

# **NAVAJO MINISTRIES, INC.**

FINANCIAL STATEMENTS AND  
INDEPENDENT ACCOUNTANT'S REVIEW REPORT

September 30, 2017 and 2016

## INDEPENDENT ACCOUNTANT'S REVIEW REPORT

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

We have reviewed the accompanying financial statements of Navajo Ministries, Inc. (a nonprofit organization), which comprise the statement of financial position as of September 30, 2017 and the related statements of activities and of cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

### **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.

### **Accountant's Responsibility**

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

### **Accountant's Conclusion**

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

### **Report on 2016 Financial Statements**

The 2016 financial statements were audited by us, and we expressed an unmodified opinion on them in our report dated January 23, 2017. We have not performed any auditing procedures since that date.

### **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 6, 2018

**FINANCIAL STATEMENTS**

# **NAVAJO MINISTRIES, INC.**

## **STATEMENTS OF FINANCIAL POSITION**

September 30, 2017 and 2016

	<b><u>ASSETS</u></b>	
	2017 (Reviewed)	2016 (Audited)
<b>Assets</b>		
Cash.....	\$ 68,569	\$ 105,486
Prepaid expenses and other current assets.....	19,180	841
Investments - unrestricted (Note 2).....	23,520	80,760
Assets held for sale (Note 3).....	-	28,296
Income producing properties (Note 3).....	-	47,929
Fiduciary investment trust (Note 2).....	225,790	217,399
Fiduciary annuity trust (Note 2).....	5,902	7,797
Other non-current assets (Note 3).....	66,500	41,500
Property and equipment, net of accumulated depreciation (Note 4).....	1,697,835	1,748,209
<b>Total assets.....</b>	<b><u>\$ 2,107,296</u></b>	<b><u>\$ 2,278,217</u></b>
	<b><u>LIABILITIES AND NET ASSETS</u></b>	
<b>Liabilities</b>		
Accounts payable.....	\$ 36,970	\$ 17,451
Accrued liabilities.....	20,848	38,842
Note payable (Note 5).....	210,808	222,593
Gift annuity obligation (Note 6).....	937	2,053
Capital lease obligation (Note 6).....	28,603	41,495
Total liabilities.....	298,166	322,434
<b>Net assets</b>		
Unrestricted net assets		
Undesignated.....	147,902	276,367
Investment in property and equipment, net of related debt.....	1,458,424	1,484,121
Total unrestricted net assets.....	1,606,326	1,760,488
Temporarily restricted net assets (Note 7).....	20,894	13,385
Permanently restricted net assets (Notes 7 and 10).....	181,910	181,910
Total net assets.....	1,809,130	1,955,783
<b>Total liabilities and net assets.....</b>	<b><u>\$ 2,107,296</u></b>	<b><u>\$ 2,278,217</u></b>

See accompanying notes and independent accountant's review report.

# **NAVAJO MINISTRIES, INC.**

## STATEMENTS OF ACTIVITIES

For the Years Ended September 30, 2017 and 2016

	2017 (Reviewed)			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Support, revenue and gains</b>				
Contributions.....	\$ 419,943	\$ 596,674	\$ -	\$ 1,016,617
Investment income.....	34,771	-	-	34,771
Other revenue and gains.....	35,728	4,999	-	40,727
Total before reclassifications.....	490,442	601,673	-	1,092,115
Net assets released from restriction.....	594,164	(594,164)	-	-
Total support, revenue and gains.....	<u>1,084,606</u>	<u>7,509</u>	<u>-</u>	<u>1,092,115</u>
<b>Expenses and losses</b>				
Program services				
Child care.....	652,736			652,736
Navajo Nation outreach.....	12,426			12,426
Radio.....	165,426			165,426
School.....	21,940			21,940
Total program services.....	<u>852,528</u>			<u>852,528</u>
Supporting services				
Administration.....	205,097			205,097
Fund raising and development.....	172,977			172,977
Total supporting services.....	<u>378,074</u>			<u>378,074</u>
Total expenses.....	1,230,602			1,230,602
Loss on disposal of assets.....	8,166	-	-	8,166
Total expenses and losses.....	<u>1,238,768</u>			<u>1,238,768</u>
<b>Change in net assets.....</b>	<b>(154,162)</b>	<b>7,509</b>	<b>-</b>	<b>(146,653)</b>
Net assets at beginning of year.....	1,760,488	13,385	181,910	1,955,783
Net assets at end of year.....	<u>\$ 1,606,326</u>	<u>\$ 20,894</u>	<u>\$ 181,910</u>	<u>\$ 1,809,130</u>

See accompanying notes and independent accountant's review report.

2016  
(Audited)

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 549,806	\$ 664,355	\$ -	\$ 1,214,161
22,796	-	-	22,796
<u>56,650</u>	<u>8,000</u>	<u>-</u>	<u>64,650</u>
629,252	672,355	-	1,301,607
679,430	(679,430)	-	-
<u>1,308,682</u>	<u>(7,075)</u>	<u>-</u>	<u>1,301,607</u>
644,225			644,225
14,205			14,205
201,872			201,872
45,226			45,226
<u>905,528</u>			<u>905,528</u>
218,579			218,579
197,320			197,320
<u>415,899</u>			<u>415,899</u>
1,321,427			1,321,427
350	-	-	350
<u>1,321,777</u>			<u>1,321,777</u>
(13,095)	(7,075)	-	(20,170)
<u>1,773,583</u>	<u>20,460</u>	<u>181,910</u>	<u>1,975,953</u>
<u>\$ 1,760,488</u>	<u>\$ 13,385</u>	<u>\$ 181,910</u>	<u>\$ 1,955,783</u>

# **NAVAJO MINISTRIES, INC.**

## **STATEMENTS OF CASH FLOWS**

For the Years Ended September 30, 2017 and 2016

<b>Increase (Decrease) in Cash</b>	<b>2017</b>	<b>2016</b>
	<b>(Reviewed)</b>	<b>(Audited)</b>
<b>Cash flows from operating activities:</b>		
Cash received from contributors and others.....	\$ 1,024,268	\$ 1,230,570
Cash paid to suppliers and employees.....	(1,121,669)	(1,193,384)
Interest and dividends received.....	6,210	5,413
Interest paid.....	(12,224)	(13,582)
Net cash provided (used) by operating activities.....	<u>(103,415)</u>	<u>29,017</u>
<b>Cash flows from investing activities:</b>		
Proceeds from investment sales and redemptions.....	268,625	30,531
Investment purchases.....	(168,337)	(8,765)
Proceeds from sale of income producing properties.....	35,391	60,000
Net royalties received.....	7,668	6,671
Capital expenditures.....	(51,056)	(50,586)
Net cash provided by investing activities.....	<u>92,291</u>	<u>37,851</u>
<b>Cash flows from financing activities:</b>		
Payments on note payable.....	(11,785)	(11,115)
Principal payments of annuity obligation.....	(1,116)	(1,087)
Principal payments on capital lease obligation.....	(12,892)	(12,477)
Net cash used by financing activities.....	<u>(25,793)</u>	<u>(24,679)</u>
<b>Net increase (decrease) in cash.....</b>	<b>(36,917)</b>	<b>42,189</b>
Cash at beginning of year.....	<u>105,486</u>	<u>63,297</u>
Cash at end of year.....	<u>\$ 68,569</u>	<u>\$ 105,486</u>

### **Non-cash investing and financing activities:**

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

During 2016, the Organization received contributions of marketable securities valued at \$36,580 restricted by the donor for a new heating/cooling unit.



# **NAVAJO MINISTRIES, INC.**

## STATEMENTS OF CASH FLOWS - Continued For the Years Ended September 30, 2017 and 2016

	2017 <u>(Reviewed)</u>	2016 <u>(Audited)</u>
<b>Reconciliation of change in net assets to net cash provided (used) by operating activities:</b>		
Change in net assets .....	\$ (146,653)	\$ (20,170)
<b>Adjustments to reconcile:</b>		
Depreciation.....	101,430	98,394
Loss on disposal of assets.....	8,166	350
Noncash contributions.....	(40,069)	(54,113)
Noncash expenses.....	12,092	17,532
Net realized and unrealized gains on investments.....	(21,568)	(11,511)
Decrease (increase) in:		
Prepaid expenses and other current assets.....	(18,338)	42
Increase (decrease) in:		
Accounts payable.....	19,519	(2,417)
Accrued liabilities.....	(17,994)	910
Total adjustments.....	<u>43,238</u>	<u>49,187</u>
<b>Net cash provided (used) by operating activities.....</b>	<b><u>\$ (103,415)</u></b>	<b><u>\$ 29,017</u></b>

See accompanying notes and independent accountant's review report.

# **NAVAJO MINISTRIES, INC.**

## **NOTES TO FINANCIAL STATEMENTS**

September 30, 2017 (Reviewed) and 2016 (Audited)

### **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. Subsequent to September 2017, 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, 2017 (Reviewed) and 2016 (Audited)

### **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, 2017 (Reviewed) and 2016 (Audited)

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

#### Property and equipment

The Organization capitalizes property and equipment acquisitions of \$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 6, 2018, the date which the financial statements were available to be issued. Except as described in the first paragraph of Note 1, no events were identified that required additional disclosure.

### **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, 2017</u>		<u>September 30, 2016</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	\$ 1,735	\$ 1,735	\$ 7,002	\$ 7,002
Mutual funds and stocks	21,435	21,785	58,634	73,758
Total marketable securities	<u>\$ 23,170</u>	<u>\$ 23,520</u>	<u>\$ 65,636</u>	<u>\$ 80,760</u>

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>2017</u>	<u>2016</u>
Interest and dividends	\$ 2,134	\$ 1,515
Realized gain	637	1,852
Unrealized gain	4,824	1,096
Administrative fees and taxes	-	(122)
	<u>\$ 7,595</u>	<u>\$ 4,341</u>

## NAVAJO MINISTRIES, INC.

### NOTES TO FINANCIAL STATEMENTS - Continued September 30, 2017 (Reviewed) and 2016 (Audited)

#### **NOTE 2 - INVESTMENTS - Continued**

##### Fiduciary investment trust

The fiduciary investment trust includes permanently restricted endowments of \$181,910 at September 30, 2017 and 2016, 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, 2017		September 30, 2016	
	Cost	Market	Cost	Market
Cash equivalents	\$ 6,504	\$ 6,504	\$ 4,379	\$ 4,379
Mutual funds	205,192	219,286	216,526	213,020
	\$ 211,696	\$ 225,790	\$ 220,905	\$ 217,399

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

	2017	2016
Interest and dividends	\$ 3,911	\$ 3,717
Realized gain (loss)	1,864	(2,406)
Unrealized gain	17,240	10,467
Administrative fees and taxes	(2,395)	(2,248)
	\$ 20,620	\$ 9,530

##### 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, 2017		September 30, 2016	
	Cost	Market	Cost	Market
Cash equivalents	\$ 77	\$ 77	\$ 275	\$ 275
Mutual funds	5,893	5,825	7,284	7,522
	\$ 5,970	\$ 5,902	\$ 7,559	\$ 7,797

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

	2017	2016
Interest and dividends	\$ 165	\$ 180
Realized gain	20	132
Unrealized loss	(299)	(62)
Administrative fees and taxes	(719)	(739)
	\$ (833)	\$ (489)

# **NAVAJO MINISTRIES, INC.**

## **NOTES TO FINANCIAL STATEMENTS - Continued** September 30, 2017 (Reviewed) and 2016 (Audited)

### **NOTE 3 - NON-OPERATING ASSETS**

#### **Income producing properties**

At September 30, 2016, income producing properties included royalty interests in oil and gas wells in locations over several states. The royalty interests were part of a bequest directed to the Organization in 2008. These assets were carried at the present value of estimated future cash flows, reduced each year as royalties were received. During 2016, the Organization sold one well with a carrying value of \$60,000 for that price. In 2017, the Organization sold the remaining royalty interests for \$35,391, recognizing a loss of \$8,166.

#### **Assets held for sale**

Included in the bequest described above were working interests in oil and gas wells and a partial ownership interest in undeveloped land. Because of the nature of these assets, management had determined that maintaining ownership would not be within the Organization's mission and decided to hold them out for sale. The total carrying value of \$28,296 at September 30, 2016, consisted of working interests valued at \$3,296 and the partial interest in undeveloped land valued at \$25,000. The working interests were sold in the transaction described above. As of September 30, 2017, the value of the partial interest in land remained at \$25,000, but was reclassified 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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Land	\$ 47,500	\$ 47,500
Buildings and site improvements	2,886,135	2,850,785
Equipment and vehicles	706,498	702,666
Artwork (not amortized)	<u>5,375</u>	<u>5,375</u>
	3,645,508	3,606,326
Accumulated depreciation	<u>(1,947,673)</u>	<u>(1,858,117)</u>
Net property and equipment	<u>\$ 1,697,835</u>	<u>\$ 1,748,209</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 \$210,808 and \$222,593 at September 30, 2017 and 2016, respectively. Interest expense was \$11,132 and \$11,130, respectively, for the years ended September 30, 2017 and 2016. Principal payments totaling \$12,364 are due during 2018, with the remaining balance of \$198,444 payable during 2019.

The Organization has \$50,000 available under a line of credit agreement with Citizens Bank that expires in April, 2018. Any balance outstanding on the line would bear interest at 5.125%. Nothing had been drawn under the line during the reporting period.

# **NAVAJO MINISTRIES, INC.**

## NOTES TO FINANCIAL STATEMENTS - Continued September 30, 2017 (Reviewed) and 2016 (Audited)

### **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 \$937. Applying the assumptions described below, the total present value of the future obligation as of September 30, 2017 and 2016, was \$937 and \$2,053, 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.

#### 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, 2017 and 2016. Interest expense under the capital lease obligations was \$1,163 and \$1,817 for the years ended September 30, 2017 and 2016, respectively.

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

	<u>2017</u>	<u>2016</u>
Equipment	\$ 63,468	\$ 63,468
Accumulated depreciation	<u>(35,413)</u>	<u>(22,720)</u>
Net book value of leased equipment	<u>\$ 28,055</u>	<u>\$ 40,748</u>

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

<u>Year ending September 30,</u>	
2018	\$ 14,053
2019	14,053
2020	<u>1,541</u>
	29,647
Less: amount representing interest	<u>1,044</u>
Present value of future minimum lease payments	28,603
Less: current portion	<u>13,315</u>
Long-term portion	<u>\$ 15,288</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 as follows:

<u>Year ending September 30,</u>	<u>Amount</u>
2018	\$ 2,639
2019	<u>1,539</u>
	<u>\$ 4,178</u>

# **NAVAJO MINISTRIES, INC.**

## **NOTES TO FINANCIAL STATEMENTS - Continued** September 30, 2017 (Reviewed) and 2016 (Audited)

### **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, 2017, temporarily restricted net assets of \$20,894 included a \$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. At September 30, 2016, temporarily restricted net assets of \$13,385 included the \$9,000 endowment and \$4,385 of contributions restricted for Navajo outreach in excess of qualifying expenditures incurred during the year ended September 30, 2016.

#### **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 10, 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, 2017 and 2016, \$10,104 and \$30,112, 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 - CAPITAL CAMPAIGN**

During 2008, Navajo Ministries, Inc. along with Navajo Heritage Center, Inc. (NHC) began a capital campaign to establish a common campus, expanding Navajo Ministries' facilities to include an Education and Activity Center, House of Hope Bunkhouse and a staff-housing complex. The two nonprofit corporations have independent governing boards with one member in common. NHC intends to lease space from Navajo Ministries, Inc. after the facilities are built. The Navajo Heritage Center will be raising capital funds to build the Navajo Heritage Center Museum, a trading post and marketplace as well as bed and breakfast hogans. The Education and Activity Center was completed and placed into service in October 2012.

The Organization served as fiscal administrator for the entire campaign through 2013. During 2016, the Organization incurred expenses on behalf of the Heritage Center of \$524 and collected contributions of \$262, resulting in a cumulative balance due to the Organization of \$341 at September 30, 2016. During 2017, the Organization did not incur expenses on behalf of the Heritage Center and collected contributions of \$341, decreasing the balance due to the Organization to zero at September 30, 2017. The balance due to the Organization at the end of each year is included in the caption prepaid expenses and other assets in the accompanying statements of financial position.



# **NAVAJO MINISTRIES, INC.**

## **NOTES TO FINANCIAL STATEMENTS - Continued** September 30, 2017 (Reviewed) and 2016 (Audited)

### **NOTE 10 - 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.

#### **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, 2017 and 2016, 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, 2017

(With comparative totals for 2016)

	PROGRAM SERVICES			
	Child Care	Navajo Outreach	Radio	School
<b>Support, revenue and gains</b>				
Contributions - cash.....	\$ 407,998	\$ 9,821	\$ 147,699	\$ 15,914
Contributions - non-cash.....	-	-	12,092	-
Investment income (loss).....	-	-	-	-
Other revenue and gains.....	27,033	1,696	5,770	4,999
Total support, revenue and gains.....	435,031	11,517	165,561	20,913
<b>Expenses</b>				
Salaries.....	348,820	3,225	63,275	2,672
Payroll taxes and benefits.....	29,494	31	5,076	-
Cost of events.....	-	-	14,062	-
Donations and promotion.....	267	3,157	9,870	-
Food, clothing allowance.....	66,478	-	-	-
Insurance.....	24,904	370	5,675	872
Interest.....	493	-	319	19
Licenses, fees and dues.....	4,031	25	13,725	-
Maintenance and repairs.....	18,234	194	6,103	89
Postage.....	650	77	723	-
Professional services.....	14,398	95	1,877	-
Printing and publishing.....	165	-	904	5
Supplies.....	7,610	2,400	6,754	1,083
Telephone and utilities.....	60,307	(5)	24,795	6,911
Travel and vehicle expense.....	6,999	1,108	1,887	-
Other expenses.....	1,054	1,749	3,148	21
Total expenses excluding depreciation and losses.....	583,904	12,426	158,193	11,672
Excess (deficiency) of revenues over expenses, excluding depreciation and loss on sale of assets.....	(148,873)	(909)	7,368	9,241
Less capital expenditures.....	50,331	-	-	725
Net after capital expenditures.....	\$ (199,204)	\$ (909)	\$ 7,368	\$ 8,516

See accompanying notes and independent accountant's review report.

SUPPORTING SERVICES						
Administration	Fund Raising	Non-Specified	Total Before Facilities	Facilities	2017 Total	2016 Total
\$ -	\$ 96,897	\$ 295,069	\$ 973,398	\$ 3,150	\$ 976,548	\$ 1,164,278
-	-	27,977	40,069	-	40,069	49,883
-	-	34,771	34,771	-	34,771	22,796
751	478	-	40,727	-	40,727	64,650
751	97,375	357,817	1,088,965	3,150	1,092,115	1,301,607
114,237	90,002	-	622,231	-	622,231	673,363
11,764	5,096	-	51,461	-	51,461	52,591
-	38,610	-	52,672	-	52,672	64,670
188	1,443	-	14,925	-	14,925	16,893
-	-	-	66,478	-	66,478	56,377
8,247	5,755	-	45,823	-	45,823	53,443
251	48	-	1,130	11,094	12,224	13,582
14,453	2,250	-	34,484	-	34,484	29,062
2,070	7	-	26,697	-	26,697	28,973
1,226	7,839	-	10,515	-	10,515	10,551
13,877	2,432	-	32,679	-	32,679	48,242
2,412	12,053	-	15,539	-	15,539	19,413
2,803	4,717	-	25,367	-	25,367	32,956
5,735	1,296	-	99,039	-	99,039	105,805
666	720	-	11,380	-	11,380	8,725
1,359	327	-	7,658	-	7,658	8,387
179,288	172,595	-	1,118,078	11,094	1,129,172	1,223,033
(178,537)	(75,220)	357,817	(29,113)	(7,944)	(37,057)	78,574
-	-	-	51,056	-	51,056	50,586
<u>\$ (178,537)</u>	<u>\$ (75,220)</u>	<u>\$ 357,817</u>	<u>\$ (80,169)</u>	<u>\$ (7,944)</u>	<u>\$ (88,113)</u>	<u>\$ 27,988</u>