

NAVAJO MINISTRIES, INC.

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

September 30, 2018 and 2017

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Navajo Ministries, Inc.
Farmington, New Mexico

We have audited the accompanying financial statements of Navajo Ministries, Inc. (a nonprofit organization) which comprise the statements of financial position as of September 30, 2018 and 2017, and the related statements of activities, of functional expenses and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Navajo Ministries, Inc. as of September 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on 2017 Financial Statements

The 2017 financial statements were reviewed by us, and we are not aware of any material modifications that needed to be made to the financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America. We have not performed any review procedures since January 5, 2019 the date of our report.

Supplementary Information

The accompanying schedule of revenues, expenses and capital expenditures by program on page 15 is presented for purposes of additional analysis and is not a required part of the basic 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 financial statements. The supplementary information has been subjected to the review procedures applied in our review of the basic financial statements. We are not aware of any material modifications that should be made to the supplementary information. We have not audited the supplementary information and do not express an opinion on such information.

FredrickZink & Associates, PC

FredrickZink & Associates, PC
January 5, 2019

FINANCIAL STATEMENTS

NAVAJO MINISTRIES, INC.

STATEMENTS OF FINANCIAL POSITION

September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
	(Audited)	(Reviewed)
ASSETS		
Assets		
Cash.....	\$ 112,860	\$ 68,569
Prepaid expenses and other current assets.....	6,638	19,180
Investments - unrestricted (Note 2).....	77,121	23,520
Assets held for sale (Note 3).....	-	-
Income producing properties (Note 3).....	-	-
Fiduciary investment trust (Note 2).....	231,051	225,790
Fiduciary annuity trust (Note 2).....	3,843	5,902
Other non-current assets (Note 3).....	191,500	66,500
Property and equipment, net of accumulated depreciation (Note 4).....	<u>1,618,964</u>	<u>1,697,835</u>
Total assets.....	<u>\$ 2,241,977</u>	<u>\$ 2,107,296</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable.....	\$ 20,373	\$ 36,970
Accrued liabilities.....	25,019	20,848
Note payable (Note 5).....	198,444	210,808
Gift annuity obligation (Note 6).....	563	937
Capital lease obligation (Note 6).....	<u>15,292</u>	<u>28,603</u>
Total liabilities.....	<u>259,691</u>	<u>298,166</u>
Net assets		
Unrestricted net assets		
Undesignated.....	348,409	147,902
Investment in property and equipment, net of related debt.....	<u>1,405,228</u>	<u>1,458,424</u>
Total unrestricted net assets.....	1,753,637	1,606,326
Temporarily restricted net assets (Note 7).....	46,739	20,894
Permanently restricted net assets (Notes 7 and 10).....	<u>181,910</u>	<u>181,910</u>
Total net assets.....	<u>1,982,286</u>	<u>1,809,130</u>
Total liabilities and net assets.....	<u>\$ 2,241,977</u>	<u>\$ 2,107,296</u>

The accompanying notes are an integral part of these financial statements.

NAVAJO MINISTRIES, INC.

STATEMENTS OF ACTIVITIES

For the Years Ended September 30, 2018 and 2017

	2018 (Audited)			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Support, revenue and gains				
Contributions.....	\$ 646,002	\$ 580,949	\$ -	\$ 1,226,951
Investment income.....	12,099	-	-	12,099
Other revenue and gains.....	34,756	2,620	-	37,376
Total before reclassifications.....	692,857	583,569	-	1,276,426
Net assets released from restriction.....	557,724	(557,724)	-	-
Total support, revenue and gains.....	1,250,581	25,845	-	1,276,426
Expenses and losses				
Program services				
Child care.....	629,832			629,832
Navajo Nation outreach.....	11,473			11,473
Radio.....	171,271			171,271
School.....	21,059			21,059
Total program services.....	833,635			833,635
Supporting services				
Administration.....	198,075			198,075
Fund raising and development.....	196,560			196,560
Total supporting services.....	394,635			394,635
Total expenses.....	1,228,270			1,228,270
Loss on disposal of assets.....	-	-	-	-
Total expenses and losses.....	1,228,270			1,228,270
Change in net assets				
before valuation adjustment.....	22,311	25,845	-	48,156
Valuation adjustment (Note 3).....	125,000	-	-	125,000
Change in net assets				
after valuation adjustment.....	147,311	25,845	-	173,156
Net assets at beginning of year.....	1,606,326	20,894	181,910	1,809,130
Net assets at end of year.....	\$ 1,753,637	\$ 46,739	\$ 181,910	\$ 1,982,286

The accompanying notes are an integral part of these financial statements

2017
(Reviewed)

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 419,943	\$ 596,674	\$ -	\$ 1,016,617
34,771	-	-	34,771
35,728	4,999	-	40,727
490,442	601,673	-	1,092,115
594,164	(594,164)	-	-
<u>1,084,606</u>	<u>7,509</u>	<u>-</u>	<u>1,092,115</u>
652,736			652,736
12,426			12,426
165,426			165,426
21,940			21,940
<u>852,528</u>			<u>852,528</u>
205,097			205,097
172,977			172,977
<u>378,074</u>			<u>378,074</u>
1,230,602			1,230,602
8,166	-	-	8,166
<u>1,238,768</u>			<u>1,238,768</u>
(154,162)	7,509	-	(146,653)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(154,162)	7,509	-	(146,653)
<u>1,760,488</u>	<u>13,385</u>	<u>181,910</u>	<u>1,955,783</u>
<u>\$ 1,606,326</u>	<u>\$ 20,894</u>	<u>\$ 181,910</u>	<u>\$ 1,809,130</u>

NAVAJO MINISTRIES, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended September 30, 2018 and 2017

Increase (Decrease) in Cash	2018	2017
	(Audited)	(Reviewed)
Cash flows from operating activities:		
Cash received from contributors and others.....	\$ 1,257,441	\$ 1,024,268
Cash paid to suppliers and employees.....	(1,098,216)	(1,121,669)
Interest and dividends received.....	5,391	6,210
Interest paid.....	(12,950)	(12,224)
Net cash provided (used) by operating activities.....	<u>151,666</u>	<u>(103,415)</u>
Cash flows from investing activities:		
Proceeds from investment sales and redemptions.....	133,436	268,625
Investment purchases.....	(189,405)	(168,337)
Proceeds from sale of income producing properties.....	-	35,391
Net royalties received.....	-	7,668
Capital expenditures.....	(25,357)	(51,056)
Net cash provided (used) by investing activities.....	<u>(81,326)</u>	<u>92,291</u>
Cash flows from financing activities:		
Payments on note payable.....	(12,364)	(11,785)
Principal payments of annuity obligation.....	(374)	(1,116)
Principal payments on capital lease obligation.....	(13,311)	(12,892)
Net cash used by financing activities.....	<u>(26,049)</u>	<u>(25,793)</u>
Net increase (decrease) in cash.....	44,291	(36,917)
Cash at beginning of year.....	<u>68,569</u>	<u>105,486</u>
Cash at end of year.....	<u>\$ 112,860</u>	<u>\$ 68,569</u>

Non-cash investing and financing activities:

During 2018, the Organization received unrestricted contributions of marketable securities valued at \$2,593.

During 2017, the Organization received unrestricted contributions of marketable securities valued at \$27,977.

NAVAJO MINISTRIES, INC.

STATEMENTS OF CASH FLOWS - Continued For the Years Ended September 30, 2018 and 2017

	2018 <u>(Audited)</u>	2017 <u>(Reviewed)</u>
Reconciliation of change in net assets to net cash provided (used) by operating activities:		
Change in net assets	<u>\$ 173,156</u>	<u>\$ (146,653)</u>
Adjustments to reconcile:		
Depreciation.....	104,228	101,430
Loss on disposal of assets.....	-	8,166
Noncash contributions.....	(15,353)	(40,069)
Noncash expenses.....	12,760	12,092
Net realized and unrealized gains on investments.....	1,758	(21,568)
Valuation adjustment.....	(125,000)	-
Decrease (increase) in:		
Prepaid expenses and other current assets.....	12,543	(18,338)
Increase (decrease) in:		
Accounts payable.....	(16,597)	19,519
Accrued liabilities.....	4,171	(17,994)
Total adjustments.....	<u>(21,490)</u>	<u>43,238</u>
Net cash provided (used) by operating activities.....	<u>\$ 151,666</u>	<u>\$ (103,415)</u>

The accompanying notes are an integral part of these financial statements

NAVAJO MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS - Continued
September 30, 2018 (Audited) and 2017 (Reviewed)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Navajo Ministries, Inc. (the Organization) is a charity based in Farmington, New Mexico. For financial reporting purposes, four program areas are identified. The child care program, which encompasses the Four Corners Home for Children (FCHC), provides foster home care to Navajo children in facilities owned and operated by the Organization. Navajo Nation outreach provides outreach to the Navajo population living in and outside of the Navajo Nation. The radio outreach operates through radio station KNMI. The school is operated for the benefit of children in the child care program. In fiscal year 2018, the school program was modified to be an after school program. The Organization is supported primarily through contributions from individuals as well as local businesses and churches throughout the United States.

Financial statement presentation

The Organization reports its financial position and activities according to three classes of net assets: unrestricted net assets for which no donor restrictions apply, temporarily restricted net assets which represent contributions for which donor restrictions have not been met, and permanently restricted net assets that are restricted in perpetuity.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Contributions

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and nature of any donor restrictions. Support that is not restricted by the donor is reported as an increase in unrestricted net assets. All other donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restriction.

Income taxes

The Organization is exempt from income tax as provided under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The Organization has adopted accounting requirements that prescribe when to recognize and how to measure the financial statement effects of income tax positions taken or expected to be taken on its income tax returns, including the position that the Organization continues to qualify to be treated as a tax-exempt organization for both federal and state income tax purposes. These rules require management to evaluate the likelihood that, upon examination by relevant taxing jurisdictions, those income tax positions would be sustained.

Based on that evaluation, if it were more than 50% probable that a material amount of income tax would be imposed at the entity level upon examination by the relevant taxing authorities, a liability would be recognized in the accompanying statements of financial position along with any interest and penalties that would result from that assessment. If the Organization has unrelated business income, the federal Exempt Organization Business Income Tax Returns (Form 990T) would be subject to examination by the Internal Revenue Service for three years after filing. Should any penalties and interest be incurred, they would be recognized as administrative expenses.

NAVAJO MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS - Continued September 30, 2018 (Audited) and 2017 (Reviewed)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income taxes - continued

Based on the results of management's evaluation, these requirements did not have a material effect on the Organization's financial statements. Consequently, no liability or expense is recognized in the accompanying statements for uncertain income tax positions.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Cash

For purposes of the statement of cash flows, the Organization defines cash to include all demand deposits and cash on hand. Cash carried in investment accounts is not included.

Fair value measurements

The Organization applies generally accepted accounting principles (GAAP) for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis. GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

Fair value of financial instruments

The carrying value of cash, accounts receivable, accounts payable and other accrued liabilities approximate fair values due to the short maturity of these instruments. None is held for trading purposes. The fair value of other financial instruments is considered annually and material differences from carrying value are disclosed.

Investments

Investments in marketable securities, which are primarily held in trust accounts, are carried at market value. Market values are provided by the brokerage firm or the respective bank trust departments managing the accounts and are based on quoted market prices (a Level 1 measurement) as of the date of the statement of financial position. Market risk exists and potential gains and losses are dependent on future changes in market prices of various investments held. Any unrealized losses on endowment funds in excess of the original contribution value are charged against unrestricted investments. Total investment return consists of investment income in the form of interest and dividends and realized and unrealized gains and losses as reported on the statement of activities, less administrative fees and taxes. It is the Organization's policy to invest in marketable securities which yield current income, yet remain conservative in nature. Investments in income producing properties are carried at the net present value of the estimated future cash flows. See Note 10 for investment policies specific to endowments.

Income producing properties

Income producing properties consist of royalty interests in oil and gas wells valued at the present value of estimated future net cash flows (a Level 3 measurement). Royalty payments received serve to reduce the carrying value of the asset. Valuation is reconsidered annually for impairment.

NAVAJO MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS - Continued September 30, 2018 (Audited) and 2017 (Reviewed)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Property and equipment

The Organization capitalizes property and equipment acquisitions of \$1,500 or more when the useful life is more than one year. Property and equipment purchased by the Organization is recorded at cost. Property and equipment donated to the Organization is recorded at the estimated fair market value at the time received. Assets donated with explicit restrictions regarding their use, and contributions of cash that must be used to acquire property and equipment, are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Restrictions are considered met when the structures or improvements are placed into service. Depreciation on assets in service is provided using the straight-line method based on estimated useful lives of twenty-five to forty years for buildings and five to ten years for equipment and vehicles.

Subsequent events

Management has evaluated subsequent events through January 5, 2019, the date which the financial statements were available to be issued. No events were identified that required additional disclosure except for those described in Notes 2 and 5.

NOTE 2 - INVESTMENTS

Investments - unrestricted

The amounts carried as unrestricted investments include available funds invested in marketable securities. Unrestricted investments are composed of the following:

	<u>September 30, 2018</u>		<u>September 30, 2017</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
	<u>Basis</u>	<u>Value</u>	<u>Basis</u>	<u>Value</u>
Cash equivalents	\$ 52,313	\$ 52,313	\$ 1,735	\$ 1,735
Mutual funds and stocks	23,921	24,808	21,435	21,785
Total marketable securities	<u>\$ 76,234</u>	<u>\$ 77,121</u>	<u>\$ 23,170</u>	<u>\$ 23,520</u>

Subsequent to year end the organization received a \$24,339 stock donation with an additional \$25,000 to be received in February 2019.

Revenues, expenses and realized and unrealized gains and losses associated with unrestricted investments in marketable securities for the respective fiscal years are as follows:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 987	\$ 2,134
Realized gain	(1,357)	637
Unrealized gain	1,281	4,824
Administrative fees and taxes	-	-
	<u>\$ 911</u>	<u>\$ 7,595</u>

NAVAJO MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS - Continued September 30, 2018 (Audited) and 2017 (Reviewed)

NOTE 2 - INVESTMENTS - Continued

Fiduciary investment trust

The fiduciary investment trust includes permanently restricted endowments of \$181,910 at September 30, 2018 and 2017, temporarily restricted endowments of \$9,000 both years, with any excess remaining in the account at the Board's discretion. The Board has elected to maintain the reported balance of the fiduciary investment trust at no less than the original restricted amounts. These funds are under the direction of Citizens Trust in Farmington, and are composed of the following:

	September 30, 2018		September 30, 2017	
	Cost	Market	Cost	Market
Cash equivalents	\$ 3,932	\$ 3,932	\$ 6,504	\$ 6,504
Mutual funds	220,325	227,119	205,192	219,286
	\$ 224,257	\$ 231,051	\$ 211,696	\$ 225,790

Revenues, expenses and realized and unrealized gains and losses associated with the fiduciary investment trust account for the respective fiscal years are as follows:

	2018	2017
Interest and dividends	\$ 4,168	\$ 3,911
Realized gain	5,096	1,864
Unrealized gain (loss)	(3,942)	17,240
Administrative fees and taxes	(2,706)	(2,395)
	\$ 2,616	\$ 20,620

Fiduciary annuity trust

The Organization has accepted funds from various individuals under gift annuity plans described in Note 6. These funds are held in trust by Citizens Trust in Farmington, which administers all transactions involving these funds. The investments are composed of the following:

	September 30, 2018		September 30, 2017	
	Cost	Market	Cost	Market
Cash equivalents	\$ 58	\$ 58	\$ 77	\$ 77
Mutual funds	3,986	3,785	5,893	5,825
	\$ 4,044	\$ 3,843	\$ 5,970	\$ 5,902

Revenues, expenses and realized and unrealized gains and losses associated with the fiduciary annuity investment account for the respective fiscal years are as follows:

	2018	2017
Interest and dividends	\$ 139	\$ 165
Realized gain (loss)	(76)	20
Unrealized loss	(126)	(299)
Administrative fees and taxes	(822)	(719)
	\$ (885)	\$ (833)

NAVAJO MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS - Continued September 30, 2018 (Audited) and 2017 (Reviewed)

NOTE 3 - NON-OPERATING ASSETS

Assets held for sale

The Organization has a partial ownership interest in undeveloped land from a bequest directed to the Organization in 2008. The undeveloped land was appraised in 2018 and valued at \$150,000, an increase from 2017 at \$25,000. The partial interest in land is included as a non-current asset.

Other non-current assets

During 2015, the Organization received title to land valued at \$41,500. The Organization anticipates using the property as a location for a future staff training and retreat facility, although there are currently no definite plans for development.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of September 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Land	\$ 47,500	\$ 47,500
Buildings and site improvements	2,902,634	2,886,135
Equipment and vehicles	715,356	706,498
Artwork (not amortized)	<u>5,375</u>	<u>5,375</u>
	3,670,865	3,645,508
Accumulated depreciation	<u>(2,051,901)</u>	<u>(1,947,673)</u>
Net property and equipment	<u>\$ 1,618,964</u>	<u>\$ 1,697,835</u>

NOTE 5 - NOTE PAYABLE

In 2015, the Organization entered into a long-term note agreement with Citizens Bank for \$239,432. The note is due in March 2019 and is payable in monthly installments of \$1,907 including interest at a rate of 5.125%. The note is secured by real estate that is fully depreciated. The balance outstanding under the agreement was \$198,444 and \$210,808 at September 30, 2018 and 2017, respectively. Interest expense was \$10,516 and \$11,132, respectively, for the years ended September 30, 2018 and 2017. Principal payments totaling \$12,364 are due during 2018, with the remaining balance of \$198,444 payable during 2019. It is management's intent to renew the terms of the loan agreement by extending the maturity date and increasing the interest rate to not exceed 6%.

The Organization has \$50,000 available under a line of credit agreement with Citizens Bank that expires in April, 2019. Any balance outstanding on the line would bear interest at 5.125%. Nothing had been drawn under the line during the reporting period.

NOTE 6 - COMMITMENTS

Gift annuity obligation

The Organization is obligated to make periodic payments to individuals under certain gift annuity agreements described in Note 2. Under existing agreements, future annual cash payments amount to \$563. Applying the assumptions described below, the total present value of the future obligation as of September 30, 2018 and 2017, was \$563 and \$937, respectively. The obligation was estimated at the present value of future payments using discount rates of 2.18% to 4.11%. An average life expectancy of 7 to 8 years was used for annuitants over the age of 80, and 3 to 4 years for annuitants over the age of 90 and, as actual age exceeds these estimates, the obligation is recalculated. The portion of the liability associated with an individual is recognized as contribution income at the date of death.

NAVAJO MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS - Continued September 30, 2018 (Audited) and 2017 (Reviewed)

NOTE 6 - COMMITMENTS - Continued

Capital leases

The Organization entered into two capital lease agreements in 2015 for the acquisition of office equipment. The obligations and assets acquired are recorded at the present value of the minimum lease payments, applying an interest rate of 3.25%. The assets under capital lease are amortized over the estimated productive life of each asset. Amortization of the assets is included in depreciation expense and was \$12,694 for each of the years ended September 30, 2018 and 2017. Interest expense under the capital lease obligations was \$669 and \$1,163 for the years ended September 30, 2018 and 2017, respectively.

Included in property and equipment are the assets held under capital lease as follows:

	<u>2018</u>	<u>2017</u>
Equipment	\$ 63,468	\$ 63,468
Accumulated depreciation	<u>(48,107)</u>	<u>(35,413)</u>
Net book value of leased equipment	<u>\$ 15,361</u>	<u>\$ 28,055</u>

Future minimum lease payments under the current capital leases are as follows:

<u>Year ending September 30,</u>	
2019	\$ 14,053
2020	<u>1,541</u>
	15,594
Less: amount representing interest	<u>302</u>
Present value of future minimum lease payments	15,292
Less: current portion	<u>13,754</u>
Long-term portion	<u>\$ 1,538</u>

Operating leases

In April 2014, the Organization agreed to lease office equipment under a five year operating lease agreement calling for monthly payments of \$219. The future minimum lease payments for the operating lease is \$2,639 for the year ending September 30, 2019.

NOTE 7 - RESTRICTED NET ASSETS

Temporarily restricted net assets

Temporarily restricted net assets carry donor imposed restrictions that expire upon the passage of time or once specific actions are taken or qualifying costs incurred. At September 30, 2018, temporarily restricted net assets of \$46,739 included a \$9,000 endowment, \$87 of contributions restricted for Navajo outreach in excess of qualifying expenditures, \$17,158 of contributions restricted for the radio program in excess of qualifying expenditures and \$20,494 of contributions restricted for the school in excess of qualifying expenditures incurred during the year ended September 30, 2018. At September 30, 2017, temporarily restricted net assets of \$20,894 included the \$9,000 endowment, \$1,780 of contributions restricted for Navajo outreach in excess of qualifying expenditures, \$1,598 of contributions restricted for the radio program in excess of qualifying expenditures and \$8,516 of contributions restricted for the school in excess of qualifying expenditures incurred during the year ended September 30, 2017.

NAVAJO MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS - Continued September 30, 2018 (Audited) and 2017 (Reviewed)

NOTE 7 - RESTRICTED NET ASSETS - Continued

Permanently restricted net assets

Permanently restricted net assets consist of endowment funds contributed with the stipulation by the donor that the corpus remain intact in perpetuity for the benefit of the Organization. The Organization has adopted certain investment policies, as described in Note 9, to comply with the requirements of state law and generally accepted accounting principles.

NOTE 8 - EMPLOYEE BENEFITS

Employees of the Organization are entitled to paid vacation depending on length of service and other factors. At September 30, 2018 and 2017, \$13,462 and \$10,104, respectively, of accumulated vacation leave was accrued and included in accrued liabilities in the accompanying statements of financial position. Sick leave is not accrued because it does not vest. The Organization also sponsors a pension plan for its employees as provided under section 403(b) of the Internal Revenue Code. Employee contributions to the plan are voluntary and allow the employee to defer income tax on that portion of wages earned. The Organization, as employer, does not contribute directly to the plan.

NOTE 9 - ENDOWMENT

Organization endowment funds consist of cash, securities, or other assets to provide income to fulfill the purpose of the Organization. The use of the assets may be permanently restricted, temporarily restricted, or unrestricted. The portion of the funds that must be maintained permanently, not used up, expended or otherwise exhausted, is classified as permanently restricted net assets. The portion of the funds that must be maintained for a specific term or for a specified purpose is classified as temporarily restricted net assets. The portion of the funds that may be expended is classified as unrestricted net assets.

Interpretation of relevant law

The Navajo Ministries Board of Directors follows the Uniform Prudent Management of Institution Funds Act (UPMIFA) as stated in New Mexico Revised Statutes, as well as other applicable state and federal laws to comply with explicit donor stipulations on each gift in determining the classification of net assets as described above. In accordance with UPMIFA, the Board considers the following factors in making a determination to appropriate or to accumulate funds.

1. The duration and preservation of the endowment fund;
2. The purpose of the Organization and endowment fund;
3. General economic conditions;
4. The possible effects of inflation or deflation;
5. The expected total return from income and the appreciation of investments;
6. Other resources of the Organization; and
7. The investment policy of the Organization.

Return objectives and risk parameters

The Endowment Funds are to be invested with the objective of preserving the long-term real purchasing power of the Funds' assets while realizing appropriate investment income. Endowment Fund assets may be invested in certificates of deposit, Treasury bills, commercial paper, bankers acceptances, repurchase agreements, mutual funds, exchange traded funds, equities (including common stock, preferred stock, convertible securities and other equities, whether traded on an exchange or not publicly traded), fixed income securities, real estate, commodities, natural-resource related stock, hedge funds, derivatives, alternate investment vehicles and, as to an appropriate portion, cash equivalent investments. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity.

NAVAJO MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS - Continued
September 30, 2018 (Audited) and 2017 (Reviewed)

NOTE 9 - ENDOWMENT - Continued

Strategies employed for achieving objectives

The asset allocation of each of the Endowment Funds shall be determined from time to time by the Board of Directors, in consultation with any managers or advisors if desired (unless the Board delegates such task to an external manager), which allocation shall reflect a proper balance of such Fund's investment objective, any risk tolerance standard and the need for liquidity.

As of September 30, 2018 and 2017, the endowment net asset composition consisted of donor-restricted endowment funds totaling \$181,910, of which \$115,910 is invested in equity mutual funds and \$66,000 is invested in fixed income securities.

SUPPLEMENTARY INFORMATION

NAVAJO MINISTRIES, INC.

SCHEDULE OF REVENUES, EXPENSES AND CAPITAL EXPENDITURES BY PROGRAM

For the Year Ended September 30, 2018

(With comparative totals for 2017)

	Program Services			
	Child Care	Navajo Outreach	Radio	School
Support, revenue and gains				
Contributions - cash.....	\$ 366,373	\$ 9,780	\$ 171,761	\$ 20,275
Contributions - non-cash.....	640	-	12,120	-
Investment income (loss).....	-	-	-	-
Other revenue and gains.....	26,096	2,326	3,600	2,620
Total support, revenue and gains.....	<u>393,109</u>	<u>12,106</u>	<u>187,481</u>	<u>22,895</u>
Expenses				
Salaries.....	326,445	3,000	68,613	1,638
Payroll taxes and benefits.....	27,887	9	5,239	-
Cost of events.....	-	-	16,170	-
Donations and promotion.....	1,741	2,250	7,685	-
Food, clothing allowance.....	46,271	-	-	-
Insurance.....	25,290	407	6,582	750
Interest.....	310	-	200	12
Licenses, fees and dues.....	5,232	-	11,592	-
Maintenance and repairs.....	18,683	-	4,359	67
Postage.....	474	217	653	-
Professional services.....	19,374	-	3,336	244
Printing and publishing.....	120	-	1,269	-
Supplies.....	12,719	1,831	9,658	619
Telephone and utilities.....	59,273	-	25,035	7,420
Travel and vehicle expense.....	7,937	1,924	1,718	-
Other expenses.....	5,087	1,835	3,137	167
Total expenses excluding depreciation and losses.....	<u>556,843</u>	<u>11,473</u>	<u>165,246</u>	<u>10,917</u>
Excess (deficiency) of revenues over expenses, excluding depreciation and loss on sale of assets.....	(163,734)	633	22,235	11,978
Less capital expenditures.....	<u>16,499</u>	<u>-</u>	<u>3,075</u>	<u>-</u>
Net after capital expenditures.....	<u>\$ (180,233)</u>	<u>\$ 633</u>	<u>\$ 19,160</u>	<u>\$ 11,978</u>

The accompanying notes are an integral part of these financial statements

Supporting Services						
Administration	Fund Raising	Non-Specified	Total Before Facilities	Facilities	2018 Total	2017 Total
\$ -	\$ 164,694	\$ 472,463	\$ 1,205,346	\$ 6,252	\$ 1,211,598	\$ 976,548
-	-	2,593	15,353	-	15,353	40,069
-	-	12,099	12,099	-	12,099	34,771
127,326	408	-	162,376	-	162,376	40,727
127,326	165,102	487,155	1,395,174	6,252	1,401,426	1,092,115
109,193	88,290	-	597,179	-	597,179	622,231
7,273	8,257	-	48,665	-	48,665	51,461
-	58,493	-	74,663	-	74,663	52,672
-	2,335	-	14,011	-	14,011	14,925
-	-	-	46,271	-	46,271	66,478
7,188	5,398	-	45,615	-	45,615	45,823
1,882	30	-	2,434	10,516	12,950	12,224
14,474	1,110	-	32,408	-	32,408	34,484
3,997	517	-	27,623	-	27,623	26,697
1,206	8,553	-	11,103	-	11,103	10,515
10,770	3,948	-	37,672	-	37,672	32,679
3,042	10,207	-	14,638	-	14,638	15,539
4,796	6,426	-	36,049	-	36,049	25,367
6,662	1,733	-	100,123	-	100,123	99,039
603	269	-	12,451	-	12,451	11,380
1,782	612	-	12,620	-	12,620	7,658
172,868	196,178	-	1,113,525	10,516	1,124,041	1,129,172
(45,542)	(31,076)	487,155	281,649	(4,264)	277,385	(37,057)
3,319	2,464	-	25,357	-	25,357	51,056
<u>\$ (48,861)</u>	<u>\$ (33,540)</u>	<u>\$ 487,155</u>	<u>\$ 256,292</u>	<u>\$ (4,264)</u>	<u>\$ 252,028</u>	<u>\$ (88,113)</u>