



NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY

Phoenix, Arizona

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2019 and 2018

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY  
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## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Financial Statements**

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, 2019 and 2018, 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.

## 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, 2019 and 2018, 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.

## Other Matter

### Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our reported dated October 30, 2020, on our consideration of Neighborhood Ministries Inc. and Subsidiary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the test results of that testing, and not to provide an opinion on the effectiveness of Neighborhood Ministries Inc. and Subsidiary's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Neighborhood Ministries Inc. and Subsidiary's internal control over financial reporting and compliance.

Henry + Horne, LLP

Tempe, Arizona  
October 30, 2020

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 464,178	\$ 444,799
Grants receivable	255,750	128,527
Promises to give	88,226	1,127
Accounts receivable	4,033	-
Prepaid expenses	<u>79,502</u>	<u>5,981</u>
TOTAL CURRENT ASSETS	891,689	580,434
PROPERTY AND EQUIPMENT, net	<u>5,337,454</u>	<u>5,181,455</u>
TOTAL ASSETS	<u><u>\$ 6,229,143</u></u>	<u><u>\$ 5,761,889</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 267,271	\$ 44,143
Line of credit	34,959	34,184
Current portion of long-term debt	<u>33,382</u>	<u>29,670</u>
TOTAL CURRENT LIABILITIES	335,612	107,997
LONG-TERM DEBT, net of current portion	496,312	532,636
SECURITY DEPOSIT	<u>4,000</u>	<u>4,000</u>
TOTAL LIABILITIES	<u>835,924</u>	<u>644,633</u>
NET ASSETS		
Without donor restrictions	4,799,431	4,565,546
With donor restrictions	<u>593,788</u>	<u>551,710</u>
TOTAL NET ASSETS	<u>5,393,219</u>	<u>5,117,256</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 6,229,143</u></u>	<u><u>\$ 5,761,889</u></u>

See accompanying notes.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF ACTIVITIES  
Years Ended December 31, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>SUPPORT AND OTHER REVENUE</b>						
Community contributions and donations	\$ 823,574	\$ 468,601	\$ 1,292,175	\$ 801,661	\$ 255,526	\$ 1,057,187
In-kind donations	611,265	-	611,265	495,055	-	495,055
Grant income	1,844,581	680,331	2,524,912	183,025	505,646	688,671
Thrift store sales	17,743	-	17,743	22,807	-	22,807
Rental income	76,195	-	76,195	81,540	-	81,540
Other revenue	11,701	-	11,701	28,141	-	28,141
Release from purpose restrictions	1,071,854	(1,071,854)	-	503,007	(503,007)	-
Release from time and purpose restrictions	35,000	(35,000)	-	15,000	(15,000)	-
	<u>4,491,913</u>	<u>42,078</u>	<u>4,533,991</u>	<u>2,130,236</u>	<u>243,165</u>	<u>2,373,401</u>
<b>RETAIL SALES</b>						
Sales	211,457	-	211,457	199,525	-	199,525
Cost of sales	(109,547)	-	(109,547)	(108,096)	-	(108,096)
	<u>101,910</u>	<u>-</u>	<u>101,910</u>	<u>91,429</u>	<u>-</u>	<u>91,429</u>
<b>SPECIAL EVENTS</b>						
Special events income	-	-	-	18,000	-	18,000
Direct benefit to donors	-	-	-	(5,113)	-	(5,113)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,887</u>	<u>-</u>	<u>12,887</u>
<b>TOTAL SUPPORT AND OTHER REVENUE</b>	<u>4,593,823</u>	<u>42,078</u>	<u>4,635,901</u>	<u>2,234,552</u>	<u>243,165</u>	<u>2,477,717</u>
<b>OPERATING EXPENSES</b>						
Program services	3,362,268	-	3,362,268	1,863,547	-	1,863,547
Supporting services						
Management and general	518,900	-	518,900	390,516	-	390,516
Fundraising	372,025	-	372,025	250,563	-	250,563
OpportuniTees expenses	106,745	-	106,745	97,031	-	97,031
<b>TOTAL EXPENSES</b>	<u>4,359,938</u>	<u>-</u>	<u>4,359,938</u>	<u>2,601,657</u>	<u>-</u>	<u>2,601,657</u>
<b>CHANGE IN NET ASSETS</b>	<u>233,885</u>	<u>42,078</u>	<u>275,963</u>	<u>(367,105)</u>	<u>243,165</u>	<u>(123,940)</u>
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<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>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 4,799,431</u>	<u>\$ 593,788</u>	<u>\$ 5,393,219</u>	<u>\$ 4,565,546</u>	<u>\$ 551,710</u>	<u>\$ 5,117,256</u>

See accompanying notes.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2019

	Program Services										Total Program Services
	Nueva Esperanza	Mercado	Iglesia De Neighborhood Ministries	Education Programs	Youth Development Programs	Social Justice	Adult Development Programs	Assistance Programs	Job and Skills Development Programs	Hope House Community	
<b>FUNCTIONAL EXPENSES</b>											
Payroll											
Salaries and housing allowance	\$ 551,019	\$ 32,406	\$ 58,052	\$ 106,896	\$ 105,131	\$ 77,531	\$ 65,742	\$ 23,650	\$ 112,644	\$ 452	\$ 1,133,523
Payroll taxes	54,005	2,761	3,821	8,986	10,103	8,972	4,475	2,553	9,243	306	105,225
<b>TOTAL PAYROLL</b>	<b>605,024</b>	<b>35,167</b>	<b>61,873</b>	<b>115,882</b>	<b>115,234</b>	<b>86,503</b>	<b>70,217</b>	<b>26,203</b>	<b>121,887</b>	<b>758</b>	<b>1,238,748</b>
Occupancy costs	19,789	14,900	3,464	12,896	15,364	8,734	4,980	18,904	9,503	9,372	117,906
Repairs and maintenance	76,141	5,023	1,372	6,065	5,697	3,477	1,969	8,576	3,860	3,548	115,728
Transportation expense	11,278	1,278	98	374	17,577	262	185	615	1,149	19	32,835
Professional services	76,775	817	171	1,358	3,590	54,761	13,746	619	415	33	152,285
Employee related costs	40,532	101	2,084	1,379	500	5,443	391	136	204	17	50,787
Insurance expense	101,501	10,104	7,438	22,936	23,117	15,819	9,387	19,396	19,258	853	229,809
Interest expense	-	1,256	1,404	4,588	4,861	3,440	2,016	1,427	3,305	270	22,567
In-kind activity expenses	-	197,234	-	-	49,246	-	-	364,812	-	-	611,292
Activity expenses	221	299	234	89,027	83,806	9,852	8,899	1,215	23,402	152	217,107
Cost of goods sold	-	-	-	-	-	-	-	-	-	-	-
Office supplies	8,453	47	13	48	94	44	243	80	468	2	9,492
Postage	486	1	-	1	17	1	-	2	1	-	509
Printing	1,032	-	-	-	81	787	-	-	68	-	1,968
Depreciation expense	9,375	8,698	9,722	31,768	33,654	23,819	13,955	9,880	22,885	1,869	165,625
Minor equipment	302,160	3,416	2,808	9,494	9,948	8,342	4,032	5,051	7,085	539	352,875
Other expenses	40,597	37	10	538	409	914	165	63	-	2	42,735
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>1,293,364</b>	<b>278,378</b>	<b>90,691</b>	<b>296,354</b>	<b>363,195</b>	<b>222,198</b>	<b>130,185</b>	<b>456,979</b>	<b>213,490</b>	<b>17,434</b>	<b>3,362,268</b>
Amounts reported in total support and other revenue on the statement of activities:											
Cost of goods sold	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL EXPENSES</b>	<b>\$ 1,293,364</b>	<b>\$ 278,378</b>	<b>\$ 90,691</b>	<b>\$ 296,354</b>	<b>\$ 363,195</b>	<b>\$ 222,198</b>	<b>\$ 130,185</b>	<b>\$ 456,979</b>	<b>\$ 213,490</b>	<b>\$ 17,434</b>	<b>\$ 3,362,268</b>

See accompanying notes.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES (Continued)  
Year Ended December 31, 2019

FUNCTIONAL EXPENSES	Supporting Services			OpportuniTees	Total Expenses
	Management and General	Fundraising	Total Supporting Services		
Payroll					
Salaries and housing allowance	\$ 249,051	\$ 176,893	\$ 425,944	\$ 79,880	\$ 1,639,347
Payroll taxes	16,611	13,832	30,443	6,787	142,455
<b>TOTAL PAYROLL</b>	<b>265,662</b>	<b>190,725</b>	<b>456,387</b>	<b>86,667</b>	<b>1,781,802</b>
Occupancy costs	25,829	15,305	41,134	-	159,040
Repairs and maintenance	18,704	7,273	25,977	1,109	142,814
Transportation expense	1,630	2,784	4,414	54	37,303
Professional services	60,544	34,564	95,108	9,161	256,554
Employee related costs	13,663	1,906	15,569	-	66,356
Insurance expense	42,740	23,157	65,897	-	295,706
Interest expense	7,176	5,760	12,936	-	35,503
In-kind activity expenses	-	-	-	-	611,292
Activity expenses	2,281	10,691	12,972	-	230,079
Cost of goods sold	-	-	-	109,547	109,547
Office supplies	3,617	356	3,973	4,274	17,739
Postage	555	11,681	12,236	-	12,745
Printing	12,594	23,733	36,327	-	38,295
Depreciation expense	49,686	39,880	89,566	1,956	257,147
Minor equipment	14,169	1,988	16,157	-	369,032
Other expenses	50	2,222	2,272	3,524	48,531
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>518,900</b>	<b>372,025</b>	<b>890,925</b>	<b>216,292</b>	<b>4,469,485</b>
Amounts reported in total support and other revenue on the statement of activities:					
Cost of goods sold	-	-	-	(109,547)	(109,547)
<b>TOTAL EXPENSES</b>	<b>\$ 518,900</b>	<b>\$ 372,025</b>	<b>\$ 890,925</b>	<b>\$ 106,745</b>	<b>\$ 4,359,938</b>

See accompanying notes.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2018

	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
<b>FUNCTIONAL EXPENSES</b>										
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
<b>TOTAL PAYROLL</b>	<b>57,621</b>	<b>121,431</b>	<b>121,612</b>	<b>68,830</b>	<b>1,835</b>	<b>65,772</b>	<b>16,793</b>	<b>109,087</b>	<b>14,377</b>	<b>577,358</b>
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
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>82,240</b>	<b>261,931</b>	<b>483,221</b>	<b>145,435</b>	<b>34,334</b>	<b>163,806</b>	<b>306,007</b>	<b>343,576</b>	<b>42,997</b>	<b>1,863,547</b>
Amounts reported in total support and other revenue on the statement of activities:										
Cost of goods sold	-	-	-	-	-	-	-	-	-	-
Direct benefit to donors	-	-	-	-	-	-	-	-	-	-
<b>TOTAL EXPENSES</b>	<b>\$ 82,240</b>	<b>\$ 261,931</b>	<b>\$ 483,221</b>	<b>\$ 145,435</b>	<b>\$ 34,334</b>	<b>\$ 163,806</b>	<b>\$ 306,007</b>	<b>\$ 343,576</b>	<b>\$ 42,997</b>	<b>\$ 1,863,547</b>

See accompanying notes.

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

	Supporting Services					Total Expenses
	Management and General	Fundraising	Direct Benefit to Donors	Total Supporting Services	OpportuniTees	
<b>FUNCTIONAL EXPENSES</b>						
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
<b>TOTAL PAYROLL</b>	<b>277,271</b>	<b>169,041</b>	<b>-</b>	<b>446,312</b>	<b>75,849</b>	<b>1,099,519</b>
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
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>390,516</b>	<b>250,563</b>	<b>5,113</b>	<b>646,192</b>	<b>205,127</b>	<b>2,714,866</b>
Amounts reported in total support and other revenue on the statement of activities:						
Cost of goods sold	-	-	-	-	(108,096)	(108,096)
Direct benefit to donors	-	-	(5,113)	(5,113)	-	(5,113)
<b>TOTAL EXPENSES</b>	<b>\$ 390,516</b>	<b>\$ 250,563</b>	<b>\$ -</b>	<b>\$ 641,079</b>	<b>\$ 97,031</b>	<b>\$ 2,601,657</b>

See accompanying notes.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 275,963	\$ (123,940)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	257,147	220,015
Decrease (increase) in:		
Grants receivable	(127,223)	(115,498)
Promises to give	(87,099)	-
Accounts receivable	(4,033)	46,212
Prepaid expenses	(73,521)	(1,489)
Increase (decrease) in:		
Accounts payable and accrued expenses	223,128	(48,454)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>464,362</u>	<u>(23,154)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(413,146)</u>	<u>(97,260)</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(413,146)</u>	<u>(97,260)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(32,612)	(27,091)
Payments on capital lease obligation	-	(1,151)
Proceeds from advances on line of credit	2,876	5,025
Payments made on line of credit	<u>(2,101)</u>	<u>(2,772)</u>
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>(31,837)</u>	<u>(25,989)</u>
NET INCREASE (DECREASE) IN CASH	19,379	(146,403)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>444,799</u>	<u>591,202</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 464,178</u>	<u>\$ 444,799</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 32,763</u>	<u>\$ 30,668</u>

See accompanying notes.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended December 31, 2019 and 2018

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES

Nature of Activities

Neighborhood Ministries, Inc. ("NM") 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 NM's programs is holistic in nature. NM targets the most vulnerable urban poor families who are trapped in the cycle of poverty and have significant physical, emotional, mental and spiritual needs. The programs are designed to develop relationships through which love, help and hope can be inspired.

NM's key values are investing in long-term relationships, expressing holistic ministry, being community based in ministry, mentoring and developing indigenous leaders, affirming the role of the local church and developing partnerships that unite the church at large.

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

Program Services

Following are the program services administered by NM.

***Iglesia De Neighborhood Ministries*** is the church that functions within NM. It is a bi-lingual Spanish/English church of approximately 100 weekly attendees. Sunday morning is the place and time where whole families meet together under the guidance of two pastors.

***Education Programs***

Education Programs encompass preschool through college age as well as the community at large. Select children from the existing youth groups are resourced into age appropriate programs. These programs are designed to build hope, trust and reliance on Jesus Christ through lifelong 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.***

***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 9 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.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended December 31, 2019 and 2018

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

Program Services (Continued)

**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, NM 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.

**Community Education**, NM also provides valuable education programs to the community at large. These programs are developed to bring more understanding regarding the importance of seeking practical ways to help break the cycle of poverty to those in need.

**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. NM provides transportation for children from within a 100 square mile area for those who want to stay connected with the program. The program includes bible class time with a small group leader, time for singing and worship, and activities such as soccer, crafts, metal and wood shop, choir, dance, basketball and drama.

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

**Kids 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 youths from urban and suburban backgrounds. The morning session begins with singing, skits and classroom time with a biblical based curriculum, and the afternoon session consists of field trips and fun activities. Volunteers and churches from around Phoenix prepare the crafts and snacks for the children.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended December 31, 2019 and 2018

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

Program Services (Continued)

**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.

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

**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 NM 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. NM participates in the national training provided by The Christian Community Development Association.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended December 31, 2019 and 2018

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

Program Services (Continued)

**Adult Development Programs**

**Parenting por Vida** is a mentoring program for teenage mothers. The program is designed for mothers ages 12 through 24 and their children. The purpose is for mature Christian women to support young mothers from the inner city and to nurture and enhance their parental, spiritual, personal and communal development through caring, compassionate friendships. The relationship is designed to equip young mothers with tools to counteract negative influences that lead to family and social dysfunction. It is NM's desire to love each young mother unconditionally and encourage the opportunity for mature friendships and wise counsel.

**Parent Volunteers** consists of over 100 parents of the children that attend the youth groups. The purpose is to develop trusting relationships built on dignity that will lead to a growing personal relationship with Jesus and an increasing participation in the church and community. These relationships are developed by providing work opportunities that utilize and develop practical job skills, sponsoring seasonal stores where volunteer hours are redeemed for needed items, providing volunteer opportunities to serve the community, meeting the holistic needs of the 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.

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

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended December 31, 2019 and 2018

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

Program Services (Continued)

***Job and Skills Development Programs***

***Neighbors at Work*** assists youth and young adults ages 15 – 35 in developing the skills and habits necessary to apply for a job and then succeed in that job. Funded in part by the Valley of the Sun United Way, this program teaches job search skills for effective long-term employment through resume writing, interviewing readiness and effective job placement. An ongoing case manager assists in teaching of responsibility, accountability and effective communication in the workplace. Through networking channels and relationships with area employers, the program also provides information on current job openings.

***Mercado de la Comunidad (thrift store)*** was opened in November 2009 to provide job opportunities and a low-cost convenient place to meet some of the community needs for clothing and household goods. Generous donations keep the store well-stocked and efforts are being made to market the store outside of the immediate neighborhood so that it can become self-sufficient.

***Hope House Community*** 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 NM, 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 NM and OpportuniTees, LLC, a wholly owned subsidiary of NM, (collectively “the Organization”). All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements.

Basis of Accounting

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly, reflect all significant receivables, payables and other liabilities.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Organization considers all highly liquid investments with an original maturity of three months or less at date of acquisition to be cash equivalents.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended December 31, 2019 and 2018

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

Accounts Receivable

The Organization evaluates the collectability of its accounts receivable based on balances and the amount management expects to collect under the terms of service contracts and agreements. In circumstances where it is aware of a specific amount where there may be an inability to meet the final obligation, it records a specific reserve to reduce the amounts recorded to what it believes will be collected. Accounts are charged off against the allowance when they are deemed to be uncollectible. Accounts are past due when not paid within the contract or agreement terms. Accounts receivable as of December 31, 2019 and 2018 are considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided.

Grants Receivable and Grant Income

Grants receivable include amounts due under cost reimbursement grant agreements and amounts awarded during the year but paid subsequent to year end. The Organization evaluates the collectability of its grants receivable based on balances and the amount management expects to collect under the terms of service contracts and grant agreements. Grants receivable as of December 31, 2019 and 2018 are considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided.

Grant income from cost reimbursement grant agreements is conditional contribution income and 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.

Promises to Give

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. 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 risk-free interest rates as determined by management applicable to the years in which the promises are received. Amortization of the discounts is included in contributions. In circumstances where it is aware of a specific amount where there may be an inability to meet the financial obligation, the Organization records a specific reserve to reduce the amounts recorded to what it believes will be collected. Promises are charged off against the allowance when they are deemed to be uncollectible. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended December 31, 2019 and 2018

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

Property and Equipment

Acquisitions of property and equipment in excess of \$1,000 are capitalized. Property and equipment are stated at cost or, if donated, at approximate fair value at the date of donation. Depreciation of buildings and equipment is calculated using the straight-line method over the estimated useful lives of the respective assets.

Major additions and improvements are capitalized. Maintenance and repairs are expensed as incurred. When assets are retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and gains and losses are included in operations.

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 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.

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.

Revenue Recognition and Change in Accounting Principles

In May 2014, the Financial Accounting Standards Board (FASB) issued guidance Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers*, which provides a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue recognition guidance in U.S. generally accepted accounting principles. The core principle of the new guidance is that an organization should recognize revenue to reflect the transfer of goods and services in an amount equal to the consideration the organization receives or expects to receive. ASC 606 is effective for annual reporting periods beginning after December 15, 2018. The Organization adopted ASC 606 with a date of the initial application of January 1, 2019.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended December 31, 2019 and 2018

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

Revenue Recognition and Change in Accounting Principles (Continued)

The majority of the Organization's revenue arrangements generally consist of a single performance obligation to transfer promised services. Based on the Organization's evaluation of its contracts, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under the new standard. No changes were required to previously reported revenues as a result of the adoption.

Rental fees for the silo building are set by the Organization and the performance obligation is delivery of these services on a monthly basis. Rental revenue is recognized in the month in which the service relates and payment is due on a monthly basis.

The Organization operates a thrift shop and a silkscreen and embroidery business. The performance obligation is the delivery of the goods to the customer and the transaction price is established by the Organization. As each item is individually priced, no allocation of the transaction price is necessary. The Organization recognizes revenue as the customer pays and takes possession of the merchandise.

Contributions

In June 2018, the FASB issued ASU No. 2018-08, *Not-For-Profit Entities-Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The ASU clarifies and improves guidance for contributions received and contributions made by clarifying whether to account for transactions as contributions or as exchange transactions. In addition, it clarifies whether a contribution is conditional or unconditional. The change in accounting principle was adopted on a modified prospective basis on January 1, 2019. As a result, there was no cumulative-effect adjustment to beginning net assets as of January 1, 2019.

Contributions received are recorded as either support with donor restrictions or as support without donor restrictions, depending on the existence and/or nature of any donor imposed restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended December 31, 2019 and 2018

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

Non-Cash Donations

Contributions of donated non-cash tangible assets (in-kind donations) are recorded at their fair values in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donated services, are recorded at their fair market values in the period received. During the years ended December 31, 2019 and 2018, 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, 2019 and 2018, for food pantry services, work crew assistance and Kids Club.

Net Assets

The Organization reports information regarding its financial position and activities according to two classes of net assets as follows:

- Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor or grantor restrictions.
- Net Assets With Donor Restrictions – Net assets whose use is limited by donor-imposed time and/or purpose restrictions. Gifts of long-lived assets and gifts of cash restricted for acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Functional Allocation of Expenses

The consolidated statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among program services and supporting services. A majority of the Organization's expenses are direct expenses and are allocated directly to the program the expense applies to. Certain employee positions are allocated based on time and effort. Other expenses, including office supplies, printing, and postage are allocated based on a full-time employee equivalent basis. Occupancy and depreciation expense are allocated based on square footage utilized by the function.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended December 31, 2019 and 2018

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

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, 2019 and 2018 because Neighborhood Ministries, Inc. does not expect to recognize the tax benefit in the future.

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 by the tax authorities. At December 31, 2019 and 2018, the Organization had no uncertain tax positions that qualify for either recognition or disclosure in the consolidated financial statements.

The Organization recognizes interest and penalties associated with income taxes in operating expenses. During the years ended December 31, 2019 and 2018, 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 of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from these 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 October 30, 2020, the date the consolidated financial statements were available to be issued.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 Years Ended December 31, 2019 and 2018

NOTE 2 LIQUIDITY AND AVAILABILITY

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Organization has various sources of liquidity at its disposal including cash and cash equivalents and lines of credit; see Note 6 for information about the Organization's line of credit.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to the Organization's ongoing activities of education, youth and adult development, leadership and job skills training, and assistance programs as well as the conduct of services undertaken to support those activities to be general expenditures.

In addition to financial assets available to meet general expenditures over the next 12 months, the Organization operates with a balanced budget and anticipates receiving significant grants and contributions each year from donors, which are available to meet annual cash needs for general expenditures.

As of December 31, 2019 and 2018, the following table shows the total financial assets held by the Organization and the amounts of those financial assets that could readily be made available within one year of the statement of financial position date to meet general expenditures.

	<u>2019</u>	<u>2018</u>
Financial assets at year-end		
Cash and cash equivalents	\$ 464,178	\$ 444,799
Grants receivable	255,750	128,527
Promises to give	88,226	1,127
Accounts receivable	<u>4,033</u>	<u>-</u>
Financial assets available for general expenditures	<u>\$ 812,187</u>	<u>\$ 574,453</u>

NOTE 3 CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Organization to significant concentrations of credit risk consists principally of cash and grants receivable. The Organization maintains its cash in bank accounts with financial institutions, which at times may 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 cash balances.

As of December 31, 2019 and 2018, amounts due from two funding sources make up 100% and 74% of grants receivable, respectively. Concentrations of credit risk with respect to these amounts are limited due to the collection history and relationships with the donor and funding source.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended December 31, 2019 and 2018

NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	<u>2019</u>	<u>2018</u>
Land	\$ 436,200	\$ 436,200
Buildings	3,220,376	3,220,376
Property improvements	3,210,857	2,955,267
Furniture and fixtures	286,264	286,264
Equipment	73,754	39,316
Vehicles	247,378	152,261
Computers and telephones	<u>88,555</u>	<u>60,555</u>
	7,563,384	7,150,239
Accumulated depreciation	<u>(2,240,613)</u>	<u>(1,983,467)</u>
	5,322,771	5,166,772
Construction in progress	<u>14,683</u>	<u>14,683</u>
	<u>\$ 5,337,454</u>	<u>\$ 5,181,455</u>

Depreciation expense amounted to approximately \$257,000 and \$220,000 for the years ended December 31, 2019 and 2018, respectively. Construction in progress consists of costs related to the new early head start building and soccer field.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 Years Ended December 31, 2019 and 2018

NOTE 5 LONG-TERM DEBT

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

	<u>2019</u>	<u>2018</u>
Mortgage note payable, at an interest rate of 3.75%, due in monthly installments of \$4,399, with a balloon payment due September 2026. This note is secured by a first deed of trust on the real property.	\$ 529,694	\$ 562,306
Current portion	<u>(33,382)</u>	<u>(29,670)</u>
	<u>\$ 496,312</u>	<u>\$ 532,636</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>	
2020	\$ 33,382
2021	34,656
2022	35,978
2023	37,351
2024	38,776
Thereafter	<u>349,551</u>
	<u>\$ 529,694</u>

NOTE 6 LINE OF CREDIT

The Organization has available an unsecured \$35,000 bank line of credit bearing a minimum interest rate of 9.95%, which matures on November 25, 2020. The outstanding balance on this line of credit at December 31, 2019 and 2018 was \$34,959 and \$34,184, respectfully.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended December 31, 2019 and 2018

NOTE 7 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows at December 31:

	<u>2019</u>	<u>2018</u>
Purpose restricted:		
New head start campaign	\$ 194,272	\$ -
W&K scholarship fund	113,722	120,705
Youth center computer lab	98,732	47,581
Social justice	30,208	84,467
Distressed families	8,812	19,444
Neighbors at work	-	110,000
Soccer field	-	55,000
Parenting por vida	-	22,500
Emerging leader	-	17,000
Website project	-	13,000
OpportuniTees	-	9,463
Food bank	-	6,744
Listen for good database project	-	6,601
Capital improvements	-	4,205
Time and purpose restricted:		
Social justice	148,042	-
Parenting por vida	-	30,000
Emerging leader	-	5,000
	<u>\$ 593,788</u>	<u>\$ 551,710</u>

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 Years Ended December 31, 2019 and 2018

NOTE 8 IN-KIND DONATIONS

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

	2019	2018
Food and water	\$ 364,811	\$ 242,971
Clothing	197,234	169,834
Children's items	11,250	37,500
Household items	23,200	16,250
Computer tables and desks	-	25,000
Miscellaneous	14,770	3,500
	\$ 611,265	\$ 495,055

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

NOTE 9 RELATED PARTY TRANSACTIONS

The Organization paid salaries and housing allowances totaling approximately \$86,000 and \$148,000 to two board members who were employed by the Organization during the years ended December 31, 2019 and 2018, respectively.

NOTE 10 SUBSEQUENT EVENTS

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the “COVID-19 outbreak”) and the risk to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Organization’s financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Organization is not able to estimate the effect of the COVID-19 outbreak on its results of operations, financial conditions or liquidity for 2020.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended December 31, 2019 and 2018

NOTE 10 SUBSEQUENT EVENTS (Continued)

Subsequent to year-end, the Organization received loan proceeds in the amount of \$343,200 under the Paycheck Protection Program (PPP). The PPP, established as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, provides for loans to qualifying businesses for amounts up to 2.5 times the average monthly payroll costs incurred during the year prior to the loan date of the qualifying business. The loan and accrued interest are forgivable after 8 or 24 weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll costs, interest on mortgage obligations, rent, and utilities. The amount of the loan forgiveness will be reduced if the borrower reduces the number of employees or reduces salaries by more than 25% during the twenty-four week period beginning on the loan origination date.

NOTE 11 NEW ACCOUNTING PRONOUNCEMENTS

The FASB has issued ASU No. 2016-02, *Leases*. For nonpublic companies, the standard must be adopted for annual reporting periods beginning after December 15, 2021. The standard's core principle is the recognition of lease assets and lease liabilities by lessees for substantially all leases, including those currently classified as operating leases. Under the ASU, a lessee will be required to recognize assets and liabilities for operating and finance leases with terms of more than 12 months. Management is currently in the process of evaluating the impact of adoption of this ASU on the consolidated financial statements.

UNIFORM GUIDANCE SUPPLEMENTARY REPORTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Neighborhood Ministries, Inc. and Subsidiary which comprise the consolidated statement of financial position as of December 31, 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 30, 2020.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered Neighborhood Ministries, Inc. and Subsidiary's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Neighborhood Ministries, Inc. and Subsidiary's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2019-001 and 2019-002, that we consider to be material weaknesses.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Neighborhood Ministries, Inc. and Subsidiary's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Neighborhood Ministries, Inc. and Subsidiary's Response to Findings**

Neighborhood Ministries, Inc. and Subsidiary's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Neighborhood Ministries, Inc. and Subsidiary's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

## **Purpose of this Report**

This report is intended solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Henry + Horne, LLP

Tempe, Arizona  
October 30, 2020



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM  
GUIDANCE

To the Board of Directors  
Neighborhood Ministries, Inc.  
Phoenix, Arizona

**Report on Compliance for Each Major Federal Program**

We have audited Neighborhood Ministries, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Neighborhood Ministries, Inc.'s major federal programs for the year ended December 31, 2019. Neighborhood Ministries, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

*Management's Responsibility*

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

*Auditors' Responsibility*

Our responsibility is to express an opinion on compliance for each of Neighborhood Ministries, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Neighborhood Ministries, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Neighborhood Ministries, Inc.'s compliance.

### *Opinion on Each Major Federal Program*

In our opinion, Neighborhood Ministries, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

### **Report on Internal Control over Compliance**

Management of Neighborhood Ministries, Inc., is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Neighborhood Ministries, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Neighborhood Ministries, Inc.'s internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Henry + Horne, LLP*

Tempe, Arizona  
October 30, 2020

NEIGHBORHOOD MINISTRIES, INC.  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 Year Ended December 31, 2019

<u>Federal Grantor / Pass-Through Grantor / Program</u>	<u>Federal CFDA Number</u>	<u>Grantor's Number</u>	<u>Federal Expenditures</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</b>			
Direct Programs:			
Unaccompanied Alien Children Program	93.676	N/A	<u>\$ 1,765,984 *</u>
<b>Total U.S. Department of Health and Human Services</b>			<u>1,765,984</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><u>\$ 1,765,984</u></u>

\* Denotes major program

NEIGHBORHOOD MINISTRIES, INC.  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
December 31, 2019

NOTE 1 BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Neighborhood Ministries, Inc. under programs of the federal government for the year ended December 31, 2019. The information in this schedule is presented in accordance with requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Neighborhood Ministries, Inc., it is not intended to and does not present the financial position, changes in net position, or cash flows of Neighborhood Ministries, Inc.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and/or OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- B) Neighborhood Ministries, Inc. has elected to use the 10 percent *de minimis* indirect cost rate as allowed under the Uniform Guidance.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 Year Ended December 31, 2019

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?
- Significant deficiency(ies) identified that are not considered to be a material weakness(es)?

X  yes \_\_\_ no

X  yes \_\_\_ none reported

Noncompliance material to financial statements noted?

\_\_\_ yes  X  no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified?
- Significant deficiency(ies) identified that are not considered to be a material weakness(es)?

\_\_\_ yes  X  no

\_\_\_ yes  X  none reported

Type of auditors’ report issued on compliance for each major program listed below:

Department of Health and Human Services –  
 Unaccompanied Alien Children Program

Unmodified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?

\_\_\_ yes  X  no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
93.676	Department of Health and Human Services – Unaccompanied Alien Children Program

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

\_\_\_ yes  X  no

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended December 31, 2019

SECTION II – FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

FINDING 2019-001 Contribution Income – Material Weakness

CRITERIA

Generally accepted accounting principles require that grant income that is classified as contribution income be recorded when the grant is awarded to the Organization even if the grant is restricted to be used in the subsequent fiscal year or if the Organization has not received the cash by the end of the fiscal year.

CONDITION/CONTEXT

During our audit, we found errors in the recording of several grant and contribution revenue transactions.

CAUSE

The Accounting Department does not have appropriate procedures in place to ensure that revenue is properly recorded in the correct period.

EFFECT

Grant revenue in the amount of \$74,772 and other contribution income in the amount of \$66,869 were recorded in the period when cash was received instead of in the period when the amounts were promised or awarded, resulting in an understatement of prior year revenue in the amount of approximately \$45,000 and an understatement of current year revenue in the amount of approximately \$51,641.

RECOMMENDATION

We recommend that management implement a process to review all grant agreements received to determine if the grant is an exchange transaction or contribution. If the grant is determined to be a contribution, the accounting department should review the grant award letter to ensure that the grant is recorded in the correct accounting period. In addition, we recommend that management implement a year-end process to ensure all promises to give are recorded properly.

This finding was also reported as a material weakness in the prior year.

VIEWS OF RESPONSIBLE OFFICIALS

Management concurs with this recommendation. See corrective action plan.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Year Ended December 31, 2019

SECTION II – FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS (Continued)

FINDING 2019-002 Segregation of Duties at Neighborhood Ministries and OpportuniTees –  
Material Weakness

CRITERIA

Internal controls should be designed to safeguard assets to prevent or detect losses from employee dishonesty or error. A fundamental concept in a good system of internal control is the segregation of duties. A lack of segregation of duties can increase the risk of error or fraud.

CONDITION/CONTEXT

While performing observations over the accounting function of Neighborhood Ministries we noted there is limited segregation of duties over the cash disbursements process. For OpportuniTees, we noted there is limited segregation of duties over the cash disbursements and cash receipts processes.

CAUSE

Although two individuals are involved in the cash disbursement process for Neighborhood Ministries, one individual has access to QuickBooks, has approval and check signing authority, is responsible for mailing checks, and is also responsible for preparing bank reconciliations.

The accounting function of OpportuniTees operates separately from the accounting function of Neighborhood Ministries, with little oversight on the day to day operations from Neighborhood Ministries management. Even though limited staff at OpportuniTees makes segregation of duties difficult to accomplish, proper oversight by Neighborhood Ministries management and board of directors can mitigate the risk of fraud or error from segregation of duties at OpportuniTees.

EFFECT

Internal controls should be designed to safeguard assets to prevent or detect losses from employee dishonesty or error. A lack of segregation of duties can increase the risk of error or fraud.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Year Ended December 31, 2019

SECTION II – FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS (Continued)

FINDING 2019-002 Segregation of Duties at Neighborhood Ministries and OpportuniTees –  
Material Weakness (Continued)

RECOMMENDATION

OpportuniTees is a wholly owned subsidiary of Neighborhood Ministries. Therefore, the Board of Directors of Neighborhood Ministries has a fiduciary responsibility over OpportuniTees. We recommend that procedures be put into place to add additional review and approval of OpportuniTees' monthly financial statements by Neighborhood Ministries' Board of Directors. We also recommend that management consider ways to further segregate the various responsibilities of the accounting function, such as by inserting certain approval processes. Since we understand the staff size of OpportuniTees may make it difficult to adhere to this concept, employees of Neighborhood Ministries can be utilized for this purpose.

In addition, we recommend that the Director of Operations and Finance perform a monthly review of account balances and bank reconciliations to ensure accuracy in financial reporting. We also recommend the employees of OpportuniTees become employees of Neighborhood Ministries so that there is one combined payroll system with one combined process that ensures segregation of duties. OpportuniTees would then reimburse Neighborhood Ministries for its share of the payroll costs on a monthly basis.

For Neighborhood Ministries, we recommend that check signing authority be limited to only members of management who do not have access to QuickBooks and do not prepare the checks.

This finding was also reported as a material weakness in the prior year.

VIEWS OF RESPONSIBLE OFFICIALS

Management concurs with this recommendation. See corrective action plan.

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Year Ended December 31, 2019

SECTION II – FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS (Continued)

FINDING 2019-003 Review of Bank Reconciliations – Significant Deficiency

CRITERIA

Timely preparation of complete and accurate bank reconciliations is a key to maintaining adequate control over both cash receipts and disbursements.

CONDITION/CONTEXT

During much of the year, the bank account reconciliations appeared to be generally incomplete. Specifically, they contained unreconciled differences and the balance per the bank reconciliations did not agree with the balance per the general ledger.

CAUSE

The Accounting Department does have processes for completing bank reconciliations and reviewing bank reconciliations, however, the review procedure did not incorporate a step to ensure the bank reconciliations agree to the general ledger.

EFFECT

An unreconciled difference that appears immaterial can obscure significant but offsetting items (such as bank errors or improperly recorded transactions) that would be a cause for investigation if the items were apparent.

RECOMMENDATION

We recommend that the bank reconciliations be reviewed for accuracy and completeness on a timely basis. Also, the reviewer should compare the reconciled balance to the general ledger to be sure the balance agrees.

VIEWS OF RESPONSIBLE OFFICIALS

Management concurs with this recommendation. See corrective action plan.

SECTION III – FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

None Noted



**NEIGHBORHOOD**  
MINISTRIES

**CORRECTIVE ACTION PLAN**

Neighborhood Ministries, Inc. and Subsidiary respectfully submits the following corrective action plans for the findings noted in the audit report by Henry & Horne, LLP for the audit period as of and for the year ended December 31, 2019. These findings are discussed below and are numbered consistently with the numbers assigned in the schedule of findings and questioned costs.

Finding 2019-001 related to financial statements (contribution income):

Recommendation:

We recommend that management implement a process to review all grant agreements received to determine if the grant is an exchange transaction or contribution. If the grant is determined to be a contribution, the accounting department should review the grant award letter to ensure that the grant is recorded in the correct accounting period. In addition, we recommend that management implement a year-end process to ensure all promises to give are recorded properly.

Corrective Action Plan:

Management has implemented a process in 2020 where all grant agreements are reviewed upon signing to determine whether it is a contribution or exchange transaction. If it is a contribution, the organization will record it in the period which the agreement is signed. Management has also implemented a year-end review process where we look at all grant agreements signed during the year, compared to QuickBooks, to ensure that everything has been recorded accurately and in the correct period.

## **CORRECTIVE ACTION PLAN (Continued)**

Finding 2019-002 related to financial statements (segregation of duties):

### Recommendation:

OpportuniTees is a wholly owned subsidiary of Neighborhood Ministries. Therefore, the Board of Directors of Neighborhood Ministries has a fiduciary responsibility over OpportuniTees. We recommend that procedures be put into place to add additional review and approval of OpportuniTees' monthly financial statements by Neighborhood Ministries' Board of Directors. We also recommend that management consider ways to further segregate the various responsibilities of the accounting function, such as by inserting certain approval processes. Since we understand the staff size of OpportuniTees may make it difficult to adhere to this concept, employees of Neighborhood Ministries can be utilized for this purpose.

In addition, we recommend that the Director of Operations and Finance perform a monthly review of account balances and bank reconciliations to ensure accuracy in financial reporting.

We also recommend the employees of OpportuniTees become employees of Neighborhood Ministries so that there is one combined payroll system with one combined process that ensures segregation of duties. OpportuniTees would then reimburse Neighborhood Ministries for its share of the payroll costs on a monthly basis.

For Neighborhood Ministries, we recommend that check signing authority be limited to only members of management who do not have access to QuickBooks and do not prepare the checks.

### Corrective Action Plan:

Management has corrected this issue as of October 2019. The individual involved in the cash disbursement process is not a signer on the account and currently no one who has access to QuickBooks is a signer on any of the bank accounts. We also have implemented a separate review of the bank reconciliations by the Executive Director, Treasurer, and CFO. Additionally, the Executive Director, Treasurer, CFO, and Board all review the OpportuniTees financial statements and oversee the new external bookkeeper who works under Neighborhood Ministries. The OpportuniTees books are closed by the 15<sup>th</sup> of the subsequent month to ensure timely review of the financial statements.

## **CORRECTIVE ACTION PLAN (Continued)**

Finding 2019-003 related to financial statements (review of bank reconciliations):

### Recommendation:

We recommend that the bank reconciliations be reviewed for accuracy and completeness on a timely basis. The review should include tests of mechanical accuracy and tracing of items on the reconciliation to the relevant source documents. The composition of unreconciled differences should be determined and followed up on, and any journal entries deemed necessary as a result be recorded. The reviewer should compare the reconciled balance to the general ledger to be sure the balance agrees.

### Corrective Action Plan:

In 2019, management implemented an extensive bank reconciliation review process for the Executive Director and Treasurer. They review and compare all major transactions between the reconciliation and the bank statements. The issue referred to in the 2019 audit was a difference between the ending balance on the bank reconciliation and the ending balance in the general ledger due to unreconciled transactions remaining in the reconciliation. Management is now including the bank statement, bank reconciliation, and general ledger in their review.