



NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY

Phoenix, Arizona

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Neighborhood Ministries, Inc. (an Arizona not-for-profit corporation) and Subsidiary, which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, 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 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.

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, 2018 and 2017, 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 + Home, LLP

Tempe, Arizona
October 18, 2019

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2018 and 2017

	<u>2018</u>	<u>2017*</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 444,799	\$ 591,202
Grants receivable	128,527	13,029
Accounts receivable	1,127	47,339
Prepaid expenses	<u>5,981</u>	<u>4,492</u>
TOTAL CURRENT ASSETS	580,434	656,062
PROPERTY AND EQUIPMENT, net	<u>5,181,455</u>	<u>5,304,210</u>
TOTAL ASSETS	<u><u>\$ 5,761,889</u></u>	<u><u>\$ 5,960,272</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 44,143	\$ 92,597
Line of credit	34,184	31,931
Current portion of capital lease	-	1,151
Current portion of long-term debt	<u>29,670</u>	<u>27,091</u>
TOTAL CURRENT LIABILITIES	107,997	152,770
LONG-TERM DEBT, net of current portion	532,636	562,306
SECURITY DEPOSIT	<u>4,000</u>	<u>4,000</u>
TOTAL LIABILITIES	<u>644,633</u>	<u>719,076</u>
NET ASSETS		
Without donor restrictions	4,565,546	4,932,651
With donor restrictions	<u>551,710</u>	<u>308,545</u>
TOTAL NET ASSETS	<u>5,117,256</u>	<u>5,241,196</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 5,761,889</u></u>	<u><u>\$ 5,960,272</u></u>

* Reclassified to conform to current year presentation

See accompanying notes.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES
Years Ended December 31, 2018 and 2017

	2018			2017*		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND OTHER REVENUE						
Community contributions and donations	\$ 801,661	\$ 255,526	\$ 1,057,187	\$ 1,244,595	\$ 253,965	\$ 1,498,560
In-kind donations	495,055	-	495,055	376,094	-	376,094
Grant income	183,025	505,646	688,671	607,035	-	607,035
Thrift store sales	22,807	-	22,807	20,146	-	20,146
Rental income	81,540	-	81,540	59,425	-	59,425
Other revenue	28,141	-	28,141	77,353	-	77,353
Release from purpose restrictions	503,007	(503,007)	-	106,451	(106,451)	-
Release from time and purpose restrictions	15,000	(15,000)	-	15,000	(15,000)	-
	<u>2,130,236</u>	<u>243,165</u>	<u>2,373,401</u>	<u>2,506,099</u>	<u>132,514</u>	<u>2,638,613</u>
RETAIL SALES						
Sales	199,525	-	199,525	203,040	-	203,040
Cost of sales	(108,096)	-	(108,096)	(107,322)	-	(107,322)
	<u>91,429</u>	<u>-</u>	<u>91,429</u>	<u>95,718</u>	<u>-</u>	<u>95,718</u>
SPECIAL EVENTS						
Special events income	18,000	-	18,000	19,940	-	19,940
Direct benefit to donors	(5,113)	-	(5,113)	(12,438)	-	(12,438)
	<u>12,887</u>	<u>-</u>	<u>12,887</u>	<u>7,502</u>	<u>-</u>	<u>7,502</u>
TOTAL SUPPORT AND OTHER REVENUE	<u>2,234,552</u>	<u>243,165</u>	<u>2,477,717</u>	<u>2,609,319</u>	<u>132,514</u>	<u>2,741,833</u>
OPERATING EXPENSES						
Program services	1,863,547	-	1,863,547	1,804,854	-	1,804,854
Supporting services						
Management and general	390,516	-	390,516	463,733	-	463,733
Fundraising	250,563	-	250,563	205,623	-	205,623
OpportuniTees expenses	97,031	-	97,031	114,146	-	114,146
TOTAL EXPENSES	<u>2,601,657</u>	<u>-</u>	<u>2,601,657</u>	<u>2,588,356</u>	<u>-</u>	<u>2,588,356</u>
CHANGE IN NET ASSETS	(367,105)	243,165	(123,940)	20,963	132,514	153,477
NET ASSETS AT BEGINNING OF YEAR	<u>4,932,651</u>	<u>308,545</u>	<u>5,241,196</u>	<u>4,911,688</u>	<u>176,031</u>	<u>5,087,719</u>
NET ASSETS AT END OF YEAR	<u>\$ 4,565,546</u>	<u>\$ 551,710</u>	<u>\$ 5,117,256</u>	<u>\$ 4,932,651</u>	<u>\$ 308,545</u>	<u>\$ 5,241,196</u>

* Reclassified to conform to current year presentation

See accompanying notes.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2018

FUNCTIONAL EXPENSES	Program Services									
	Iglesia De Neighborhood Ministries	Education Programs	Youth Development Programs	Social Justice	Leadership Development and Training Programs	Adult Development Programs	Assistance Programs	Job and Skills Development Programs	Hope House Community	Total Program Services
Payroll										
Salaries and housing allowance	\$ 53,526	\$ 112,793	\$ 113,116	\$ 64,376	\$ 1,705	\$ 62,015	\$ 15,600	\$ 101,335	\$ 13,355	\$ 537,821
Payroll taxes	4,095	8,638	8,496	4,454	130	3,757	1,193	7,752	1,022	39,537
TOTAL PAYROLL	57,621	121,431	121,612	68,830	1,835	65,772	16,793	109,087	14,377	577,358
Occupancy costs	2,731	13,657	20,486	34,144	6,829	12,292	20,486	8,194	6,829	125,648
Repairs and maintenance	842	4,212	8,424	8,424	2,106	3,791	6,318	2,527	2,106	38,750
Transportation expense	-	-	17,939	-	-	230	-	1,062	25	19,256
Professional services	-	828	592	3,000	-	-	750	1,696	-	6,866
Employee related costs	3,548	(3)	1,000	-	-	3,240	-	2,288	-	10,073
Insurance expense	10,847	27,922	48,766	10,963	7,703	19,871	6,439	24,867	2,169	159,547
Interest expense	307	3,067	6,134	4,600	1,533	4,600	3,067	1,533	3,067	27,908
In-kind activity expenses	-	-	57,250	-	-	-	242,971	163,434	-	463,655
Activity expenses	650	71,634	60,041	4,197	-	11,027	9,183	8,768	97	165,597
Cost of goods sold	-	-	-	-	-	-	-	-	-	-
Office supplies	164	493	986	164	164	493	-	329	164	2,957
Postage	220	659	1,537	-	220	659	-	439	220	3,954
Printing	2,319	4,638	13,914	4,638	2,319	6,957	-	4,638	2,319	41,742
Special events venue and meals	-	-	-	-	-	-	-	-	-	-
Depreciation expense	2,158	10,792	118,709	6,475	10,792	32,375	-	12,950	10,791	205,042
Minor equipment	-	102	-	-	-	-	-	98	-	200
Other expenses	833	2,499	5,831	-	833	2,499	-	1,666	833	14,994
TOTAL FUNCTIONAL EXPENSES	82,240	261,931	483,221	145,435	34,334	163,806	306,007	343,576	42,997	1,863,547
Amounts reported in total support and other revenue on the statement of activities:										
Cost of sales	-	-	-	-	-	-	-	-	-	-
Direct benefit to donors	-	-	-	-	-	-	-	-	-	-
TOTAL EXPENSES	\$ 82,240	\$ 261,931	\$ 483,221	\$ 145,435	\$ 34,334	\$ 163,806	\$ 306,007	\$ 343,576	\$ 42,997	\$ 1,863,547

See accompanying notes.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES (Continued)
Year Ended December 31, 2018

FUNCTIONAL EXPENSES	Supporting Services					Total Expenses
	Management and General	Fundraising	Direct Benefit to Donors	Total Supporting Services	Opportunities	
Payroll						
Salaries and housing allowance	\$ 259,393	\$ 157,123	\$ -	\$ 416,516	\$ 71,651	\$ 1,025,988
Payroll taxes	17,878	11,918	-	29,796	4,198	73,531
TOTAL PAYROLL	277,271	169,041	-	446,312	75,849	1,099,519
Occupancy costs	6,829	4,097	-	10,926	-	136,574
Repairs and maintenance	2,106	1,264	-	3,370	4,864	46,984
Transportation expense	2,728	2,378	-	5,106	10	24,372
Professional services	49,132	50,362	-	99,494	7,481	113,841
Employee related costs	4,790	2,979	-	7,769	-	17,842
Insurance expense	26,074	6,311	-	32,385	-	191,932
Interest expense	2,147	613	-	2,760	-	30,668
In-kind activity expenses	-	-	-	-	-	463,655
Activity expenses	856	5,665	-	6,521	-	172,118
Cost of goods sold	-	-	-	-	108,096	108,096
Office supplies	164	164	-	328	1,236	4,521
Postage	220	220	-	440	-	4,394
Printing	2,319	2,319	-	4,638	-	46,380
Special events venue and meals	-	-	5,113	5,113	-	5,113
Depreciation expense	6,475	4,317	-	10,792	4,181	220,015
Minor equipment	1,949	-	-	1,949	-	2,149
Other expenses	7,456	833	-	8,289	3,410	26,693
TOTAL FUNCTIONAL EXPENSES	390,516	250,563	5,113	646,192	205,127	2,714,866
Amounts reported in total support and other revenue on the statement of activities:						
Cost of sales	-	-	-	-	-	-
Direct benefit to donors	-	-	(5,113)	(5,113)	(108,096)	(113,209)
TOTAL EXPENSES	\$ 390,516	\$ 250,563	\$ -	\$ 641,079	\$ 97,031	\$ 2,601,657

See accompanying notes.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2017

FUNCTIONAL EXPENSES	Program Services									
	Iglesia De Neighborhood Ministries	Education Programs	Youth Development Programs	Social Justice	Leadership Development and Training Programs	Adult Development Programs	Assistance Programs	Job and Skills Development Programs	Hope House Community	Total Program Services
Payroll										
Salaries and housing allowance	\$ 59,643	\$ 125,670	\$ 67,707	\$ 81,608	\$ 1,417	\$ 63,057	\$ 15,600	\$ 141,896	\$ 18,280	\$ 574,878
Payroll taxes	4,330	9,734	5,081	6,243	108	3,651	1,193	10,855	1,398	42,593
TOTAL PAYROLL	63,973	135,404	72,788	87,851	1,525	66,708	16,793	152,751	19,678	617,471
Occupancy costs	3,281	16,404	24,605	41,009	8,202	14,763	24,605	9,842	4,921	147,632
Repairs and maintenance	598	2,991	5,981	5,981	1,495	2,691	4,486	1,794	897	26,914
Transportation expense	-	-	13,983	62	-	534	-	1,467	78	16,124
Professional services	-	3,199	691	-	-	-	-	1,285	-	5,175
Employee related costs	-	1,610	-	4,170	-	504	-	630	-	6,914
Insurance expense	10,250	28,350	43,384	11,317	5,265	21,256	5,130	21,752	2,955	149,659
Interest expense	317	3,167	6,333	4,750	1,583	4,750	3,167	1,583	3,167	28,817
In-kind activity expenses	-	-	2,838	-	-	-	345,540	27,716	-	376,094
Activity expenses	332	48,054	60,154	13,744	-	7,087	31,378	55,564	626	216,939
Cost of goods sold	-	-	-	-	-	-	-	-	-	-
Office supplies	296	889	1,777	296	296	889	-	592	296	5,331
Postage	157	470	1,096	-	157	470	-	313	156	2,819
Printing	1,377	2,755	8,264	2,755	1,377	4,132	-	2,755	1,377	24,792
Special events venue and meals	-	-	-	-	-	-	-	-	-	-
Depreciation expense	2,011	10,053	110,583	6,032	10,052	30,159	-	12,064	10,053	191,007
Minor equipment	-	-	352	867	-	-	-	3,950	-	5,169
Other expenses	(889)	(2,667)	(6,224)	-	(889)	(2,667)	-	(1,778)	(889)	(16,003)
TOTAL FUNCTIONAL EXPENSES	81,703	250,679	346,605	178,834	29,063	151,276	431,099	292,280	43,315	1,804,854
Amounts reported in total support and other revenue on the statement of activities:										
Cost of sales	-	-	-	-	-	-	-	-	-	-
Direct benefit to donors	-	-	-	-	-	-	-	-	-	-
TOTAL EXPENSES	\$ 81,703	\$ 250,679	\$ 346,605	\$ 178,834	\$ 29,063	\$ 151,276	\$ 431,099	\$ 292,280	\$ 43,315	\$ 1,804,854

See accompanying notes.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES (Continued)
Year Ended December 31, 2017

FUNCTIONAL EXPENSES	Supporting Services					Total Expenses
	Management and General	Fundraising	Direct Benefit to Donors	Total Supporting Services	OpportuniTees	
Payroll						
Salaries and housing allowance	\$ 271,337	\$ 128,125	\$ -	\$ 399,462	\$ 88,251	\$ 1,062,591
Payroll taxes	18,572	9,578	-	28,150	6,563	77,306
TOTAL PAYROLL	289,909	137,703	-	427,612	94,814	1,139,897
Occupancy costs	16,928	6,561	-	23,489	-	171,121
Repairs and maintenance	2,251	1,196	-	3,447	4,659	35,020
Transportation expense	1,905	2,578	-	4,483	101	20,708
Professional services	53,238	26,028	-	79,266	7,541	91,982
Employee related costs	2,161	686	-	2,847	-	9,761
Insurance expense	30,476	13,594	-	44,070	-	193,729
Interest expense	2,215	633	-	2,848	-	31,665
In-kind activity expenses	-	-	-	-	-	376,094
Activity expenses	365	11,682	-	12,047	-	228,986
Cost of goods sold	-	-	-	-	107,322	107,322
Office supplies	297	296	-	593	939	6,863
Postage	157	157	-	314	-	3,133
Printing	5,554	1,377	-	6,931	-	31,723
Special events venue and meals	-	-	12,438	12,438	-	12,438
Depreciation expense	6,032	4,021	-	10,053	4,122	205,182
Minor equipment	3,752	-	-	3,752	-	8,921
Other expenses	48,493	(889)	-	47,604	1,970	33,571
TOTAL FUNCTIONAL EXPENSES	463,733	205,623	12,438	681,794	221,468	2,708,116
Amounts reported in total support and other revenue on the statement of activities:						
Cost of sales	-	-	-	-	-	-
Direct benefit to donors	-	-	(12,438)	(12,438)	(107,322)	(119,760)
TOTAL EXPENSES	\$ 463,733	\$ 205,623	\$ -	\$ 669,356	\$ 114,146	\$ 2,588,356

* Reclassified to conform to current year presentation

See accompanying notes.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (123,940)	\$ 153,477
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	220,015	205,182
Contributions restricted for capital campaign	-	(297,274)
Decrease (increase) in:		
Grants receivable	(115,498)	40,725
Accounts receivable	46,212	(27,442)
Prepaid expenses	(1,489)	(4,492)
Increase (decrease) in:		
Accounts payable and accrued expenses	(48,454)	(233,256)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>(23,154)</u>	<u>(163,080)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(97,260)</u>	<u>(388,161)</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(97,260)</u>	<u>(388,161)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Collection of contributions restricted for capital campaign	-	427,674
Payments on long-term debt	(27,091)	(25,836)
Payments on capital lease obligation	(1,151)	(2,649)
Proceeds from advances on line of credit	5,025	-
Payments made on line of credit	<u>(2,772)</u>	<u>(2,819)</u>
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>(25,989)</u>	<u>396,370</u>
NET INCREASE (DECREASE) IN CASH	(146,403)	(154,871)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>591,202</u>	<u>746,073</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 444,799</u>	<u>\$ 591,202</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 30,668</u>	<u>\$ 31,665</u>

See accompanying notes.