1,333,629	-	1,333,629
Fundraising	387,352	-	387,352
	1,720,981	-	1,720,981
Total Operating Expenses	14,575,638	-	14,575,638
Change in Net Assets from Operating Activities	701,629	(766,230)	(64,601)
NONOPERATING ACTIVITY:			
Transfer to sponsor organization	(583,504)	-	(583,504)
Investment return net of amount designated for current operations	-	(1,187)	(1,187)
Change in Net Assets from Nonoperating Activities	(583,504)	(1,187)	(584,691)
Change in Net Assets	118,125	(767,417)	(649,292)
Net Assets, Beginning of Year	5,334,406	1,691,218	7,025,624
Net Assets, End of Year	\$ 5,452,531	\$ 923,801	\$ 6,376,332

See notes to consolidated financial statements

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY

Consolidated Statement of Functional Expenses

Year Ended December 31, 2023

	Program Services						Supporting Activities			Total Expenses	
	Nueva Esperanza	Nueva Camino	Neighbors at Work	Neighborhood Spiritual Development	Education for Life	Neighborhood Family Services	Total Program Services	General and Administrative	Fundraising		Total Supporting Activities
Operating Expenses:											
Salaries and benefits	\$ 3,997,704	\$ 2,290,031	\$ 789,628	\$ 120,293	\$ 576,730	\$ 130,668	\$ 7,905,054	\$ 517,834	\$ 162,232	\$ 680,066	\$ 8,585,120
Occupancy	223,110	289,976	4,632	1,899	373	4,790	524,780	104,668	360	105,028	629,808
Repairs and maintenance	129,978	34,050	8,955	-	1,803	3,460	178,246	86,152	-	86,152	264,398
Transportation	594,126	125,215	1,810	26,051	570	240	748,012	13,431	195	13,626	761,638
Professional services	667,359	453,619	97,032	12,567	49,864	29,313	1,309,754	64,572	99,907	164,479	1,474,233
Meals and travel	488,958	239,632	100,784	18,117	71,785	16,204	935,480	119,642	16,730	136,372	1,071,852
Insurance	115,118	54,659	23,831	5,597	17,512	12,206	228,923	17,706	5,553	23,259	252,182
Rent assistance	1,774,092	792,366	296,484	115,546	258,331	72,022	3,308,841	11,624	6,083	17,707	3,326,548
Office supplies	17,968	4,237	9,219	1,227	1,494	443	34,588	606	255	861	35,449
Postage	7,000	223	425	63	312	1,580	9,603	1,101	3,705	4,806	14,409
Printing	3,122	1,224	1,837	15	195	20	6,413	2,374	11,157	13,531	19,944
Minor equipment	87,980	18,601	21,968	2,772	5,683	8,854	145,858	41,606	26	41,632	187,490
Other expenses	22,469	44,839	2,340	2,770	712	411	73,541	21,522	8,740	30,262	103,803
Depreciation	80,422	-	111,352	25,316	81,396	57,034	355,520	85,442	25,947	111,389	466,909
Donated goods	-	-	30,554	-	-	410,836	441,390	-	-	-	441,390
Total expenses	\$ 8,209,406	\$ 4,348,672	\$ 1,500,851	\$ 332,233	\$ 1,066,760	\$ 748,081	\$ 16,206,003	\$ 1,088,280	\$ 340,890	\$ 1,429,170	\$ 17,635,173

See notes to consolidated financial statements

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY

Consolidated Statement of Functional Expenses

Year Ended December 31, 2022

	Program Services						Supporting Activities				
	Nueva Esperanza	Nueva Camino	Neighbors at Work	Neighborhood Spiritual Development	Education for Life	Neighborhood Family Services	Total Program Services	General and Administrative	Fundraising	Total Supporting Activities	Total Expenses
Operating Expenses:											
Salaries and benefits	\$ 4,208,458	\$ 1,003,029	\$ 905,127	\$ 120,421	\$ 573,046	\$ 92,936	\$ 6,903,017	\$ 611,531	\$ 136,415	\$ 747,946	\$ 7,650,963
Occupancy	285,979	222,863	6,737	7,438	2,296	5,574	530,887	101,864	476	102,340	633,227
Repairs and maintenance	134,426	42,906	99	-	461	10,044	187,936	91,812	-	91,812	279,748
Transportation	480,743	91,650	17,450	1,840	653	105	592,441	14,681	468	15,149	607,590
Professional services	604,915	175,492	117,585	1,429	29,822	854	930,097	109,743	126,350	236,093	1,166,190
Meals and travel	445,963	106,111	91,155	16,130	78,527	11,333	749,219	111,080	15,298	126,378	875,597
Insurance	123,511	20,588	22,795	3,200	16,370	4,141	190,605	31,727	5,754	37,481	228,086
Rent assistance	402,463	18,239	462,151	56,915	288,215	140,989	1,368,972	28,971	19,412	48,383	1,417,355
Office supplies	14,452	5,932	23,594	-	3,378	12,145	59,501	-	328	328	59,829
Postage	4,708	824	707	18	1,165	282	7,704	1,727	5,298	7,025	14,729
Printing	13,888	-	2,279	220	870	-	17,257	6,238	19,371	25,609	42,866
Minor equipment	107,865	235,018	680	-	1,115	1,279	345,957	72,408	13,538	85,946	431,903
Other expenses	12,917	2,448	988	926	8,508	2,012	27,799	35,883	21,880	57,763	85,562
Cost of goods sold	-	-	100,294	-	-	-	100,294	-	-	-	100,294
Depreciation	97,023	-	86,326	13,240	67,205	17,847	281,641	115,964	22,764	138,728	420,369
Donated goods	-	-	51,077	-	-	510,253	561,330	-	-	-	561,330
Total operating expenses	6,937,311	1,925,100	1,889,044	221,777	1,071,631	809,794	12,854,657	1,333,629	387,352	1,720,981	14,575,638
Nonoperating Activity:											
Transfer to sponsor organization	-	-	-	-	583,504	-	583,504	-	-	-	583,504
Total expenses	\$ 6,937,311	\$ 1,925,100	\$ 1,889,044	\$ 221,777	\$ 1,655,135	\$ 809,794	\$ 13,438,161	\$ 1,333,629	\$ 387,352	\$ 1,720,981	\$ 15,159,142

See notes to consolidated financial statements

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

	Year Ended December 31,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 291,214	\$ (649,292)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	466,909	420,369
Realized and unrealized loss	(18,554)	1,529
Contributions received for long-term purposes	(252,768)	(155,250)
Changes in operating assets and liabilities:		
Grants receivable	(216,278)	594,232
Other receivables and current assets	(65,748)	87,831
Accounts payable and accrued expenses	368,045	(637,930)
Refundable advance	(141,816)	20,464
Net Cash Provided (Used) by Operating Activities	431,004	(318,047)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions of property and equipment	(23,841)	(277,533)
Purchase of investments	(259,158)	(200,000)
Proceeds from the sale of investments	7,280	-
Net Cash Used by Investing Activities	(275,719)	(477,533)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions received for long-term purposes	252,768	155,250
Repayments of note payable	(37,163)	(35,322)
Net Cash Provided by Financing Activities	215,605	119,928
Net Change in Cash and Cash Equivalents	370,890	(675,652)
Cash and Cash Equivalents, Beginning of Year	1,556,126	2,231,778
Cash and Cash Equivalents, End of Year	\$ 1,927,016	\$ 1,556,126
SUPPLEMENTAL DISCLOSURE:		
Cash paid for interest	\$ 15,623	\$ 17,622

See notes to consolidated financial statements

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

1. NATURE OF ORGANIZATION:

Neighborhood Ministries, Inc. (NM) is a Arizona not-for-profit corporation established in 1995. As a not-for-profit corporation, NM is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (Code). NM is also classified as a publicly supported organization, which is not a private foundation as defined by Section 170(b) of the Code. NM's primary sources of support and revenue come from federal grants and donor contributions.

NM was formed 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 NM's programs is holistic in nature. NM 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.

NM'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.

Established in 2009, OpportuniTees, LLC, a wholly owned subsidiary of NM, is a silkscreen and embroidery business that operates together with NM by developing and empowering men and women with essential life and job skills. Employees of OpportuniTees, LLC are under-resourced men and women within the community that NM serves. Effective January 2023, the Organization dissolved OpportuniTees, LLC.

Following are the program services administered by NM.

Nueva Esperanza—provides assistance to unaccompanied children coming over the border by providing the basic needs of food and clothing, safety, education, housing, mental health, and medical services through a day center, home care service providers, and community partners.

Nueva Camino—in partnership with the office of refugee resettlement, children coming over the border unaccompanied are received with arms outstretched with love, meeting the basic needs of food and clothing, safety, education, housing, mental health, and medical services through group homes, home care service providers, and community partners. The Nuevo Camino program utilizes Arizona licensed foster homes for long-term care for the children. Effective March 2024, the Nueva Camino grant was not renewed. Management intends to reapply for the grant in 2025.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

1. NATURE OF ORGANIZATION, continued:

Neighbors at Work

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)—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.

Neighborhood Spiritual Development

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 youths 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 field trips and fun activities. Volunteers and churches from around Phoenix prepare the crafts and snacks for the children.

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.

Kids Life—is a weekly youth group during the school year for kindergarteners through 7th graders, serving approximately 450 children. NM 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.

Iglesia De Neighborhood Ministries—a church that functions within NM. 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.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

1. NATURE OF ORGANIZATION, continued:

Education for Life

Summer Internships—The paid summer internship program provides a unique opportunity for high school and college age youth and young adults from our under-served community to learn leadership and community development skills while gaining valuable workforce experience. Interested participants apply and interview for this 10-week intensive training program, and internship placements are highly coveted as only 10 interns are hired each year. Over the course of the summer, interns learn about the cycle of poverty, advocate for social justice, and engage in community organizing projects.

Sueños Youth Center—Sueños focuses heavily on mentoring and developing positive, supportive relationships with youth. Operating four nights a week, the program uses a trauma-informed approach to reach about 150 youth and young adults annually to build protective factors, develop social-emotional skills, and improve mental health and well-being. The program offers life skills trainings, social-emotional learning and mindfulness workshops, mentoring, STEAM classes, sports, leadership and spiritual development, conflict resolution workshops, ACEs and trauma-informed care trainings, coding classes, career explorations, therapeutic arts classes, financial literacy, work readiness, and dating violence and substance abuse prevention classes.

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.

Social Justice—is an out growth of the High School Leadership program. It was developed as a way to teach our high school and college age youth the power of civic engagement. As they discovered that many in their neighborhoods were not registered to vote, they began a large-scale, non-partisan effort to get people registered to vote and then encourage them to actually vote. They were also very involved in the successful effort to move a proposed light-rail line from a historic residential street to a more suitable commercial street two blocks away. The program continues to educate voters and to communicate with elected officials on issues affecting their neighborhoods.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

1. NATURE OF ORGANIZATION, continued:

Education for Life, continued

Katy's Kids—Since 2004, Neighborhood Ministries' onsite preschool, Katy's Kids has helped meet the need for affordable, high-quality early learning opportunities in inner-city Phoenix. Serving three to five year old children, this program equips students from low-income households with the skills they need to succeed in kindergarten and beyond. Katy's Kids was recently awarded a prestigious five-star rating from First Things First. Katy's Kids is a wise investment as research shows every dollar invested in early childhood education in Arizona results in a \$17 savings when the child reaches adulthood! And what makes Katy's Kids unique is its focus on increasing parental involvement. Parents attend parent education classes and volunteer 20+ hours during the academic year.

Neighborhood Family Services

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.

Parenting por Vida—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 NM'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 parent and their families and providing opportunities for spiritual growth and nurture.

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, 2023 and 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States. The significant accounting policies followed are described below to enhance the usefulness of the consolidated financial statements to the reader.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the balances and financial activities of NM and OpportuniTees, LLC (collectively referred to as the Organization). All significant intercompany transactions and balances have been eliminated from the consolidated financial statements.

USE OF ESTIMATES

The preparation of the Organization's consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes checking and money market accounts. While at times deposits may exceed federally insured limits, the Organization has not experienced any losses on these accounts. At December 31, 2023 and 2022, the Organization's cash balances exceeded federally insured limits by \$1,319,828 and \$811,755, respectively.

GRANTS RECEIVABLE

Grants receivable consists primarily of amounts due the Organization under cost-reimbursable federal and state contract and grant agreements. The allowance for doubtful grants receivable is maintained at a level that, in management's judgment, is adequate to absorb probable losses. The amount is based upon an analysis of overall grant receivables by management. Management's evaluation of the allowance includes, but is not limited to, the historical experience of payment patterns from the grantor, financial condition of the grantor, other known facts and circumstances, and general economic conditions. This process is based on estimates, and ultimate loss may vary from current estimates. Grants receivable as of December 31, 2023 and 2022, are considered by management to be fully collectible and, accordingly, an allowance has not been provided.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

PROPERTY AND EQUIPMENT—NET

Items capitalized as property and equipment are stated at cost, or if donated, at estimated fair value on the date of receipt. The Organization generally capitalizes and reports property and equipment acquisitions in excess of \$1,000. Expenditures for repairs and maintenance are charged to expense as incurred, and additions and improvements that significantly extend the lives of assets are capitalized at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 5 to 39 years.

INVESTMENTS HELD FOR LONG-TERM PURPOSES

The Organization holds investments in a long-term diversified pool, which is comprised of equity, fixed income, and alternative investments. Investments in marketable securities with readily determinable fair values and all debt securities are recorded at fair value based on the last reported sales price on the valuation date. Donated investments are recorded at market value at the date of donation and are thereafter carried in conformity with the stated policy. Interest and dividend income and the realized and unrealized gains and losses on marketable securities and other investments are included in investment return in the accompanying consolidated statements of activities.

CLASSES OF NET ASSETS

The consolidated financial statements report amounts separately by class of net assets:

Net assets without donor restrictions are currently available at the discretion of the board for use in operations, designated by the board for other specific projects determined by the board, or invested in property and equipment net of accumulated depreciation and related debt.

Net assets with donor restrictions—restricted by purpose or time are stipulated by donors for specific operating purposes or programs, with time restrictions, or not currently available for use until commitments regarding their use have been fulfilled.

Net assets with donor restrictions—restricted in perpetuity are contributed with donor restrictions requiring that they be held in perpetuity with income used for scholarships.

All contributions are considered available for use without donor restrictions unless specifically restricted by the donor or subject to other legal restrictions.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

SUPPORT AND REVENUE, RECLASSIFICATIONS, AND EXPENSES

A portion of the Organization's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as a refundable advance in the consolidated statements of financial position.

The Organization recognizes contributions when cash, securities, or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give—that is, those with a measurable performance or other barrier and a right of return—are not recognized until the conditions on which they depend have been met. As of December 31, 2023 and 2022, the Organization had conditional pledges of \$273,666 and \$500,000, respectively, which will be recognized as other funds are raised for the specified project for which the pledges were made.

Product sales relate to the Organization's silkscreen and embroidery business. The performance obligation is the delivery of the goods to the customer and the transaction price is established by the Organization. The Organization recognizes revenue as the customer pays and takes possession of the merchandise. All product sales are by order and therefore, the Organization does not maintain inventory for those items.

Gifts of cash and other assets are reported as support with donor restrictions if they are received with donor stipulations that limit the use of the donated amounts. When a stipulated time restriction ends or purpose restriction is satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as reclassifications.

Donated goods (consisting of food, water, clothing, household items, school supplies, and other miscellaneous items) are recorded at its estimated fair value at the date of donation.

The Organization reports donations of property and equipment as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash and other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

SUPPORT AND REVENUE, RECLASSIFICATIONS, AND EXPENSES, continued

Expenses are recorded when incurred in accordance with the accrual basis of accounting. The costs of providing the various program services and supporting activities of the Organization have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the program services and supporting activities benefited. The consolidated statements of functional expenses report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. A majority of the Organization's expenses are direct expenses and are allocated directly to the program the expense applies to. Certain employee positions are allocated based on time and effort. Other expenses, including office supplies, printing, and postage are allocated based on full-time employee equivalent basis. Occupancy and depreciation expense are allocated on a square-footage basis.

OPERATING AND NONOPERATING ACTIVITIES

The consolidated statements of activities present the changes in net assets of the Organization from both operating activities and nonoperating activities. Operating revenues and expenses relate primarily to the programs provided by the Organization. Income (loss) on investments classified as endowment spending are included as operating income (loss) on investments in the accompanying consolidated statements of activities. All other gains and losses on endowment assets are classified as nonoperating activities in the accompanying consolidated statement of activities.

During the years ended December 31, 2023 and 2022, the Organization transferred \$-0- and \$583,504, respectively, to a sponsor organization, which is included as a nonoperating activity on the consolidated statements of activities.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

3. LIQUIDITY AND FUNDS AVAILABLE:

The following reflects the Organization's financial assets as of December 31, 2023 and 2022, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year. The Organization considers general expenditures to be all expenditures related to achieving its vision as well as the conduct of services undertaken to support those activities to be general expenditures.

	December 31,	
	2023	2022
Financial assets:		
Cash and cash equivalents	\$ 1,927,016	\$ 1,556,126
Grants receivable	777,297	561,019
Other receivables	72,093	27,977
Investments held for long-term purposes	468,903	198,471
Financial assets, at year-end	3,245,309	2,343,593
Less those unavailable for general expenditures within one year due to:		
Contractual or donor-imposed restrictions:		
Scholarship endowment funds:		
Held in perpetuity	(452,426)	(155,250)
Accumulated (earnings) deficit	(16,477)	1,187
Board-designations:		
Board-designated endowment funds	-	(44,408)
Financial assets available to meet cash needs for general expenditures within one year	\$ 2,776,406	\$ 2,145,122

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. At December 31, 2023 and 2022, the Organization has \$1,029,448 and \$769,738, respectively, in net assets with donor restrictions for designated purposes. These funds are considered available to meet needs for general expenditures as funds are used for their donor restricted purposes or time restriction is satisfied.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

4. PROPERTY AND EQUIPMENT–NET:

Property and equipment–net consists of:

	December 31,	
	2023	2022
Land	\$ 436,200	\$ 436,200
Buildings and building improvements	6,522,239	6,505,864
Vehicles	285,945	285,945
Furniture and equipment	843,161	859,021
Software	498,463	498,463
	8,586,008	8,585,493
Less accumulated depreciation	(3,862,354)	(3,411,271)
	4,723,654	5,174,222
Construction in progress	21,172	13,672
	\$ 4,744,826	\$ 5,187,894

5. INVESTMENTS HELD FOR LONG-TERM PURPOSES:

Investments held for long-term purposes, at fair-value, consist of:

	December 31,	
	2023	2022
Interest in long-term diversified pooled funds of the Arizona Community Foundation	\$ 468,903	\$ 198,471

Investments are held for endowment purposes.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

6. NOTE PAYABLE:

Note payable consists of:

	<u>December 31,</u>	
	<u>2023</u>	<u>2022</u>
Note payable agreement with a certain financial institution in the principal amount of \$541,144; bears interest at a fixed rate of 3.75%; effective October 2019, requires 83 equal monthly payments of principal and interest in the amount of \$4,399 through maturity in September 2026, at which time all remaining unpaid principal and accrued interest is due; secured by certain property owned by the Organization.	<u>\$ 393,335</u>	<u>\$ 430,498</u>

Maturities of note payable are estimated as follows:

<u>Years Ending December 31,</u>	<u>Amounts</u>
2024	\$ 38,748
2025	40,226
2026	<u>314,361</u>
	<u>\$ 393,335</u>

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

7. NET ASSETS:

Net assets consist of:

	December 31,	
	2023	2022
Without donor restrictions:		
Undesignated	\$ 5,169,195	\$ 5,408,123
Board-designated endowment funds	-	44,408
	\$ 5,169,195	\$ 5,452,531
With donor restrictions:		
Restricted by purpose or time:		
New head start campaign	\$ 725,838	\$ 409,709
W&K scholarship fund	63,240	141,469
Neighbors at Work	125,277	-
Katy's Kids	106,385	-
Distressed Families	-	101,316
The Food Bank	-	92,106
Suenos youth center	-	15,058
Social Justice	8,708	10,080
Accumulated earnings (deficit)—donor-restricted scholarship endowment funds	16,477	(1,187)
	1,045,925	768,551
Restricted in perpetuity:		
Donor-restricted scholarship endowment funds	452,426	155,250
	\$ 1,498,351	\$ 923,801

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

8. DISCLOSURE OF FAIR VALUE AND FAIR VALUE MEASUREMENTS:

The *Fair Value Measurements and Disclosure* topic of the FASB ASC establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority. The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available.

The following table presents the fair value measurements of assets recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall:

	Fair Value Measurements at December 31, 2023			
	Level 1	Level 2	Level 3	Total
Investments:				
Interest in pooled funds of the Arizona Community Foundation	\$ -	\$ 468,903	\$ -	\$ 468,903
Total investments	\$ -	\$ 468,903	\$ -	\$ 468,903
	Fair Value Measurements at December 31, 2022			
	Level 1	Level 2	Level 3	Total
Investments:				
Interest in pooled funds of the Arizona Community Foundation	\$ -	\$ 198,471	\$ -	\$ 198,471
Total investments	\$ -	\$ 198,471	\$ -	\$ 198,471

Methods and assumptions used by the Organization in estimating fair values are as follows:

Interest in pooled funds of the Arizona Community Foundation—The fair value of these financial instruments is based upon the Organization’s per share interest in the pooled fund as reported by the Arizona Community Foundation. The Organization is able to redeem its investment in the pool at the reporting date.

Changes in valuation techniques—None.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

9. ENDOWMENT FUNDS:

The Organization's endowment consists of one fund established for scholarship purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the board of directors to function as endowments. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Organization classifies as net assets restricted in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of applicable donor gift instruments at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund in excess of the original fair value that is not classified in net assets restricted in perpetuity is classified as net assets restricted by purpose or time until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Organization
7. The investment policies of the Organization

Endowment net asset composition by type of fund at December 31, 2023:

	Without Donor Restrictions	With Donor Restrictions		
		Accumulated Earnings	Original Gift	Total
Donor-restricted scholarship endowment funds	-	16,477	452,426	468,903
Total endowment funds	\$ -	\$ 16,477	\$ 452,426	\$ 468,903

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

9. ENDOWMENT FUNDS, continued:

Changes in endowment net assets for the year ended December 31, 2023:

	Without Donor Restrictions	With Donor Restrictions		Total
		Accumulated Earnings (Deficit)	Original Gift	
Endowment net assets, beginning of year	\$ 44,408	\$ (1,187)	\$ 155,250	\$ 198,471
Investment return:				
Dividends and interest	-	1,671	-	1,671
Net realized/unrealized gains	-	15,993	-	15,993
	-	17,664	-	17,664
Contributions	-	-	252,768	252,768
Transfers	(44,408)	-	44,408	-
Appropriations	-	-	-	-
Endowment net assets, end of year	\$ -	\$ 16,477	\$ 452,426	\$ 468,903

Endowment net asset composition by type of fund at December 31, 2022:

	Without Donor Restrictions	With Donor Restrictions		Total
		Accumulated Deficit	Original Gift	
Board-designated endowment funds	\$ 44,408	\$ -	\$ -	\$ 44,408
Donor-restricted scholarship endowment funds	-	(1,187)	155,250	154,063
Total endowment funds	\$ 44,408	\$ (1,187)	\$ 155,250	\$ 198,471

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

9. ENDOWMENT FUNDS, continued:

Changes in endowment net assets for the year ended December 31, 2022:

	Without Donor Restrictions	With Donor Restrictions		Total
		Accumulated Deficit	Original Gift	
Endowment net assets, beginning of year	\$ -	\$ -	\$ -	\$ -
Investment return:				
Dividends and interest	113	390	-	503
Net realized/unrealized losses	(455)	(1,577)	-	(2,032)
	(342)	(1,187)	-	(1,529)
Contributions	44,750	-	155,250	200,000
Appropriations	-	-	-	-
Endowment net assets, end of year	\$ 44,408	\$ (1,187)	\$ 155,250	\$ 198,471

December 31,

2023	2022
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Net assets with donor restrictions—restricted in perpetuity:

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulations or by UPMIFA.

\$ 452,426	\$ 155,250
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Net assets with donor restrictions—restricted specified purpose or by time:

The portion of perpetual endowment funds subject to a time restriction under UPMIFA.

\$ 16,477	\$ (1,187)
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Funds with Deficiencies:

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. No such deficiencies existed for the year ended December 31, 2023. In accordance with GAAP, deficiencies of this nature affected two funds for the year ended December 31, 2022. As of December 31, 2022, the donor-restricted endowment fund had an original gift value of \$155,250, a fair value of \$154,063, with a deficiency of \$1,187 and the board-designated endowment fund had an original gift value of \$44,750, a fair value of \$44,408, with a deficiency of \$342. These deficiencies resulted from unfavorable market fluctuations.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

9. ENDOWMENT FUNDS, continued:

Return Objectives and Risk Parameters:

The Organization has adopted investment and spending policies for the endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity. Under this policy, as approved by the board, the endowment assets of the Organization are invested in a manner that is intended to produce an inflation-adjusted income stream to grow the corpus above the inflation rate. The Organization expects their endowment funds, over time, to provide an average rate of return of approximately seven percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives:

To satisfy its long-term rate-of-returns objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation to achieve its long-term objectives with prudent risk restraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy:

The Organization has a policy of appropriating for distribution each year up to 4.25% of its endowment fund's rolling average fair value over the preceding three calendar years. In establishing this policy, the Organization considered the long-term expected return on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to grow. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

10. DONOR CONCENTRATION:

During the years ended December 31, 2023 and 2022, three donors gave 25% and 35% of total contributions, respectively. During the years ended December 31, 2023 and 2022, one donor gave 93% and 88% of the total donated goods, respectively. During the years ended December 31, 2023 and 2022, the Organization received 92% and 86%, respectively, of its total support and revenue from federal financial assistance, which was received from two U.S. governmental agencies. The Organization's operations and program activities could be impacted if these donor relationships were to be terminated and could not be replaced by new donors with comparable donations.

11. POST-RETIREMENT PLANS:

The Organization sponsors a defined contribution retirement plan (the Plan), which covers substantially all employees. Employees are eligible to make contributions and receive matching contributions after completing 90 days of service. Contributions to the Plan are held by the Plan custodian. Employer contributions to the Plan are discretionary. Employer contributions to the Plan were \$87,267 and \$45,339 for the years ended December 31, 2023 and 2022, respectively.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

12. DONATED GOODS:

Donated goods for the years ended December 31, 2023 and 2022, included in the consolidated financial statements were as follows:

	Year Ended December 31,	
	2023	2022
Food	\$ 405,716	\$ 510,253
Other	35,674	51,077
	<u>\$ 441,390</u>	<u>\$ 561,330</u>

Donated food is valued per pound, based upon the estimated fair market value of the food. For the years ended December 31, 2023 and 2022, the approximate value of one pound of donated food was \$1.57 and \$1.70. The Organization collected 258,418 and 300,149 pounds of food in 2023 and 2022, respectively. Other donated items included clothing, household items, furniture, pet food, and other miscellaneous items, which are valued based upon researching the estimated fair market value for similar or identical products. These donated goods are without donor restriction and used in the Organization's programs.

13. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through August 5, 2024, which represents the date the consolidated financial statements were available to be issued. Subsequent events after that date have not been evaluated.