

HENRY & HORNE, LLP
CERTIFIED PUBLIC ACCOUNTANTS



NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY

Phoenix, Arizona

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2015 and 2014





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, 2015 and 2014, 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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.

Tempe
2055 E. Warner Road
Suite 101
Tempe, AZ 85284-3487
(480) 839-4900
Fax (480) 839-1749

Scottsdale
7098 E. Cochise Road
Suite 100
Scottsdale, AZ 85253-4517
(480) 483-1170
Fax (480) 483-7126

Casa Grande
1115 E. Cottonwood Lane
Suite 100
Casa Grande, AZ 85122-2950
(520) 836-8201
Fax (520) 426-9432

Opinion

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, 2015 and 2014, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Henry + Horne, LLP

Tempe, Arizona
June 6, 2016

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 351,486	\$ 434,687
Grants receivable	15,000	20,592
Accounts receivable	7,497	27
Employee receivables	-	2,536
Promises to give, current portion, net of allowance	<u>1,086,400</u>	<u>417,265</u>
TOTAL CURRENT ASSETS	1,460,383	875,107
PROMISE TO GIVE, net of current portion, discount, and allowance	124,164	354,768
PROPERTY AND EQUIPMENT, net	<u>3,680,844</u>	<u>3,811,416</u>
TOTAL ASSETS	<u>\$ 5,265,391</u>	<u>\$ 5,041,291</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 14,717	\$ 117,993
Current portion of long-term debt	84,031	82,975
Current portion of capital lease	2,495	-
Deferred revenue	3,780	50,471
Line of credit	<u>-</u>	<u>117,615</u>
TOTAL CURRENT LIABILITIES	105,023	369,054
CAPITAL LEASE, net of current portion	3,800	-
LONG-TERM DEBT, net of current portion	<u>615,233</u>	<u>634,919</u>
TOTAL LIABILITIES	<u>724,056</u>	<u>1,003,973</u>
NET ASSETS		
Unrestricted	3,018,954	3,136,392
Temporarily restricted	<u>1,522,381</u>	<u>900,926</u>
TOTAL NET ASSETS	<u>4,541,335</u>	<u>4,037,318</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,265,391</u>	<u>\$ 5,041,291</u>

See accompanying notes.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES
Years Ended December 31, 2015 and 2014

	2015		
	Unrestricted	Temporarily Restricted	Total
SUPPORT AND OTHER REVENUE			
Community contributions and donations	\$ 1,560,953	\$ 689,102	\$ 2,250,055
Grant income	992,693	-	992,693
Thrift store sales	31,884	-	31,884
Other revenue	51,144	-	51,144
Net assets released from restrictions	67,647	(67,647)	-
	<u>2,704,321</u>	<u>621,455</u>	<u>3,325,776</u>
RETAIL SALES			
Sales	187,527	-	187,527
Cost of sales	(124,556)	-	(124,556)
	<u>62,971</u>	<u>-</u>	<u>62,971</u>
SPECIAL EVENTS			
Special events income	39,445	-	39,445
Direct benefit to donors	(13,000)	-	(13,000)
	<u>26,445</u>	<u>-</u>	<u>26,445</u>
TOTAL SUPPORT AND OTHER REVENUE			
	<u>2,793,737</u>	<u>621,455</u>	<u>3,415,192</u>
OPERATING EXPENSES			
Program services	2,292,555	-	2,292,555
Supporting services			
Management and general	274,213	-	274,213
Fundraising	212,025	-	212,025
OpportuniTees expenses	132,382	-	132,382
	<u>2,911,175</u>	<u>-</u>	<u>2,911,175</u>
CHANGE IN NET ASSETS			
	(117,438)	621,455	504,017
NET ASSETS AT BEGINNING OF YEAR			
	<u>3,136,392</u>	<u>900,926</u>	<u>4,037,318</u>
NET ASSETS AT END OF YEAR			
	<u>\$ 3,018,954</u>	<u>\$ 1,522,381</u>	<u>\$ 4,541,335</u>

2014		
Unrestricted	Temporarily Restricted	Total
\$ 1,517,676	\$ 900,926	\$ 2,418,602
402,768	-	402,768
38,460	-	38,460
24,197	-	24,197
58,810	(58,810)	-
<u>2,041,911</u>	<u>842,116</u>	<u>2,884,027</u>
213,420	-	213,420
<u>(119,201)</u>	<u>-</u>	<u>(119,201)</u>
<u>94,219</u>	<u>-</u>	<u>94,219</u>
21,793	-	21,793
<u>(13,162)</u>	<u>-</u>	<u>(13,162)</u>
<u>8,631</u>	<u>-</u>	<u>8,631</u>
<u>2,144,761</u>	<u>842,116</u>	<u>2,986,877</u>
1,774,282	-	1,774,282
263,425	-	263,425
199,141	-	199,141
<u>130,512</u>	<u>-</u>	<u>130,512</u>
<u>2,367,360</u>	<u>-</u>	<u>2,367,360</u>
(222,599)	842,116	619,517
<u>3,358,991</u>	<u>58,810</u>	<u>3,417,801</u>
<u>\$ 3,136,392</u>	<u>\$ 900,926</u>	<u>\$ 4,037,318</u>

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2015

FUNCTIONAL EXPENSES	Program Services					
	Iglesia De Neighborhood Ministries	Education Programs	Youth Development Programs	Leadership Development and Training Programs	Adult Development Programs	Assistance Programs
Payroll						
Salaries and housing allowance	\$ 14,409	\$ 145,659	\$ 72,737	\$ 9,636	\$ 62,261	\$ 501,692
Payroll taxes	464	14,576	6,050	473	3,381	37,412
TOTAL PAYROLL	14,873	160,235	78,787	10,109	65,642	539,104
Occupancy costs	3,023	15,116	60,463	7,558	13,604	22,674
Repairs and maintenance	996	4,980	19,918	2,490	4,482	7,470
Transportation expense	-	335	10,063	839	3,354	839
Professional services	20	376	2,959	725	23	11,292
Employee related costs	-	-	6,766	-	-	24,989
Insurance expense	6,169	34,503	52,956	6,781	26,679	24,521
Interest expense	402	4,024	14,081	2,012	6,035	4,024
Activity expenses	-	59,237	36,983	35,226	12,823	232,617
Office supplies	370	1,111	2,592	370	1,111	-
Postage	224	671	1,566	224	671	-
Printing	2,164	6,492	15,149	2,164	6,492	-
Depreciation expense	1,710	8,548	94,031	5,129	8,548	25,645
Minor equipment	12	7	14	-	-	4,991
Other expenses	1,814	5,442	12,697	1,814	5,442	-
TOTAL FUNCTIONAL EXPENSES	31,777	301,077	409,025	75,441	154,906	898,166
Cost of sales	-	-	-	-	-	-
Direct donor benefit	-	-	-	-	-	-
TOTAL EXPENSES	\$ 31,777	\$ 301,077	\$ 409,025	\$ 75,441	\$ 154,906	\$ 898,166

See accompanying notes.

Program Services			Supporting Services		Opportunities		
Job and Skills Development Programs	Hope House Community	Total Program Services	Management and General	Fundraising	Total Supporting Services	Expenses	Total Expenses
\$ 188,231	\$ 48,800	\$ 1,043,425	\$ 160,572	\$ 125,428	\$ 286,000	\$ 85,685	\$ 1,415,110
7,235	3,898	73,489	12,891	9,134	22,025	7,334	102,848
195,466	52,698	1,116,914	173,463	134,562	308,025	93,019	1,517,958
9,069	4,535	136,042	9,071	6,046	15,117	1,686	152,845
2,988	1,494	44,818	2,988	1,992	4,980	7,276	57,074
335	335	16,100	169	503	672	783	17,555
2,225	208	17,828	57,311	39,470	96,781	17,426	132,035
-	-	31,755	2,794	1,226	4,020	-	35,775
18,533	8,757	178,899	10,922	16,703	27,625	-	206,524
2,012	4,024	36,614	2,816	805	3,621	-	40,235
78,470	4,789	460,145	1,571	2,248	3,819	-	463,964
741	370	6,665	371	371	742	5,554	12,961
448	224	4,028	224	224	448	-	4,476
4,328	2,164	38,953	2,165	2,164	4,329	-	43,282
10,259	8,548	162,418	5,129	3,419	8,548	3,133	174,099
3,416	287	8,727	1,249	478	1,727	-	10,454
3,627	1,813	32,649	3,970	1,814	5,784	3,505	41,938
331,917	90,246	2,292,555	274,213	212,025	486,238	132,382	2,911,175
-	-	-	-	-	-	-	124,556
-	-	-	-	-	-	-	13,000
\$ 331,917	\$ 90,246	\$ 2,292,555	\$ 274,213	\$ 212,025	\$ 486,238	\$ 132,382	\$ 3,048,731

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

FUNCTIONAL EXPENSES	Program Services					
	Iglesia De Neighborhood Ministries	Education Programs	Youth Development Programs	Leadership Development and Training Programs	Adult Development Programs	Assistance Programs
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
TOTAL PAYROLL	29,478	249,199	130,260	46,498	72,572	95,937
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
TOTAL FUNCTIONAL EXPENSES	55,869	464,858	419,987	81,022	161,412	282,851
Cost of sales	-	-	-	-	-	-
Direct donor benefit	-	-	-	-	-	-
TOTAL EXPENSES	\$ 55,869	\$ 464,858	\$ 419,987	\$ 81,022	\$ 161,412	\$ 282,851

Program Services			Supporting Services			Opportunities	
Job and Skills Development Programs	Hope House Community	Total Program Services	Management and General	Fundraising	Total Supporting Services	Expenses	Total Expenses
\$ 102,095 7,151	\$ 52,727 3,693	\$ 737,926 51,684	\$ 116,915 8,188	\$ 119,202 8,349	\$ 236,117 16,537	\$ 98,699 7,956	\$ 1,072,742 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
-	-	-	-	-	-	-	13,162
\$ 219,767	\$ 88,516	\$ 1,774,282	\$ 263,425	\$ 199,141	\$ 462,566	\$ 130,512	\$ 2,499,723

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014*</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 504,017	\$ 619,517
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	174,099	135,628
Forgiveness of debt	(98,322)	-
Realized loss on investments	-	1,150
Contributions restricted for capital campaign	(466,000)	(1,115,900)
Change in discount on promises to give	(26,146)	31,982
Change in allowance for uncollectable promises to give	(141,885)	141,885
Change in operating assets and liabilities:		
Decrease (increase) in:		
Promises to give	30,000	-
Grants receivable	5,592	4,277
Accounts receivable	(7,470)	5,645
Employee receivables	2,536	(100)
Increase (decrease) in:		
Accounts payable and accrued expenses	(103,276)	90,683
Deferred revenue	(46,691)	50,471
	<u>(173,546)</u>	<u>(34,762)</u>
NET CASH USED IN OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	-	99,181
Construction in progress purchases	(10,209)	-
Purchases of property and equipment	(25,635)	(130,320)
	<u>(35,844)</u>	<u>(31,139)</u>
NET CASH USED IN INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
Collection of contributions restricted for capital campaign	165,500	185,000
Advances on long-term debt	-	11,500
Payments on long-term debt	(18,630)	(49,871)
Payments on capital lease obligation	(1,388)	-
Proceeds from advances on line of credit	45,000	59,306
Payments made on line of credit	(64,293)	(50,033)
	<u>126,189</u>	<u>155,902</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH	(83,201)	90,001
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>434,687</u>	<u>344,686</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 351,486</u>	<u>\$ 434,687</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 40,235</u>	<u>\$ 36,838</u>
Equipment acquired through capital lease	<u>\$ 7,683</u>	<u>\$ -</u>

* Reclassified to conform to current year presentation.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014

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, 2015 and 2014

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

Program Services (Continued)

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

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

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

Youth Development Programs

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

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

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014

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

Program Services (Continued)

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

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

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

Leadership Development and Training Programs

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

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

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014

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, 2015 and 2014

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

Program Services (Continued)

Refugio Phoenix is mostly 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 was funded through September, 2015. This program was not extended.

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, 2015 and 2014

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. 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.

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. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets.

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.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014

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

Impairment of Long-Lived Assets

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. No impairment charges were recorded for the years ended December 31, 2015 and 2014.

Sales Taxes Collected

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

Contributions

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

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

Donated materials and services are recorded at their estimated fair value upon receipt. Donated services are recorded at their estimated fair value if they create or 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, 2015 and 2014, 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, 2015 and 2014, for food pantry services, work crew assistance and Kids Club.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014

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

Revenue Recognition

Grant income from cost reimbursement grant agreements is recognized in the period in which the related costs are incurred. 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. 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, 2015 and 2014 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, 2015. 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 financial statements when it is more-likely-than-not the positions will not be sustained upon examination by the tax authorities. At December 31, 2015, the Organization had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

Federal income tax returns generally remain open for three years after they are filed and state income tax returns generally remain open for four years after they are filed, and both are subject to examination by taxing authorities.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014

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

Income Tax Status (Continued)

The Organization recognizes interest and penalties associated with income taxes in operating expenses. During the years ended December 31, 2015 and 2014, 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.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Date of Management's Review

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through June 6, 2016, the date the consolidated financial statements were available to be issued.

NOTE 2 CONCENTRATIONS OF CREDIT RISK

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

The Organization maintains its cash in bank accounts, which at times may exceed federally insured limits. The Organization's bank balances exceeded federally insured limits by approximately \$6,000 and \$166,000 for the years ended December 31, 2015 and 2014, respectively. 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, 2015 include amounts from three donors which make up 82%. Gross promises to give at December 31, 2014 include amounts from two donors which make up and 76%. Concentrations of credit risk with respect to these amounts are limited due to the collection history and relationships with these donors and funders.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014

NOTE 3 PROMISES TO GIVE

Unconditional promises to give at December 31, 2015 and 2014, are as follows:

	<u>2015</u>	<u>2014</u>
Capital Campaign	\$ 1,216,400	\$ 915,900
Social Enterprise	-	30,000
	<u>1,216,400</u>	<u>945,900</u>
Gross unconditional promises to give at December 31	1,216,400	945,900
Discounts to present value	(5,836)	(31,982)
Allowance for uncollectable promises	-	(141,885)
	<u>-</u>	<u>(141,885)</u>
Net promises to give	<u>\$ 1,210,564</u>	<u>\$ 772,033</u>
Receivable in less than one year	\$ 1,086,400	\$ 417,265
Receivable in one to five years	<u>124,164</u>	<u>354,768</u>
	<u>\$ 1,210,564</u>	<u>\$ 772,033</u>

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

During 2015, the Organization received restricted contributions of \$250,000 that included donor conditions based on the capital campaign being fully funded by January 31, 2017. Since this funding represents conditional promises to give, these contributions are not recorded as contribution revenue until donor conditions are met. During 2014, the Organization received restricted contributions totaling \$100,000 that included donor conditions based on the new construction starting in 2015. During the year ended December 31, 2015, the donor conditions were met and the income was recognized as a restricted contribution and an unconditional promise to give.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014

NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2015</u>	<u>2014</u>
Land	\$ 436,200	\$ 436,200
Buildings	3,220,376	3,220,376
Property improvements	1,121,210	1,104,626
Furniture and fixtures	101,414	102,370
Equipment	32,360	30,100
Vehicles	159,519	159,519
Computers and telephones	<u>120,083</u>	<u>108,223</u>
	5,191,162	5,161,414
Accumulated depreciation	<u>(1,520,527)</u>	<u>(1,349,998)</u>
	3,670,635	3,811,416
Construction in progress	<u>10,209</u>	<u>-</u>
	<u>\$ 3,680,844</u>	<u>\$ 3,811,416</u>

Depreciation amounted to \$174,099 and \$135,628 for the years ended December 31, 2015 and 2014, respectively.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2015 and 2014

NOTE 5 LONG-TERM DEBT

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

	<u>2015</u>	<u>2014</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.	\$ 639,789	\$ 658,419
Note payable to unrelated third party with no repayment terms and interest at 0%. This note matures on December 31, 2016.	<u>59,475</u>	<u>59,475</u>
	699,264	717,894
Current portion	<u>(84,031)</u>	<u>(82,975)</u>
	<u>\$ 615,233</u>	<u>\$ 634,919</u>

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

Years Ending December 31,

2016	\$ 84,031
2017	25,836
2018	27,091
2019	28,408
2020	<u>533,898</u>
	<u>\$ 699,264</u>

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2015 and 2014

NOTE 6 LINES OF CREDIT

At December 31, 2015, 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, 2016. The outstanding balance on this line of credit at December 31, 2014 was \$30,293. At December 31, 2015, there was no outstanding balance on this line of credit.

The Organization also had available an unsecured \$100,000 line of credit bearing a minimum interest rate of 2%, which matured on December 31, 2015. This line of credit was 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 was \$87,322. During the year ended December 31, 2015, the outstanding balance of \$98,322 was forgiven and recorded as a contribution.

NOTE 7 CAPITAL LEASE OBLIGATIONS

The Organization leases equipment under a capital lease agreement which requires monthly payments of approximately \$233 and matures in May 2018. The cost of equipment under these capital lease agreements totaled approximately \$7,683 and accumulated amortization was approximately \$1,024 at December 31, 2015. Amortization of this capitalized lease cost is included in depreciation expense.

Future minimum lease payments are scheduled as follows:

Years Ending June 30,

2016	\$ 2,805
2017	2,805
2018	<u>1,168</u>
Total minimum lease payments	6,778
Less amount representing interest	<u>483</u>
Total future minimum lease payments	6,295
Less current portion	<u>2,495</u>
Non-current portion	<u><u>\$ 3,800</u></u>

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2015 and 2014

NOTE 8 TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2015</u>	<u>2014</u>
Purpose restricted:		
Capital Improvement Campaign	\$ 255,935	\$ 116,038
Internships	3,099	-
Emerging Leader	6,131	-
Kids Club	6,774	-
Distressed Families	8,203	3,432
Food bank	21,261	5,472
Unaccompanied Minors	10,414	3,951
Time and purpose restricted:		
Promises to give - Capital Improvement Campaign	<u>1,210,564</u>	<u>772,033</u>
	<u>\$ 1,522,381</u>	<u>\$ 900,926</u>

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.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014

NOTE 9 GRANT INCOME

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

	<u>2015</u>	<u>2014</u>
Arizona Community Foundation	\$ 20,000	\$ 10,000
Boeing	10,000	-
Center for New Communities	25,000	-
Desert Schools Federal Credit Union	10,000	-
First Things First	29,750	73,832
Phoenix IDA Collaborative Fund	25,000	-
RICO Grant	-	10,000
SFC Charitable Foundation	10,000	-
Snap Enrollment Grant	620	12,023
Thunderbird Charities	25,000	-
Urban Strategies	687,688	154,488
Valley of the Sun United Way	10,000	-
Workforce Initiative Association	120,635	140,425
Various other grants	19,000	2,000
	<u>\$ 992,693</u>	<u>\$ 402,768</u>

The Urban Strategies grant income is from the Office of Refugee Resettlement, a federal program, which was funded from July 2014 through September 2015. The federal grant will not be renewed in 2016.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014

NOTE 10 IN-KIND DONATIONS

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

	<u>2015</u>	<u>2014</u>
Food and water	\$ 162,340	\$ 75,033
Clothing	15,536	16,239
Children's items	4,397	975
Household items and furniture	20,765	25,715
Miscellaneous	<u>17,816</u>	<u>4,274</u>
	<u>\$ 220,854</u>	<u>\$ 122,236</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, 2015 and 2014, the Organization employed family members of board members. Total salaries paid to these family members amounted to approximately \$11,000 and \$16,000 during the years ended December 31, 2015 and 2014, respectively. The Organization also paid salaries and housing allowances totaling approximately \$65,000 and \$83,000 to board members who were employed by the Organization during the years ended December 31, 2015 and 2014, respectively.