

HENRY & HORNE, LLP  
CERTIFIED PUBLIC ACCOUNTANTS



NEIGHBORHOOD  
MINISTRIES

Phoenix, Arizona

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY  
CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2014 and 2013







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, 2014 and 2013, 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, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Henry + Home, LLP

Tempe, Arizona  
July 30, 2015

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 434,687	\$ 344,686
Investments	-	100,331
Grants receivable	20,592	24,869
Accounts receivable	27	5,672
Employee receivables	2,536	2,436
Promises to give, current portion, net of allowance for uncollectible promises of \$73,635 at December 31, 2014	<u>417,265</u>	<u>15,000</u>
TOTAL CURRENT ASSETS	875,107	492,994
PROMISE TO GIVE, net of current portion, discount, and allowance for uncollectable promises of \$68,250	354,768	-
PROPERTY AND EQUIPMENT, net	<u>3,811,416</u>	<u>3,816,724</u>
TOTAL ASSETS	<u>\$ 5,041,291</u>	<u>\$ 4,309,718</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 82,975	\$ 98,411
Accounts payable and accrued expenses	117,993	27,310
Deferred revenue	50,471	-
Line of credit	<u>117,615</u>	<u>108,342</u>
TOTAL CURRENT LIABILITIES	369,054	234,063
LONG-TERM DEBT, net of current portion	<u>634,919</u>	<u>657,854</u>
TOTAL LIABILITIES	<u>1,003,973</u>	<u>891,917</u>
NET ASSETS		
Unrestricted	3,136,392	3,358,991
Temporarily restricted	<u>900,926</u>	<u>58,810</u>
TOTAL NET ASSETS	<u>4,037,318</u>	<u>3,417,801</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,041,291</u>	<u>\$ 4,309,718</u>

See accompanying notes.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF ACTIVITIES  
Years Ended December 31, 2014 and 2013

	2014		
	Unrestricted	Temporarily Restricted	Total
SUPPORT AND OTHER REVENUE:			
SUPPORT			
Community contributions and donations	\$ 1,517,676	\$ 900,926	\$ 2,418,602
Grant income	402,768	-	402,768
Net assets released from restrictions	58,810	(58,810)	-
	<u>1,979,254</u>	<u>842,116</u>	<u>2,821,370</u>
THRIFT STORE SALES	<u>38,460</u>	<u>-</u>	<u>38,460</u>
RETAIL SALES			
Sales	213,420	-	213,420
Cost of sales	(119,201)	-	(119,201)
	<u>94,219</u>	<u>-</u>	<u>94,219</u>
SPECIAL EVENTS			
Special events income	21,793	-	21,793
Direct benefit to donors	(13,162)	-	(13,162)
	<u>8,631</u>	<u>-</u>	<u>8,631</u>
OTHER REVENUE	<u>24,197</u>	<u>-</u>	<u>24,197</u>
TOTAL SUPPORT AND OTHER REVENUE	<u>2,144,761</u>	<u>842,116</u>	<u>2,986,877</u>
OPERATING EXPENSES			
Program services	1,774,282	-	1,774,282
Supporting services			
Management and general	263,425	-	263,425
Fundraising	199,141	-	199,141
Opportunities expenses	130,512	-	130,512
TOTAL EXPENSES	<u>2,367,360</u>	<u>-</u>	<u>2,367,360</u>
CHANGE IN NET ASSETS	(222,599)	842,116	619,517
NET ASSETS AT BEGINNING OF YEAR	<u>3,358,991</u>	<u>58,810</u>	<u>3,417,801</u>
NET ASSETS AT END OF YEAR	<u>\$ 3,136,392</u>	<u>\$ 900,926</u>	<u>\$ 4,037,318</u>

2013		
Unrestricted	Temporarily Restricted	Total
\$ 1,354,882	\$ 43,810	\$ 1,398,692
471,920	-	471,920
310,339	(310,339)	-
<u>2,137,141</u>	<u>(266,529)</u>	<u>1,870,612</u>
34,097	-	34,097
183,714	-	183,714
(121,591)	-	(121,591)
<u>62,123</u>	<u>-</u>	<u>62,123</u>
23,374	-	23,374
(10,459)	-	(10,459)
<u>12,915</u>	<u>-</u>	<u>12,915</u>
30,587	-	30,587
<u>2,276,863</u>	<u>(266,529)</u>	<u>2,010,334</u>
1,600,469	-	1,600,469
248,400	-	248,400
137,655	-	137,655
120,471	-	120,471
<u>2,106,995</u>	<u>-</u>	<u>2,106,995</u>
169,868	(266,529)	(96,661)
<u>3,189,123</u>	<u>325,339</u>	<u>3,514,462</u>
<u>\$ 3,358,991</u>	<u>\$ 58,810</u>	<u>\$ 3,417,801</u>

NEIGHBORHOOD MINISTRIES, INC.  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
Year Ended December 31, 2014

	Program Services					
	Iglesia De Neighborhood Ministries	Education Programs	Youth Development Programs	Leadership Development and Training Programs	Adult Development Programs	Assistance Programs
<b>FUNCTIONAL EXPENSES</b>						
Payroll						
Salaries and housing allowance	\$ 27,549	\$ 232,888	\$ 121,734	\$ 43,454	\$ 67,822	\$ 89,657
Payroll taxes	1,929	16,311	8,526	3,044	4,750	6,280
<b>TOTAL PAYROLL</b>	<b>29,478</b>	<b>249,199</b>	<b>130,260</b>	<b>46,498</b>	<b>72,572</b>	<b>95,937</b>
Occupancy costs	6,589	19,766	52,709	6,589	19,766	-
Repairs and maintenance	1,558	4,675	14,024	1,558	4,675	6,866
Transportation expense	-	648	11,804	-	1,068	-
Professional services	-	758	891	18	49	55,396
Employee related costs	-	563	-	-	-	1,305
Insurance expense	7,539	28,037	44,366	5,581	22,152	2,786
Interest expense	-	-	-	-	-	-
Activity expenses	240	136,984	87,435	10,514	10,016	119,292
Office supplies	168	503	1,174	168	503	-
Postage	233	698	1,629	233	698	-
Printing	1,941	5,823	13,587	1,941	5,823	-
Depreciation expense	6,630	13,261	53,043	6,630	19,891	-
Minor equipment	201	66	18	-	322	780
Other expenses	1,292	3,877	9,047	1,292	3,877	489
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>55,869</b>	<b>464,858</b>	<b>419,987</b>	<b>81,022</b>	<b>161,412</b>	<b>282,851</b>
Cost of sales	-	-	-	-	-	119,201
Direct donor benefit	-	-	-	-	-	-
<b>TOTAL EXPENSES</b>	<b>\$ 55,869</b>	<b>\$ 464,858</b>	<b>\$ 419,987</b>	<b>\$ 81,022</b>	<b>\$ 161,412</b>	<b>\$ 402,052</b>



Job and Skills Development Programs	Hope House Community	Total Program Services	Supporting Services		Opportunities		Total Expenses
			Management and General	Fundraising	Total Supporting Services	Expenses	
\$ 102,095	\$ 52,727	\$ 737,926	\$ 116,915	\$ 119,202	\$ 236,117	\$ 98,699	\$ 1,072,742
7,151	3,693	51,684	8,188	8,349	16,537	7,956	76,177
109,246	56,420	789,610	125,103	127,551	252,654	106,655	1,148,919
13,178	-	118,597	6,588	6,589	13,177	-	131,774
3,117	756	37,229	1,559	-	1,559	4,958	43,746
479	45	14,044	212	820	1,032	574	15,650
1,813	119	59,044	66,145	36,818	102,963	8,878	170,885
700	-	2,568	482	1,334	1,816	-	4,384
13,146	8,742	132,349	9,641	13,927	23,568	-	155,917
-	-	-	32,834	-	32,834	-	32,834
60,128	5,539	430,148	2,085	1,834	3,919	-	434,067
336	168	3,020	168	168	336	4,407	7,763
465	233	4,189	232	233	465	-	4,654
3,882	1,941	34,938	1,942	1,941	3,883	-	38,821
6,630	13,261	119,346	6,631	6,631	13,262	3,020	135,628
3,312	-	4,699	5,364	-	5,364	-	10,063
3,335	1,292	24,501	4,439	1,295	5,734	2,020	32,255
219,767	88,516	1,774,282	263,425	199,141	462,566	130,512	2,367,360
-	-	119,201	-	-	-	-	119,201
-	-	-	-	13,162	13,162	-	13,162
<u>\$ 219,767</u>	<u>\$ 88,516</u>	<u>\$ 1,893,483</u>	<u>\$ 263,425</u>	<u>\$ 212,303</u>	<u>\$ 475,728</u>	<u>\$ 130,512</u>	<u>\$ 2,499,723</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
<b>FUNCTIONAL EXPENSES</b>						
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
<b>TOTAL PAYROLL</b>	<b>45,457</b>	<b>251,120</b>	<b>147,938</b>	<b>38,597</b>	<b>69,637</b>	<b>2,677</b>
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	-
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>78,557</b>	<b>471,571</b>	<b>493,808</b>	<b>67,793</b>	<b>173,711</b>	<b>38,368</b>
Cost of sales	-	-	-	-	-	121,591
Direct donor benefit	-	-	-	-	-	-
<b>TOTAL EXPENSES</b>	<b>\$ 78,557</b>	<b>\$ 471,571</b>	<b>\$ 493,808</b>	<b>\$ 67,793</b>	<b>\$ 173,711</b>	<b>\$ 159,959</b>

\* Restated to conform to current year presentation.

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	\$ 928,535
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	989,510
13,234	-	119,110	6,617	6,617	13,234	737	133,081
2,931	756	35,471	1,466	-	1,466	6,281	43,218
78	312	15,058	91	-	91	205	15,354
1,565	579	8,180	44,284	24,488	68,772	11,480	88,432
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	5,963
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	133,555
8,439	-	14,932	999	-	999	-	15,931
2,902	1,608	68,008	1,819	1,449	3,268	4,768	76,044
187,968	88,693	1,600,469	248,400	137,655	386,055	120,471	2,106,995
-	-	121,591	-	-	-	-	121,591
-	-	-	-	10,459	10,459	-	10,459
<u>\$ 187,968</u>	<u>\$ 88,693</u>	<u>\$ 1,722,060</u>	<u>\$ 248,400</u>	<u>\$ 148,114</u>	<u>\$ 396,514</u>	<u>\$ 120,471</u>	<u>\$ 2,239,045</u>

NEIGHBORHOOD MINISTRIES, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 619,517	\$ (96,661)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	135,628	133,555
Non-cash contribution of stock	-	(100,331)
Realized loss on investments	1,150	-
Discount on promise to give	(31,982)	-
Change in operating assets and liabilities:		
Decrease (increase) in:		
Promise to give	(725,051)	15,000
Grants receivable	4,277	(1,242)
Accounts receivable	5,645	(5,672)
Employee receivables	(100)	(2,436)
Increase (decrease) in:		
Accounts payable and accrued expenses	90,683	(32,081)
Deferred revenue	50,471	-
	<u>150,238</u>	<u>(89,868)</u>
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	99,181	-
Construction in progress purchases	-	(470,172)
Purchases of property and equipment	(130,320)	(45,454)
	<u>(31,139)</u>	<u>(515,626)</u>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Advances on long-term debt	11,500	473,473
Payments on long-term debt	(49,871)	(34,300)
Proceeds from advances on line of credit	59,306	120,172
Payments made on line of credit	(50,033)	(42,408)
	<u>(29,098)</u>	<u>516,937</u>
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>		
<b>NET INCREASE (DECREASE) IN CASH</b>	90,001	(88,557)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>344,686</u>	<u>433,243</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 434,687</u>	<u>\$ 344,686</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the year for interest	<u>\$ 32,834</u>	<u>\$ 36,838</u>

See accompanying notes.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2014 and 2013

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 and job skills. Employees of OpportuniTees, LLC are under-resourced men and women within the community that Neighborhood Ministries, Inc. serves.

Program Services

Following are the program services administered by the Organization.

***Iglesia De Neighborhood Ministries*** is the church that functions within Neighborhood Ministries, Inc. 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, 2014 and 2013

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 7<sup>th</sup> 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, 2014 and 2013

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 6<sup>th</sup> 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, 2014 and 2013

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, 2014 and 2013

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

**Refugio Phoenix** is wholly funded through Urban Strategies under a grant from the Office of Refugee Resettlement. The program provides a temporary support system for unaccompanied minors entering the United States primarily from Central America while attempting to contact and place the children with family in the United States. Using licensed foster families to house the children, Refugio Phoenix provides on-site schooling, medical needs, and counseling to the children while case managers locate family and arrange transportation for the child to be reunited with parents or family members. The program started in July, 2014 and is funded through September, 2015 with possible extension for three additional years.

**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** is a residential leadership training program and an urban farm. The leadership training program consists of up to six girls who live in Hope House and, in addition to working at the house and farm, develop skills necessary for leadership positions at Neighborhood Ministries, other non-profits, or in the business world. The urban farm brings in a variety of people from local families to high school students who work on the farm, learn farming skills, and benefit from low cost, organic produce.

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.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2014 and 2013

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

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.

Grants Receivable and Promises to Give

Grants receivable include amounts due under cost reimbursement grant agreements. Unconditional promises to give are recognized as revenues in the period the promise is received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. During the year ended December 31, 2014, the Organization received a conditional promise to give in the amount of \$100,000. 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. Amortization of the discounts is included in contribution support.

The Organization records a reserve based on a percentage of the promises to give balance to reduce the amounts recorded to what it believe will be collected. Promises are charged off against the allowance when they are deemed to be uncollectible.

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).

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (Continued)

Fair Value Measurements (Continued)

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:

- 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.

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.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2014 and 2013

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

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 \$135,628 and \$133,555 for the years ended December 31, 2014 and 2013, respectively.

Impairment of Long-Lived Assets

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. No impairment charges were recorded for the years ended December 31, 2014 and 2013.

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.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2014 and 2013

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

Contributions (Continued)

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 or require specialized skills that the Organization would normally purchase if needed and if not provided by donation. During the years ended December 31, 2014 and 2013, there were no donated services that met the criteria for recording the value of donated services. Approximately 550 volunteers were utilized during each of the years ended December 31, 2014 and 2013, for food pantry services, work crew assistance and Kids Club.

Revenue Recognition

Grant income from cost reimbursement grant agreements is recognized in the period in which the related costs are incurred. Amounts received under grant agreements in advance of incurring related expenses are recorded as deferred revenue. 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. AND SUBSIDIARY  
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December 31, 2014 and 2013

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

Income Tax Status (Continued)

Neighborhood Ministries, Inc. has previously had 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, 2014 and 2013 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, 2014. 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, 2014 and 2013, 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, 2011 and 2010, generally for three to four years, respectively, after they were filed. The Organization recognizes interest and penalties associated with income taxes in operating expenses. During the years ended December 31, 2014 and 2013, 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 July 30, 2015 the date the consolidated financial statements were available to be issued.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 December 31, 2014 and 2013

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, 2014, the Organization's bank balances exceeded federally insured limits by approximately \$166,000. At December 31, 2013, the Organization's bank balances did not exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on these cash balances.

Gross promises to give at December 31, 2014 include amounts from two donors which make up 76% of total gross promises to give. Gross accounts receivable at December 31, 2014 and 2013 include amounts from two donors which make up 81% and 83%, respectively. Concentrations of credit risk with respect to these amounts are limited due to the collection history and relationships with these donors and funders.

NOTE 3 PROMISES TO GIVE

Unconditional promises to give at December 31, are as follows:

	<u>2014</u>	<u>2013</u>
Capital Campaign	\$ 915,900	\$ -
Social Enterprise	30,000	-
Other	-	15,000
	<u>945,900</u>	<u>15,000</u>
Gross unconditional promises to give at Decmber 31	945,900	15,000
Discounts to present value	(31,982)	-
Allowance for uncollectable promises	<u>(141,885)</u>	<u>-</u>
Net promises to give	<u>\$ 772,033</u>	<u>\$ 15,000</u>
Recievable in less than one year	\$ 417,265	\$ 15,000
Recievable in one to five years	<u>354,768</u>	<u>-</u>
Total unconditional promises to give	<u>\$ 772,033</u>	<u>\$ 15,000</u>

The estimated cash flow for promises to give were discounted over the collection period using a discount rate of 4.7%.as determined by management.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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NOTE 3 PROMISES TO GIVE (Continued)

During 2014, the Organization received restricted contributions totaling \$100,000 that included donor conditions based on the new construction starting in 2015. Since this funding represents conditional promises to give, these contributions are not recorded as contribution revenue until donor conditions are met.

NOTE 4 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><u>\$ 100,331</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 100,331</u></u>



NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY  
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NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2014</u>	<u>2013</u>
Land	\$ 436,200	\$ 436,200
Buildings	3,220,376	3,217,951
Property improvements	1,104,626	-
Furniture and fixtures	102,370	91,800
Equipment	30,100	30,100
Vehicles	159,519	158,519
Computers and telephones	<u>108,223</u>	<u>108,223</u>
	5,161,414	4,042,793
Accumulated depreciation	<u>(1,349,998)</u>	<u>(1,214,370)</u>
	3,811,416	2,828,423
Construction in progress	<u>-</u>	<u>988,301</u>
	<u>\$ 3,811,416</u>	<u>\$ 3,816,724</u>

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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NOTE 6 LONG-TERM DEBT

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

	<u>2014</u>	<u>2013</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.	658,419	\$ 680,265
Note payable to unrelated third party with no repayment terms and interest at 0%.	<u>59,475</u>	<u>76,000</u>
	717,894	756,265
Current portion	<u>(82,975)</u>	<u>(98,411)</u>
	<u>\$ 634,919</u>	<u>\$ 657,854</u>

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

<u>Years Ending December 31,</u>	
2015	\$ 82,975
2016	24,556
2017	25,836
2018	27,091
2019	28,408
Thereafter	<u>529,028</u>
	<u>\$ 717,894</u>

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY  
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NOTE 7 LINES OF CREDIT

At December 31, 2014, 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, 2015. The outstanding balance on this line of credit at December 31, 2014 and 2013 was \$30,293 and \$30,762, respectively.

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, 2014 and 2013 was \$87,322 and \$77,580, respectively.

NOTE 8 TEMPORARILY RESTRICTED NET ASSETS

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

	2014	2013
Purpose restricted:		
Capital Improvement Campaign	\$ 116,038	\$ -
Scholarships	-	27,992
Distressed Families	3,432	3,729
Intern program	-	2,156
Food bank	5,472	3,845
Senior high	-	6,088
Unaccompanied Minors	3,951	-
Time restricted:		
Promise to give	772,033	15,000
	\$ 900,926	\$ 58,810

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NOTE 8 TEMPORARILY RESTRICTED NET ASSETS (Continued)

In 2014, the Organization began the Seeds of Promise Capital Campaign, which is a campaign to raise \$3.6 million to complete the renovation of the silo building on the Neighborhood Ministries, Inc. campus in Phoenix, Arizona to house a new early childhood education center and youth center. Some of the funding will also go towards creating a reserve fund, updating current infrastructure, and increasing staff benefits and launching a retirement fund.

NOTE 9 GRANT INCOME

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

	<u>2014</u>	<u>2013</u>
Workforce Initiative Association	\$ 140,425	\$ 130,419
First Things First	73,832	127,787
Arizona Community Foundation	10,000	15,000
College Access	-	22,340
Christian Community Development Association	-	60,004
Snap Enrollment Grant	12,023	17,140
Urban Strategies	154,488	-
Canyon Institute	-	50,000
Diamondbacks Foundation	-	5,000
RICO Grant	10,000	5,000
City of Phoenix	-	10,000
Various other grants	2,000	29,230
	<u>\$ 402,768</u>	<u>\$ 471,920</u>

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY  
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NOTE 10 IN-KIND DONATIONS

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

	<u>2014</u>	<u>2013</u>
Food and water	\$ 75,033	\$ 46,518
Clothing	16,239	35,953
Childrens items	975	3,000
Household items and furniture	25,715	26,609
Miscellaneous	<u>4,274</u>	<u>8,669</u>
	<u>\$ 122,236</u>	<u>\$ 120,749</u>

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

NOTE 11 RELATED PARTY TRANSACTIONS

During the years ended December 31, 2014 and 2013, the Organization employed family members of board members. Total salaries paid to these family members amounted to approximately \$16,000 and \$29,000 during the years ended December 31, 2014 and 2013, respectively. The Organization also paid salaries and housing allowances totaling approximately \$83,000 and \$98,000 to board members who were employed by the Organization during the years ended December 31, 2014 and 2013, respectively.