

NEIGHBORHOOD MINISTRIES, INC. and SUBSIDIARY

Consolidated Financial Statements
With Independent Auditors' Report
and
Federal Awards
In Accordance with the Uniform Guidance

Year Ended December 31, 2021

NEIGHBORHOOD MINISTRIES, INC. and SUBSIDIARY

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INDEPENDENT AUDITORS' REPORT

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



Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Neighborhood Ministries, Inc. and Subsidiary (a nonprofit corporation), which comprise the consolidated statement of financial position as of December 31, 2021, 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Neighborhood Ministries, Inc. and Subsidiary as of December 31, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements, continued

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Neighborhood Ministries, Inc. and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Neighborhood Ministries, Inc. and Subsidiary's ability to continue as a going concern for a reasonable period of time.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2022, 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, 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 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.

Capin Crouse LLP

Lawrenceville, Georgia
October 28, 2022

NEIGHBORHOOD MINISTRIES, INC. and SUBSIDIARY

Consolidated Statement of Financial Position

December 31, 2021

ASSETS:

| | |
|--------------------------------------|------------------|
| Cash and cash equivalents | \$ 2,231,778 |
| Grants receivable | 1,155,251 |
| Other receivables and current assets | 121,594 |
| Property and equipment—net | <u>5,330,730</u> |

Total Assets \$ 8,839,353

LIABILITIES AND NET ASSETS:

Liabilities:

| | |
|---------------------------------------|------------------|
| Accounts payable and accrued expenses | \$ 1,185,403 |
| Refundable advance | 162,506 |
| Note payable | 465,820 |
| Total liabilities | <u>1,813,729</u> |

Net assets:

| | |
|----------------------------|------------------|
| Without donor restrictions | 5,334,406 |
| With donor restrictions | 1,691,218 |
| Total net assets | <u>7,025,624</u> |

Total Liabilities and Net Assets \$ 8,839,353

See notes to consolidated financial statements

NEIGHBORHOOD MINISTRIES, INC. and SUBSIDIARY

Consolidated Statement of Activities

Year Ended December 31, 2021

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--------------------------------------|-------------------------------|----------------------------|---------------------|
| SUPPORT AND REVENUE: | | | |
| Contributions | \$ 1,195,853 | \$ 510,304 | \$ 1,706,157 |
| Donated goods | 494,988 | - | 494,988 |
| Grant income | 10,716,255 | 1,655,196 | 12,371,451 |
| Product sales | 231,655 | - | 231,655 |
| Other | 44,830 | - | 44,830 |
| Total Support and Revenue | 12,683,581 | 2,165,500 | 14,849,081 |
| RECLASSIFICATIONS: | | | |
| Satisfaction of purpose restrictions | 1,815,807 | (1,815,807) | - |
| EXPENSES: | | | |
| Program services: | | | |
| Nueva Esperanza | 6,927,531 | - | 6,927,531 |
| Nueva Camino | 752,354 | - | 752,354 |
| Mercado | 120,741 | - | 120,741 |
| Iglesia De Neighborhood Ministries | 92,337 | - | 92,337 |
| Youth Development Programs | 831,887 | - | 831,887 |
| Social Justice | 473,002 | - | 473,002 |
| Adult Development Programs | 130,136 | - | 130,136 |
| Assistance Programs | 3,166,406 | - | 3,166,406 |
| Job and Skills Development Programs | 750,661 | - | 750,661 |
| Opportunities Program | 228,880 | - | 228,880 |
| | 13,473,935 | - | 13,473,935 |
| Supporting activities: | | | |
| General and administrative | 1,025,277 | - | 1,025,277 |
| Fundraising | 366,982 | - | 366,982 |
| | 1,392,259 | - | 1,392,259 |
| Total Expenses | 14,866,194 | - | 14,866,194 |
| Change in Net Assets | (366,806) | 349,693 | (17,113) |
| Net Assets, Beginning of Year | 5,701,212 | 1,341,525 | 7,042,737 |
| Net Assets, End of Year | \$ 5,334,406 | \$ 1,691,218 | \$ 7,025,624 |

See notes to consolidated financial statements

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY

Consolidated Statement of Functional Expenses

Year Ended December 31, 2021

| | Program Services | | | | | | | | | | Total Program Services |
|-------------------------|---------------------|-------------------|-------------------|--|----------------------------------|-------------------|----------------------------------|------------------------|---|--------------------------|------------------------------|
| | Nueva Esperanza | Nueva Camino | Mercado | Iglesia De Neighborhood Ministries | Youth Development Programs | Social Justice | Adult Development Programs | Assistance Programs | Job and Skills Development Programs | Opportunities Program | |
| Salaries and benefits | \$ 4,362,744 | \$ 19,808 | \$ 37,988 | \$ 72,936 | \$ 455,324 | \$ 292,593 | \$ 104,873 | \$ 205,713 | \$ 538,293 | \$ 99,002 | \$ 6,189,274 |
| Occupancy | 173,530 | 36,991 | 314 | - | 13,752 | 4,847 | 700 | 34,466 | 2,618 | - | 267,218 |
| Repairs and maintenance | 55,121 | - | - | - | 2,882 | 20,928 | 325 | 954 | 4,782 | 4,865 | 89,857 |
| Transportation | 229,528 | 52,551 | - | - | 11,941 | 301 | - | 81 | 121 | 1,168 | 295,691 |
| Professional services | 767,152 | 125,431 | 1,740 | 1,315 | 155,218 | 93,821 | 1,957 | 45,657 | 27,962 | 100 | 1,220,353 |
| Meals and travel | 389,923 | 17,500 | 3,166 | 11,910 | 46,057 | 10,852 | 8,728 | 13,463 | 50,328 | 92 | 552,019 |
| Insurance | 127,443 | - | 1,134 | 857 | 7,725 | 4,596 | 1,208 | 30,228 | 6,969 | - | 180,160 |
| Rent assistance | 512,691 | 68,724 | - | 534 | 90,272 | 16,191 | 5,027 | 2,287,299 | 33,799 | - | 3,014,537 |
| Office supplies | 22,210 | 22,771 | 468 | - | 2,603 | 1,748 | - | 15 | 48,736 | 2,722 | 101,273 |
| Postage | 5,873 | - | 6 | - | 115 | 2,137 | - | 110 | 98 | - | 8,339 |
| Printing | 9,607 | - | - | - | 5,957 | 693 | - | - | 4,775 | - | 21,032 |
| Minor equipment | 142,671 | 408,578 | - | 1,087 | 7,862 | 5,437 | - | 10,242 | 4,152 | 424 | 580,453 |
| Other expenses | 11,417 | - | 4 | 333 | 1,857 | 1,601 | 2,575 | - | 671 | 933 | 19,391 |
| Cost of goods sold | - | - | - | - | - | - | - | - | - | 118,003 | 118,003 |
| Depreciation | 117,621 | - | 4,451 | 3,365 | 30,322 | 17,257 | 4,743 | 115,699 | 27,357 | 1,571 | 322,386 |
| Interest | - | - | - | - | - | - | - | - | - | - | - |
| Donated goods | - | - | 71,470 | - | - | - | - | 422,479 | - | - | 493,949 |
| Total Expenses | \$ 6,927,531 | \$ 752,354 | \$ 120,741 | \$ 92,337 | \$ 831,887 | \$ 473,002 | \$ 130,136 | \$ 3,166,406 | \$ 750,661 | \$ 228,880 | \$ 13,473,935 |

(continued)

See notes to consolidated financial statements

NEIGHBORHOOD MINISTRIES, INC. AND SUBSIDIARY

Consolidated Statement of Functional Expenses

Year Ended December 31, 2021

(continued)

| | General and Administrative | Fundraising | Total Supporting Services | Total Expenses |
|-------------------------|----------------------------------|-------------------|---------------------------------|----------------------|
| Salaries and benefits | \$ 469,919 | \$ 243,056 | \$ 712,975 | \$ 6,902,249 |
| Occupancy | 115,696 | - | 115,696 | 382,914 |
| Repairs and maintenance | 150,706 | - | 150,706 | 240,563 |
| Transportation | 5,602 | 1,919 | 7,521 | 303,212 |
| Professional services | 86,401 | 44,022 | 130,423 | 1,350,776 |
| Meals and travel | 29,905 | 20,905 | 50,810 | 602,829 |
| Insurance | 15,413 | 3,407 | 18,820 | 198,980 |
| Rent assistance | 10,799 | 8,927 | 19,726 | 3,034,263 |
| Office supplies | 17,691 | - | 17,691 | 118,964 |
| Postage | 522 | 7,648 | 8,170 | 16,509 |
| Printing | 7,081 | 22,255 | 29,336 | 50,368 |
| Minor equipment | 32,966 | 299 | 33,265 | 613,718 |
| Other expenses | 18,130 | 1,170 | 19,300 | 38,691 |
| Cost of goods sold | - | - | - | 118,003 |
| Depreciation | 46,004 | 13,374 | 59,378 | 381,764 |
| Interest | 18,442 | - | 18,442 | 18,442 |
| Donated goods | - | - | - | 493,949 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total Expenses | <u>\$ 1,025,277</u> | <u>\$ 366,982</u> | <u>\$ 1,392,259</u> | <u>\$ 14,866,194</u> |

See notes to consolidated financial statements

NEIGHBORHOOD MINISTRIES, INC. and SUBSIDIARY

Consolidated Statement of Cash Flows

Year Ended December 31, 2021

CASH FLOWS FROM OPERATING ACTIVITIES:

| | |
|--|----------------|
| Change in net assets | \$ (17,113) |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: | |
| Depreciation | 381,764 |
| Changes in operating assets and liabilities: | |
| Grants receivable | (675,362) |
| Other receivables and current assets | (52,340) |
| Accounts payable and accrued expenses | 984,292 |
| Refundable advance | 18,108 |
| Net Cash Provided by Operating Activities | <u>639,349</u> |

CASH FLOWS FROM INVESTING ACTIVITIES:

| | |
|--|-----------------|
| Acquisitions of property and equipment | <u>(78,397)</u> |
|--|-----------------|

CASH FLOWS FROM FINANCING ACTIVITIES:

| | |
|----------------------------|-----------------|
| Repayments of note payable | <u>(34,651)</u> |
|----------------------------|-----------------|

| | |
|---|---------|
| Net Change in Cash and Cash Equivalents | 526,301 |
|---|---------|

| | |
|--|------------------|
| Cash and Cash Equivalents, Beginning of Year | <u>1,705,477</u> |
|--|------------------|

| | |
|--|----------------------------|
| Cash and Cash Equivalents, End of Year | <u><u>\$ 2,231,778</u></u> |
|--|----------------------------|

SUPPLEMENTAL DISCLOSURE:

| | |
|------------------------|-------------------------|
| Cash paid for interest | <u><u>\$ 18,442</u></u> |
|------------------------|-------------------------|

See notes to consolidated financial statements

NEIGHBORHOOD MINISTRIES, INC. and SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2021

1. NATURE OF ORGANIZATION:

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

NM was formed to provide tangible love and hope to distressed families of urban Phoenix, empowering them to transform their communities as they themselves have been transformed. The focus of NM's programs is holistic in nature. NM targets the most vulnerable urban poor families who are trapped in the cycle of poverty and have significant physical, emotional, mental, and spiritual needs. The programs are designed to develop relationships through which love, help, and hope can be inspired.

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

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

Following are the program services administered by NM.

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

Nueva Camino—in partnership with the office of refugee resettlement, children coming over the border unaccompanied are received with arms outstretched with love, meeting the basic needs of food and clothing, safety, education, housing, mental health, and medical services through group homes, home care service providers, and community partners. Nuevo Camino program utilizes Arizona licensed foster homes for long-term care for the children.

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

NEIGHBORHOOD MINISTRIES, INC. and SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2021

1. NATURE OF ORGANIZATION, continued:

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

Youth Development Programs

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

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

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

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.

NEIGHBORHOOD MINISTRIES, INC. and SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2021

1. NATURE OF ORGANIZATION, continued:

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.

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 parent and their families and providing opportunities for spiritual growth and nurture.

Assistance Programs

The Food Bank—is part of the Neighborhood Center and is open once a week on Friday mornings. The Food Bank serves approximately 40 families each week. Families qualify for clothing distribution once per month and a food box every ninety days, and emergency distribution is available based on need. The Food Bank is supplied by volunteer donations and several churches around the Phoenix metropolitan area.

Distressed Families—provides assistance to individuals and families with specific needs such as assistance with utility bills, phone bills, and rent. This program was significantly scaled back due to lack of funding; however, it still provides some financial assistance to families who suffer an unexpected, non-recurring financial setback that may impact their ability to remain in their home or remain employed.

NEIGHBORHOOD MINISTRIES, INC. and SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2021

1. NATURE OF ORGANIZATION, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

PRINCIPLES OF CONSOLIDATION

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

USE OF ESTIMATES

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

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes checking and money market accounts. While at times deposits may exceed federally insured limits, the Organization has not experienced any losses on these accounts, and management believes it is not exposed to any significant credit risk on cash and cash equivalents. At December 31, 2021, the Organization's cash balances exceeded federally insured limits by \$1,483,823.

NEIGHBORHOOD MINISTRIES, INC. and SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

GRANTS RECEIVABLE

Grants receivable consists primarily of amounts due the Organization under costs reimbursement grant agreements. The allowance for doubtful grants receivable is maintained at a level that, in management's judgment, is adequate to absorb probable losses. The amount is based upon an analysis of overall grant receivables by management. Management's evaluation of the allowance includes, but is not limited to, the historical experience of payment patterns from the grantor, financial condition of the grantor, other known facts and circumstances, and general economic conditions. This process is based on estimates, and ultimate loss may vary from current estimates. Grants receivable as of December 31, 2021, are considered by management to be fully collectible and, accordingly, an allowance has not been provided.

PROPERTY AND EQUIPMENT—NET

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

CLASSES OF NET ASSETS

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

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

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

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

SUPPORT AND REVENUE, RECLASSIFICATIONS, AND EXPENSES

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

NEIGHBORHOOD MINISTRIES, INC. and SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

The Organization recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give—that is, those with a measurable performance or other barrier and a right of return—are not recognized until the conditions on which they depend have been met.

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

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

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

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

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

NEIGHBORHOOD MINISTRIES, INC. and SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2021

3. LIQUIDITY AND FUNDS AVAILABLE:

The following reflects the Organization's financial assets as of December 31, 2021, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year. The Organization considers general expenditures to be all expenditures related to achieving its vision as well as the conduct of services undertaken to support those activities to be general expenditures.

Financial assets, at year-end and available to meet cash needs for general expenditures within one year:

| | |
|---------------------------|----------------------------|
| Cash and cash equivalents | \$ 2,231,778 |
| Grants receivable | 1,155,251 |
| Other receivables | <u>106,709</u> |
| | <u><u>\$ 3,493,738</u></u> |

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. At December 31, 2021, the Organization has \$1,691,218 in net assets with donor restrictions for designated purposes. These funds are considered available to meet needs for general expenditures as funds are used for their donor restricted purposes or time restriction is satisfied.

4. PROPERTY AND EQUIPMENT—NET:

Property and equipment—net consists of:

| | |
|-------------------------------------|----------------------------|
| Land | \$ 436,200 |
| Buildings and building improvements | 6,504,853 |
| Vehicles | 285,945 |
| Furniture and equipment | 850,201 |
| Software | <u>230,822</u> |
| | 8,308,021 |
| Less accumulated depreciation | <u>(2,991,974)</u> |
| | 5,316,047 |
| Construction in progress | <u>14,683</u> |
| | <u><u>\$ 5,330,730</u></u> |

NEIGHBORHOOD MINISTRIES, INC. and SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2021

5. NOTE PAYABLE:

Note payable consist of:

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

\$ 465,820

Maturities of note payable are estimated as follows:

| <u>Years Ending December 31,</u> | <u>Amounts</u> |
|----------------------------------|-------------------|
| 2022 | \$ 36,497 |
| 2023 | 37,324 |
| 2024 | 38,748 |
| 2025 | 40,226 |
| 2026 | 313,025 |
| | <u>\$ 465,820</u> |

The Organization is subject to certain restrictive financial covenants on its note payable. For the year ended December 31, 2021, all restrictive financial covenants have been met and/or waived.

6. NET ASSETS:

Net assets consist of:

| | |
|-----------------------------|---------------------|
| Without donor restrictions | <u>\$ 5,334,406</u> |
| With donor restrictions: | |
| Social Justice–Corazon | \$ 880,791 |
| New Head Start Campaign | 396,272 |
| It Takes a Village | 162,128 |
| Food Bank | 108,335 |
| W&K Scholarship fund | 93,661 |
| Kids, Sports, & Senior High | 25,418 |
| Social Justice | 14,489 |
| Distressed families | 10,124 |
| | <u>\$ 1,691,218</u> |

NEIGHBORHOOD MINISTRIES, INC. and SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2021

7. DONOR CONCENTRATION:

During the year ended December 31, 2021, two donors gave 33% of total contributions, and one donor gave 79% of the total donated goods. The Organization's operations and program activities could be impacted if these donor relationships were to be terminated and could not be replaced by new donors with comparable donations. The Organization believes these major donor relationships will be maintained.

8. RISKS AND UNCERTAINTIES:

In December 2019, a novel strain of coronavirus was reported in Wuhan, China. The World Health Organization has declared the outbreak to constitute a "Public Health Emergency of International Concern." The COVID-19 outbreak is disrupting revenue and operations across a range of industries. The extent of the impact of COVID-19 on the operational and financial performance of the Organization will depend on certain developments, including the duration and spread of the outbreak and impact on donors, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact financial condition or results of operations of the Organization is uncertain.

9. POST-RETIREMENT PLANS:

The Organization sponsors a defined contribution retirement plan (the Plan), which covers substantially all employees. Employees are eligible to make contributions and receive matching contributions after completing 90 days of service. Contributions to the Plan are held by the Plan custodian. Employer contributions to the Plan are discretionary. Employer contributions to the Plan were \$39,286 for the year ended December 31, 2021.

10. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through October 28, 2022, which represents the date the consolidated financial statements were available to be issued. Subsequent events after that date have not been evaluated.

FEDERAL AWARDS

**INDEPENDENT AUDITORS' REPORT ON
SUPPLEMENTAL INFORMATION**



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

We have audited the consolidated financial statements of Neighborhood Ministries, Inc. and Subsidiary as of and for the year ended December 31, 2021, and our report thereon dated October 28, 2022, which expressed an unmodified opinion on those consolidated financial statements, appears on page 1.

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 on pages 18-19, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance)*, 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.

Capin Crouse LLP

Lawrenceville, Georgia
October 28, 2022

NEIGHBORHOOD MINISTRIES, INC. and SUBSIDIARY

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2021

| Federal Grantor/Pass Through Grantor/Program or Cluster Title | Federal Assistance Listing Number | Agreement Number | Pass Through Entity Identifying Number | Passed Through to Subrecipients | Federal Expenditures |
|---|-----------------------------------|------------------|--|---------------------------------|----------------------|
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES: | | | | | |
| Unaccompanied Alien Children Program (UACP)*: | 93.676 | | | \$ - | \$ 780,250 |
| Unaccompanied Alien Children Program | | 90ZU0404 | n/a | | |
| Unaccompanied Alien Children Program | | 90ZU0272 | n/a | - | 7,351,791 |
| Total U.S. Department of Health and Human Services | | | | | <u>8,132,041</u> |
| U.S. DEPARTMENT OF THE TREASURY: | | | | | |
| COVID-19 Coronavirus Relief Fund (CRF): | 21.019 | | | | |
| Passed through Wildfire | | 007496206 | n/a | - | 530,981 |
| Total Coronavirus Relief Fund | | | | | <u>530,981</u> |
| COVID-19 Emergency Rental Assistance Program (ERAP)*: | 21.023 | | | | |
| Passed through Wildfire | | n/a | n/a | - | 1,877,235 |
| Total Emergency Rental Assistance Program | | | | | <u>1,877,235</u> |
| Total U.S. Department of the Treasury | | | | | <u>2,408,216</u> |

See notes to schedule of expenditures of federal awards

NEIGHBORHOOD MINISTRIES, INC. and SUBSIDIARY

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2021

| Federal Grantor/Pass Through Grantor/Program or Cluster Title | Federal Assistance Listing Number | Agreement Number | Pass Through Entity Identifying Number | Passed Through to Subrecipients | Federal Expenditures |
|--|-----------------------------------|------------------|--|---------------------------------|----------------------|
| U.S. DEPARTMENT OF LABOR: | | | | | |
| WIOA Cluster: | | | | | |
| Workforce Innovation and Opportunity Act– Youth Activities | 17.259 | | | | |
| Passed through the City of Phoenix | | n/a | n/a | - | 532,839 |
| Total U.S. Department of Labor | | | | | 532,839 |
| U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT: | | | | | |
| CDBG-Entitlement Grants Cluster: | | | | | |
| Community Development Block Grant/ Entitlement Grants | 14.218 | | | | |
| Passed through the City of Phoenix | | n/a | 007496206 | - | 30,000 |
| Total U.S. Department of Housing and Urban Development | | | | | 30,000 |
| U.S. DEPARTMENT OF AGRICULTURE: | | | | | |
| SNAP Cluster: | | | | | |
| State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP): | 10.561 | | | | |
| Passed through Arizona Department of Economic Security | | n/a | CTR047392 | - | 45,505 |
| Total U.S. Department of Agriculture | | | | | 45,505 |
| Total Expenditures of Federal Awards | | | | | \$ 11,148,601 |

* Major program

See notes to schedule of expenditures of federal awards

NEIGHBORHOOD MINISTRIES, INC. and SUBSIDIARY

Notes to Schedule of Expenditures of Federal Awards

December 31, 2021

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal grant activity of Neighborhood Ministries, Inc. and Subsidiary (Organization) under programs of the federal government for the year ending December 31, 2021. The information in the schedule is presented in accordance with the requirements of the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements. Expenditures in the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. If the Organization is required to match certain federal assistance, as defined by the grant agreements, no such matching has been included as expenditures in the schedule.

2. INDIRECT COST RATE:

The Organization has elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

3. RELATIONSHIP TO CONSOLIDATED FINANCIAL STATEMENTS:

The amount of total expenditures of federal awards reconciles to the revenue in the consolidated statement of activities as follows:

| | |
|---|----------------------|
| Total expenditures of federal awards | \$ 11,148,601 |
| Plus: | |
| Non-federal grants | 1,154,754 |
| Other reconciling items | <u>68,096</u> |
| Grant income per consolidated statement of activities | <u>\$ 12,371,451</u> |

4. SUBRECIPIENTS, NON-CASH ASSISTANCE, FEDERAL INSURANCE, LOANS, AND LOAN GUARANTEES:

The Organization did not provide any federal funds to subrecipients nor did they receive any federal non-cash assistance, insurance, loans, or loan guarantees.

**INDEPENDENT AUDITORS' REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF 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 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 (Organization), which comprise the consolidated statement of financial position as of December 31, 2021, 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 28, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization'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 the Organization'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 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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2021-001 through 2021-004 that we consider to be significant deficiencies.

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization’s consolidated financial statements are free from 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 consolidated 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Organization’s Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Organization’s response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Organization’s response was not subjected to the other auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we express no opinion on the response.

Purpose of Report

The purpose of this report is 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.



Lawrenceville, Georgia
October 28, 2022

**INDEPENDENT AUDITORS' REPORT
ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**



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

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

We have audited Neighborhood Ministries, Inc. and Subsidiary's (Organization) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2021. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Neighborhood Ministries, Inc. and Subsidiary 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, 2021.

Basis for Opinion on Each Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the *Auditors' Responsibilities for the Audit of Compliance* section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Organization's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2021-005 and 2021-006. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the other auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

The Organization is responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. The Organization's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the *Auditors' Responsibilities for the Audit of Compliance* section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2021-05 and 2021-006 to be significant deficiencies.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the other auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

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.

Capin Crouse LLP

Lawrenceville, Georgia
October 28, 2022

NEIGHBORHOOD MINISTRIES, INC. and SUBSIDIARY

Schedule of Findings and Questioned Costs

December 31, 2021

Section I – Summary of Audit Results

Consolidated Financial Statements:

Type of auditors' report issued: unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes no
- Significant deficiency(ies) identified that are not considered a material weakness? _____ yes _____ none reported

Noncompliance material to consolidated financial statements noted? _____ yes no

Federal Awards:

Internal control over major programs:

- Material weakness(es) identified? _____ yes no
- Significant deficiency(ies) identified that are not considered a material weakness? _____ yes _____ none reported

Type of auditors' report issued on compliance for major programs: unmodified

Any audit findings that are required to be reported in accordance with 2 CFR Part 200.516(a)? _____ yes _____ no

Identification of major program(s):

| Assistance Listing Numbers | Name of Federal Program or Cluster |
|----------------------------|--|
| 93.676 | Unaccompanied Alien Children Program |
| 21.023 | COVID-19 Emergency Rental Assistance Program |

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? _____ yes no

NEIGHBORHOOD MINISTRIES, INC and SUBSIDIARY

Schedule of Findings and Questioned Costs

December 31, 2021

Section II – Financial Statement Findings

2021-001 Lack of Dual Controls ***Significant Deficiency***

Condition: In the current year, we noted a lack of dual controls in two key areas. There is only one individual who retrieves the mail, and they also have access to the donor system and the general ledger. Additionally, the executive director has the ability to both initiate and approve a wire transaction.

Criteria: Adequate internal control functions over the financial reporting process.

Cause: Lack of implementation of segregation of duties.

Effect: Exposure to unintended risk.

Recommendation: We recommend two people be present when the mail is opened, and that checks be stamped “for deposit only” immediately upon opening. The individuals opening the mail should also sign and date the batch after the donations are counted. We recommend management implement controls so that no one person can both initiate and approve a wire transaction.

Views of Responsible Officials and Planned Corrective Action: Management agrees with the finding. See corrective action plan.

2021-002 Controls over Journal Entries ***Significant Deficiency***

Condition: During the audit, our review of the general journal entries revealed there is no documented approval surrounding journal entries. This could lead to fictitious and/or unauthorized entries being recorded.

Criteria: Adequate internal control functions over the financial reporting process.

Cause: Oversight by management.

Effect: Fictitious and/or unauthorized entries could be recorded.

Recommendation: We recommend the adoption of a policy whereby all journal entries have documented approval by a designated member of management. All entries should be initialed by the preparer and the individual approving them in order to attribute responsibility to the appropriate individuals.

Views of Responsible Officials and Planned Corrective Action: Management agrees with the finding. See corrective action plan.

NEIGHBORHOOD MINISTRIES, INC and SUBSIDIARY

Schedule of Findings and Questioned Costs

December 31, 2021

Section II – Financial Statement Findings, continued

2021-003 Recording of Gifts-in-Kind

Significant Deficiency

Condition: During our audit, we noted that the Organization does not have a consistent policy for valuing in-kind donations. Most values were obtained directly from the donors, who use a wide variety of methods. We also noted a lack of documentation surrounding the date of inflows and outflows for in-kind donations.

Criteria: Adequate internal control functions over the financial reporting process.

Cause: Oversight by management.

Effect: Potential for large variances and inaccuracies between the recorded values and their actual fair market value.

Recommendation: We recommend that management document and implement formal in-kind donation valuation policies and procedures for consistency, and record in-kind donations at the estimated fair value at the date of donation. We recommend the Organization document and track the dates of inflows and outflows for all in-kind donations.

Views of Responsible Officials and Planned Corrective Action: Management agrees with the finding. See corrective action plan.

2021-004 Charitable Gift Recording for Mailed Checks

Significant Deficiency

Condition: During our audit, we noted the Organization uses the date listed on a check donation (for all mailed donations), to determine the year in which it is recorded.

Criteria: Adequate internal control functions over the financial reporting process.

Cause: Oversight by management.

Effect: Potential for contributions to be recorded in the improper period.

Recommendation: We **recommend** all mailed check donations be recorded based on the U.S. Mail postmark date to ensure charitable gifts are recorded in the proper period.

Views of Responsible Officials and Planned Corrective Action: Management agrees with the finding. See corrective action plan.

NEIGHBORHOOD MINISTRIES, INC. and SUBSIDIARY

Schedule of Findings and Questioned Costs

December 31, 2021

Section III – Federal Award Findings and Questioned Costs

2021-005 Federal Procurement Regulations

Significant Deficiency

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

ALN #: 93.676

Federal Award Identification #: 90ZU0404 and 90ZU0272

Condition: During the audit of the Unaccompanied Alien Children Program (UACP), there were several instances of expenditures that required multiple bids or sole source justification because they exceeded the micro-purchases threshold as defined by procurement regulations included in Uniform Guidance 2 CFR subpart D 200.318 through 200.327. The Organization did not always have sufficient supporting documentation to show compliance with 2 CFR subpart D 200.318 through 200.327. 2 CFR 200.318 (c)(2)(i) specifically requires the Organization to maintain records sufficient to detail the history of procurement.

Criteria: 2 CFR 200 subpart D 200.318 through 200.327

Questioned Costs: \$0

Context: Out of 9 vendors tested for procurement compliance, 6 did not have the proper documentation to support the Organization's selection of that vendor.

Cause: Lack of consistent documentation processes for expenses that exceed the micro-purchases threshold.

Effect: Noncompliance with Uniform Guidance regulations that could impact future funding opportunities.

Identification as repeat finding, if applicable: Not applicable.

Recommendation: We recommend that the Organization designate an individual to review all purchases over the micro-purchases threshold and review procurement documentation to ensure it is sufficient before expenses are approved for payment.

Views of Responsible Officials and Planned Corrective Action: Management agrees with the finding. See corrective action plan.

NEIGHBORHOOD MINISTRIES, INC. and SUBSIDIARY

Schedule of Findings and Questioned Costs

December 31, 2021

Section III – Federal Award Findings and Questioned Costs, continued

2021-006 Inaccurate Reporting *Significant Deficiency*

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

ALN #: 93.676

Federal Award Identification #: 90ZU0404 and 90ZU0272

Condition: During the audit of the Unaccompanied Alien Children Program (UACP), the SF-425 reporting was tested for both grant agreements. Reported amounts could not be tied to underlying support for actual disbursements and cash receipts during the period reported on based on the definitions provided in 45 CFR 75.2.

Criteria: 45 CFR 75.2

Questioned Costs: \$0

Context: Out of 3 quarterly reports tested, 2 could not be tied to underlying accounting books and records.

Cause: Lack of proper review and approval of reporting before submission to ensure accuracy.

Effect: Noncompliance with Uniform Guidance regulations that could impact future funding opportunities.

Identification as repeat finding, if applicable: Not applicable.

Recommendation: We recommend that the Organization review the definitions for each line item in the required quarterly reporting to ensure proper reporting. Additionally, we recommend that the Organization maintain underlying accounting records for each report.

Views of Responsible Officials and Planned Corrective Action: Management agrees with the finding. See corrective action plan.



NEIGHBORHOOD
MINISTRIES

Auditee Summary Schedule of Prior Year Findings

December 31, 2021

Financial Statement Findings

Finding Number: 2020-01 Contribution Income
Significant Deficiency

Condition: During the prior year audit, the Organization had two grant agreements, one of which was paid in advance, and one that was paid on a cost reimbursement basis. These two grant agreements were not properly accounted for; therefore, revenue was not recognized in the correct period.

Recommendation: It was recommended that management implement a year-end 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. If the grant is determined to be an exchange transaction, the accounting department should review the grant contract to ensure that the grant revenue is recognized in the period services were provided, and expenses incurred.

Current Status: Corrected. We have implemented an extensive year end review in which we have posted entries to ensure that grant revenue is recognized in the period that services were provided and expenses were incurred.

Reason for Reoccurring Finding and Planned Corrective Action: We had staff transition on the grant between 2019 and 2020, however, this finding has been fully rectified.

Federal Award Findings

There were no prior audit findings or questioned costs.



NEIGHBORHOOD
MINISTRIES

NEIGHBORHOOD MINISTRIES, INC.

Auditee Corrective Action Plan

December 31, 2021

Finding Number: 2021-001 Lack of Dual Controls

Planned Corrective Action: Our staff capacity and COVID restrictions made it difficult for two people to be present to open the mail. However, we will ensure that two people are present to open the mail and prepare the deposits. One of those people does not have access to the donor system.

Person Responsible for Corrective Action Plan: Jennifer Acosta, Finance Assistant

Anticipated Date of Completion: 10/15/22

Finding Number: 2021-002 Controls over Journal Entries

Planned Corrective Action: Currently the journal entries are reviewed on a monthly basis in the process of reviewing the financial statements with the CEO, Board Treasurer, and CFO. Going forward, we will create a separate report isolating the journal entries for review and approval.

Person Responsible for Corrective Action Plan: Stephanie Skryzowski, 100 Degrees Consulting

Anticipated Date of Completion: 10/15/22

Finding Number: 2021-003 Recording of Gifts-in-Kind

Planned Corrective Action: We will establish a policy around in-kind valuation to ensure consistency and include the documentation of obtaining the estimated fair market value in our records.

Person Responsible for Corrective Action Plan: Stephanie Skryzowski, 100 Degrees Consulting

Anticipated Date of Completion: 12/1/22

NEIGHBORHOOD MINISTRIES, INC.

Auditee Corrective Action Plan

December 31, 2021

Finding Number: 2021-004 Charitable Gift Recording for Mailed Checks

Planned Corrective Action: We will ensure that we use the US Mail postmark date for donations going forward.

Person Responsible for Corrective Action Plan: Jennifer Acosta, Finance Assistant

Anticipated Date of Completion: 09/30/22

Finding Number: 2021-005 Federal Procurement Regulations

Planned Corrective Action: Since the implementation of Concur in mid-2021, the procurement processes within Neighborhood Ministries have been updated to ensure compliance with uniform guidance. The procurement policy will be revisited again in Q4 of 2022 for further streamlining, updating, and ensuring compliance. A Procurement Specialist for the Unaccompanied Alien Children Program was also hired in September 2022 and is creating processes and documentation repositories to improve the procurement and competitive bidding process.

Person Responsible for Corrective Action Plan: Melba Davidson

Anticipated Date of Completion: 12/1/22

Finding Number: 2021-006 Inaccurate Reporting

Planned Corrective Action: The error in reporting for the Nueva Camino grant was a result of timing, with total expenses reported for the period crossing calendar years. In order to eliminate errors on reporting moving forward, all SF-425s will be reviewed by a member of the finance team familiar with FFRs before filing. We will also train all staff with SF-425 reporting responsibilities on the proper definitions of line items, timing and grant periods for reporting, and processes for determining reporting figures. Documentation will be maintained to support the accuracy of reported numbers.

Person Responsible for Corrective Action Plan: Suzi Howk, 100 Degrees Consulting

Anticipated Date of Completion: 11/30/22