

# **NAVAJO MINISTRIES, INC.**

FINANCIAL STATEMENTS AND  
INDEPENDENT ACCOUNTANT'S REVIEW REPORT

September 30, 2019 and 2018

## 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 statements of financial position as of September 30, 2019, and the related statements of activities, functional expenses, and 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 entity 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 2018 Financial Statements**

The 2018 financial statements were audited by us, and we expressed an unmodified opinion on them in our report dated January 5, 2019. 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 17 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 4, 2020

**FINANCIAL STATEMENTS**

# **NAVAJO MINISTRIES, INC.**

## **STATEMENTS OF FINANCIAL POSITION**

September 30, 2019 and 2018

	2019	2018
	(Reviewed)	(Audited)
<b>ASSETS</b>		
<b>Assets</b>		
Cash.....	\$ 58,903	\$ 112,860
Prepaid expenses and other current assets.....	100	6,638
Investments (Note 3).....	264,274	312,015
Other non-current assets (Note 4).....	191,500	191,500
Property and equipment, net of accumulated depreciation (Note 5).....	1,793,107	1,618,964
<b>Total assets.....</b>	<b><u>\$ 2,307,884</u></b>	<b><u>\$ 2,241,977</u></b>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable.....	\$ 15,370	\$ 20,373
Accrued liabilities.....	19,910	25,019
Line of credit (Note 6).....	44,958	-
Capital lease obligation (Note 7).....	19,716	15,292
Note payable (Note 8).....	187,912	198,444
Gift annuity obligation.....	-	563
Total liabilities.....	<u>287,866</u>	<u>259,691</u>
<b>Net assets</b>		
Net assets without donor restrictions		
General unrestricted.....	220,364	348,409
Investment in property and equipment, net of related debt.....	1,585,479	1,405,228
Total net assets without donor restrictions.....	<u>1,805,843</u>	<u>1,753,637</u>
Net assets with donor restrictions		
Purpose and/or time restricted net assets (Note 10).....	32,265	46,739
Restricted in perpetuity (Notes 10 and 11).....	181,910	181,910
Total net assets with donor restrictions.....	<u>214,175</u>	<u>228,649</u>
Total net assets.....	<u>2,020,018</u>	<u>1,982,286</u>
<b>Total liabilities and net assets.....</b>	<b><u>\$ 2,307,884</u></b>	<b><u>\$ 2,241,977</u></b>

See accompanying notes and independent accountant's review report.

# NAVAJO MINISTRIES, INC.

## STATEMENTS OF ACTIVITIES

For the Years Ended September 30, 2019 and 2018

	2019 (Reviewed)				
	Without Donor Restrictions	With Donor Restrictions			Total
		Purpose or time	Perpetuity	Total	
Support, revenue and gains					
Contributions.....	\$ 505,462	\$ 465,776	\$ -	\$ 465,776	\$ 971,238
Net investment income (Note 3).....	9,671	-	-	-	9,671
Other revenue and gains.....	31,622	2,678	-	2,678	34,300
Total before reclassifications.....	546,755	468,454	-	468,454	1,015,209
Net assets released from restriction.....	482,928	(482,928)	-	(482,928)	-
Total support, revenue and gains.....	<u>1,029,683</u>	<u>(14,474)</u>	<u>-</u>	<u>(14,474)</u>	<u>1,015,209</u>
Expenses					
Program services					
Child care.....	548,834				548,834
Navajo Nation outreach.....	12,517				12,517
Radio.....	177,176				177,176
School.....	24,441				24,441
Total program services.....	<u>762,968</u>				<u>762,968</u>
Supporting services					
Administration.....	225,555				225,555
Fund raising and development.....	172,501				172,501
Total supporting services.....	<u>398,056</u>				<u>398,056</u>
Total expenses.....	1,161,024				1,161,024
Loss on disposal of assets.....	7,131				7,131
Total expenses and losses.....	<u>1,168,155</u>				<u>1,168,155</u>
<b>Change in net assets before involuntary conversion and valuation adjustment.....</b>	<b>(138,472)</b>	<b>(14,474)</b>	<b>-</b>	<b>(14,474)</b>	<b>(152,946)</b>
Gain on involuntary conversion (Note 12).....	190,678	-	-	-	190,678
Valuation adjustment (Note 4).....	-	-	-	-	-
<b>Change in net assets after involuntary conversion and valuation adjustment.....</b>	<b>52,206</b>	<b>(14,474)</b>	<b>-</b>	<b>(14,474)</b>	<b>37,732</b>
Net assets at beginning of year.....	1,753,637	46,739	181,910	228,649	1,982,286
Net assets at end of year.....	<u>\$ 1,805,843</u>	<u>\$ 32,265</u>	<u>\$ 181,910</u>	<u>\$ 214,175</u>	<u>\$ 2,020,018</u>

See accompanying notes and independent accountant's review report.

2018  
(Audited)

Without Donor Restrictions	With Donor Restrictions			Total
	Purpose or time	Perpetuity	Total	
\$ 646,002	\$ 580,949	\$ -	\$ 580,949	\$ 1,226,951
8,571	-	-	-	8,571
34,756	2,620	-	2,620	37,376
689,329	583,569	-	583,569	1,272,898
557,724	(557,724)	-	(557,724)	-
<u>1,247,053</u>	<u>25,845</u>	<u>-</u>	<u>25,845</u>	<u>1,272,898</u>
629,832				629,832
11,473				11,473
171,271				171,271
21,059				21,059
<u>833,635</u>				<u>833,635</u>
194,547				194,547
196,560				196,560
391,107				391,107
<u>1,224,742</u>				<u>1,224,742</u>
-				-
<u>1,224,742</u>				<u>1,224,742</u>
22,311	25,845	-	25,845	48,156
-	-	-	-	-
<u>125,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>125,000</u>
147,311	25,845	-	25,845	173,156
1,606,326	20,894	181,910	202,804	1,809,130
<u>\$ 1,753,637</u>	<u>\$ 46,739</u>	<u>\$ 181,910</u>	<u>\$ 228,649</u>	<u>\$ 1,982,286</u>

# **NAVAJO MINISTRIES, INC.**

## STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended September 30, 2019 and 2018

2019  
(Reviewed)

	Supporting Services				Total
	Program Services	Management and General	Fund Raising	Total Supporting Services	
<b>Expenses</b>					
Salaries.....	\$ 337,925	\$ 105,593	\$ 69,229	\$ 174,822	\$ 512,747
Payroll taxes and benefits.....	25,809	6,333	8,342	14,675	40,484
Cost of events.....	12,523	-	45,269	45,269	57,792
Donations and promotion.....	9,549	-	1,724	1,724	11,273
Food, clothing allowance.....	33,502	-	-	-	33,502
Insurance.....	31,338	7,739	5,488	13,227	44,565
Interest.....	-	20,416	-	20,416	20,416
Licenses, fees and dues.....	13,877	9,969	856	10,825	24,702
Maintenance and repairs.....	45,758	20,951	3,575	24,526	70,284
Postage.....	883	1,071	6,628	7,699	8,582
Professional services.....	18,148	18,922	4,901	23,823	41,971
Printing and publishing.....	737	1,326	17,797	19,123	19,860
Supplies.....	22,679	3,793	4,631	8,424	31,103
Telephone and utilities.....	102,151	7,103	1,621	8,724	110,875
Travel and vehicle expense.....	6,825	613	388	1,001	7,826
Other expenses.....	8,395	1,597	980	2,577	10,972
Depreciation.....	92,869	20,129	1,072	21,201	114,070
Total expenses.....	<u>\$ 762,968</u>	<u>\$ 225,555</u>	<u>\$ 172,501</u>	<u>\$ 398,056</u>	<u>\$ 1,161,024</u>

See accompanying notes and independent accountant's review report.



2018  
(Audited)

Program Services	Supporting Services			Total
	Management and General	Fund Raising	Total Supporting Services	
\$ 399,696	\$ 109,193	\$ 88,290	\$ 197,483	\$ 597,179
33,135	7,273	8,257	15,530	48,665
16,170	-	58,493	58,493	74,663
11,676	-	2,335	2,335	14,011
46,271	-	-	-	46,271
33,029	7,188	5,398	12,586	45,615
522	12,398	30	12,428	12,950
16,824	10,946	1,110	12,056	28,880
23,109	3,997	517	4,514	27,623
1,344	1,206	8,553	9,759	11,103
22,954	10,770	3,948	14,718	37,672
1,389	3,042	10,207	13,249	14,638
24,827	4,796	6,426	11,222	36,049
91,728	6,662	1,733	8,395	100,123
11,579	603	269	872	12,451
10,226	1,782	612	2,394	12,620
89,156	14,691	382	15,073	104,229
<u>\$ 833,635</u>	<u>\$ 194,547</u>	<u>\$ 196,560</u>	<u>\$ 391,107</u>	<u>\$ 1,224,742</u>

# **NAVAJO MINISTRIES, INC.**

## **STATEMENTS OF CASH FLOWS**

For the Years Ended September 30, 2019 and 2018

<b>Increase (Decrease) in Cash</b>	<b>2019</b>	<b>2018</b>
	<b>(Reviewed)</b>	<b>(Audited)</b>
<b>Cash flows from operating activities:</b>		
Cash received from contributors and others.....	\$ 1,126,592	\$ 1,257,441
Cash paid to suppliers and employees.....	(1,027,323)	(1,098,216)
Interest and dividends received.....	5,840	5,391
Interest paid.....	(12,356)	(12,950)
Net cash provided by operating activities.....	<u>92,753</u>	<u>151,666</u>
<b>Cash flows from investing activities:</b>		
Proceeds from investment sales and redemptions.....	186,650	133,436
Investment purchases.....	(76,301)	(189,405)
Capital expenditures.....	(274,259)	(25,357)
Net cash used by investing activities.....	<u>(163,910)</u>	<u>(81,326)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from line of credit.....	50,000	-
Principal payments of note payable.....	(10,532)	(12,364)
Principal payments of annuity obligation.....	(563)	(374)
Principal payments of capital lease obligation.....	(16,663)	(13,311)
Principal payments of line of credit.....	(5,042)	-
Net cash provided (used) by financing activities.....	<u>17,200</u>	<u>(26,049)</u>
<b>Net increase (decrease) in cash.....</b>	<b>(53,957)</b>	<b>44,291</b>
Cash at beginning of year.....	<u>112,860</u>	<u>68,569</u>
Cash at end of year.....	<u>\$ 58,903</u>	<u>\$ 112,860</u>

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

During 2019, the Organization received unrestricted contributions of marketable securities valued at \$49,460 and acquired equipment with a capital lease for \$21,087.

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

See accompanying notes and independent accountant's review report.

# **NAVAJO MINISTRIES, INC.**

## STATEMENTS OF CASH FLOWS - Continued For the Years Ended September 30, 2019 and 2018

	2019 <u>(Reviewed)</u>	2018 <u>(Audited)</u>
<b>Reconciliation of change in net assets to net cash provided by operating activities:</b>		
Change in net assets .....	\$ 37,732	\$ 173,156
<b>Adjustments to reconcile:</b>		
Depreciation.....	114,069	104,228
Noncash:		
Contributions.....	(60,310)	(15,353)
Expenses.....	10,850	12,760
Loss on disposal of assets.....	7,134	-
Net realized and unrealized gains on investments.....	(13,148)	1,758
Valuation adjustment.....	-	(125,000)
Decrease (increase) in:		
Prepaid expenses and other current assets.....	6,538	12,543
Increase (decrease) in:		
Accounts payable.....	(5,003)	(16,597)
Accrued liabilities.....	(5,109)	4,171
Total adjustments.....	<u>55,021</u>	<u>(21,490)</u>
<b>Net cash provided by operating activities.....</b>	<b><u>\$ 92,753</u></b>	<b><u>\$ 151,666</u></b>

See accompanying notes and independent accountant's review report.

# **NAVAJO MINISTRIES, INC.**

## **NOTES TO FINANCIAL STATEMENTS**

September 30, 2019 (Reviewed) and 2018 (Audited)

### **NOTE 1 - NATURE OF OPERATIONS**

Navajo Ministries, Inc. (the Organization) is a charity based in Farmington, New Mexico. For financial reporting purposes, four program areas are identified. The childcare 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 childcare 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.

### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Basis of accounting and presentation**

The accompanying financial statements have been prepared using the accrual basis of accounting, in accordance with the U.S. generally accepted accounting principles (GAAP). Net assets and revenues, expenses, gains and losses are classified for reporting purposes based on the existence or absence of donor-imposed restrictions. This is accomplished by classification of fund balances into two classes of net assets: without donor restrictions and with donor restrictions. Descriptions of the two net asset categories and the types of transactions affecting each category follow:

Without donor restrictions - These net assets generally result from revenues generated by receiving contributions that have no donor restrictions, receiving interest from operating investments, less expenses incurred in providing academic department support, scholarships, raising contributions, and performing administrative functions.

With donor restrictions - Net assets subject to donor-imposed restrictions that will be met either by actions of the Organization or the passage of time. Items that affect this net asset category are gifts for which donor-imposed restrictions have not been met in the year of receipt; endowment, annuity, and life income gifts; pledges; and investment returns on endowment funds held in perpetuity, and endowments where the principal may be expended upon the passage of a stated period of time. Expirations of restrictions on net assets with donor restrictions are reported as net assets released from restrictions.

#### **Use of estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could differ from those estimates, and those differences could be material.

#### **Financial Instruments**

The carrying value of cash, nonoperating assets, accounts payable and accrued liabilities, and line-of-credit are stated at carrying cost at September 30, 2019 and 2018, which approximates fair value due to the relatively short maturity of these instruments. Other financial instruments held at year-end are investments, which are stated at fair value.

# **NAVAJO MINISTRIES, INC.**

## **NOTES TO FINANCIAL STATEMENTS - Continued** September 30, 2019 (Reviewed) and 2018 (Audited)

### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

#### **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.

#### **Investments**

Investments in equity securities with readily determinable market values are recorded at fair value. Unrealized and realized gains and losses on these investments are reported in the statement of activities without donor restrictions. Securities are generally held in custodial investment accounts administered by certain financial institutions. See Note 3 for further details.

#### **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. 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. Equipment purchased under capital leases is amortized over the life of the lease and is included in depreciation expense.

#### **Gift Annuities**

The Organization administers gift annuities for which it is obligated to make periodic distributions to designated beneficiaries. The contributed assets are recorded at their fair value as general assets of the Organization. The present value of the payments due to the beneficiaries are recorded as liabilities and totaled \$0 and \$563 at September 30, 2019 and 2018, respectively. The assets to fund these liabilities are maintained in a separate and distinct account and are invested in accordance with applicable state laws and reserve requirements. Net present values are calculated using the applicable federal discount rate at the date of the gift. The annuity liability is revalued annually based upon actuarially computed present values. Resulting actuarial gain or loss is recorded as donor restricted revenue.

#### **Contributions**

All contributions, including gifts of land, buildings and other assets, are recorded at their fair value and are considered to be available for operations of the Organization unless specifically restricted by the donor. Unconditional promises to give cash and other assets are reported as net assets with donor restrictions, if they are received with donor stipulations that limit the use of the donated assets. Contributions that are restricted by the donor are reported as increases in net assets without restrictions if the restrictions expire in the reporting period in which the contributions are received. Conditional promises to give are recognized when the condition on which they depend are substantially met and the promises become unconditional. The Organization reports gifts of long-lived assets as net assets without donor restrictions when the asset is placed in service.

#### **In-kind Gifts**

The Organization recognizes contribution revenue for certain donated services and materials received at the fair value of those services and materials. During the years ending September 30, 2019 and 2018, contributed services and materials totaled \$60,310 and \$15,350 and were used primarily in program activities.

#### **Functional allocation of expenses**

The costs of providing the Organization's various programs and supporting services have been reported on the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services using a variety of cost allocation techniques.

# **NAVAJO MINISTRIES, INC.**

## **NOTES TO FINANCIAL STATEMENTS - Continued** September 30, 2019 (Reviewed) and 2018 (Audited)

### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

#### **Federal Income Tax Status**

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.

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.

#### **Accounting pronouncement adopted**

The Organization adopted Accounting Standards Update (ASU) No. 2016-14, Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities and applied it retrospectively to all periods presented. The ASU applies to all not-for-profit entities. The ASU reduces the classes of net assets to net assets with donor restrictions and net assets without donor restrictions; removes the requirement for reconciliation of cash flows to the indirect method if using the direct method; requires the reporting of investment returns, net of expenses, with no disclosure of netted expenses required; requires the use, in the absence of explicit donor stipulations, of the placed-in-service approach for reporting expirations of restrictions on cash or other asset donations; and requires disclosure of expenses by both their natural and functional classification on the face of the statement of activities, as a separate statement, or in the notes to the financial statements.

In addition, the ASU provides enhanced disclosures on amounts and purposes of board designations and appropriations, composition of net assets with donor restrictions, discussion of liquidity for the year following year-end, discussion of liquidity of financial assets at year-end, methodology used to allocate costs between program and support functions, and underwater endowment funds.

<u>Net assets classifications</u>	<u>ASU 2016-14 Classifications</u>		
	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total net assets</u>
As previously presented:			
Unrestricted	\$ 1,753,637	\$ -	\$ 1,753,637
Temporarily restricted	-	46,739	46,739
Permanently restricted	-	181,910	181,910
Net assets as currently presented:	<u>\$ 1,753,637</u>	<u>\$ 228,649</u>	<u>\$ 1,982,286</u>

# **NAVAJO MINISTRIES, INC.**

## **NOTES TO FINANCIAL STATEMENTS - Continued** September 30, 2019 (Reviewed) and 2018 (Audited)

### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

#### **Reclassifications**

Certain reclassifications have been made to the prior year statement presentation to correspond to the current year's format. Total net assets and change in net assets are unchanged by these reclassifications.

#### **Subsequent events**

The Organization has evaluated subsequent events through January 4, 2020, the date on which the financial statements were available to be issued and no additional disclosures were required.

### **NOTE 3 - INVESTMENTS AND FAIR VALUE MEASUREMENTS**

#### **Investments**

Investments consisted of the following at September 30:

	<u>2019</u>	<u>2018</u>
Cash equivalents	\$ 12,934	\$ 56,308
Mutual Funds		
Fixed income	101,100	92,526
Equities	<u>139,073</u>	<u>157,265</u>
Total mutual funds	240,173	249,791
Exchange traded funds	2,731	-
Stocks	<u>8,436</u>	<u>5,916</u>
Total investments	<u>\$ 264,274</u>	<u>\$ 312,015</u>

#### **Fair Value Measurements**

U.S. GAAP provides a framework for measuring fair value. To increase consistency and comparability in fair value measurements, the framework requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the primary or most advantageous market for the asset or liability in an orderly transaction between market participants. The framework uses a three-level valuation hierarchy based on observable and non-observable inputs. Observable inputs consist of data obtained from independent sources. Non-observable inputs reflect industry assumptions. These two types of inputs are used to create the fair value hierarchy, giving preference to observable inputs.

Assets classified as Level 1 have fair values based on unadjusted quoted market prices for identical instruments in active markets. Assets and liabilities classified as Level 2 have fair values based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in inactive markets, and model derived valuations whose inputs are observable. Assets and liabilities classified as Level 3 have fair values based on value drivers that are unobservable.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2019 and 2018.

Cash Equivalents - Consist primarily of money market funds and are valued at the closing price reported on the active markets in which the securities are traded at fiscal yearend.

Mutual Funds, Exchange Traded Funds and Stocks - Valued at quoted market prices in active markets.

# **NAVAJO MINISTRIES, INC.**

## **NOTES TO FINANCIAL STATEMENTS - Continued** September 30, 2019 (Reviewed) and 2018 (Audited)

### **NOTE 3 - INVESTMENTS AND FAIR VALUE MEASUREMENTS - Continued**

All investments of the Organization are valued using Level 1 inputs. The valuation methodologies used by the Organization may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization's management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Investment income was as follows for the years ended September 30:

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 5,840	\$ 5,392
Realized gain (loss)	4,286	9,494
Unrealized gain (loss)	3,023	(2,787)
Investment fees	<u>(3,478)</u>	<u>(3,528)</u>
Net investment income	<u>\$ 9,671</u>	<u>\$ 8,571</u>

### **NOTE 4 - NON-OPERATING ASSETS**

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 \$25,000. The partial interest in land is included as a non-current asset.

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 5 - PROPERTY AND EQUIPMENT**

Property and equipment consists of the following as of September 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Land	\$ 47,500	\$ 47,500
Buildings and site improvements	3,119,401	2,902,634
Equipment and vehicles	785,156	715,356
Artwork (not amortized)	<u>-</u>	<u>5,375</u>
	3,952,057	3,670,865
Accumulated depreciation	<u>(2,158,950)</u>	<u>(2,051,901)</u>
Net property and equipment	<u>\$ 1,793,107</u>	<u>\$ 1,618,964</u>

### **NOTE 6 - LINE OF CREDIT**

The Organization has a line-of-credit with a bank with an available borrowing limit of \$50,000 that expires on April 19, 2020. The line carries interest at Wall Street Journal prime rate plus 1.0%, with a floor of 5.125% and ceiling 6.75%. The total borrowing rate was 6.00% and 6.25% at September 30, 2019 and 2018, respectively. The outstanding balance at September 30, 2019 was \$44,958. There were no outstanding borrowings on the line at September 30, 2018. The line is secured by real property of the Organization.



# **NAVAJO MINISTRIES, INC.**

## **NOTES TO FINANCIAL STATEMENTS - Continued** September 30, 2019 (Reviewed) and 2018 (Audited)

### **NOTE 7 - 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%. One of the assets with a cost of \$8,779 was disposed during the year ended September 30, 2019 and the remaining asset payments will end in 2020.

The Organization entered into two capital lease agreements in 2019 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 6.5%.

The assets are included in equipment at a cost of \$54,689 and \$63,468 for the years ended September 30, 2019 and 2018, respectively. Amortization under the capital lease obligations was \$15,500 and \$16,205 for the years ended September 30, 2019 and 2018, respectively. Interest expense under the capital lease obligations was \$1,180 and \$669 for the years ended September 30, 2019 and 2018, respectively.

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

<u>Year ending September 30,</u>	
2020	\$ 5,852
2021	4,865
2022	4,865
2023	4,865
2024	<u>2,224</u>
	22,671
Less: amount representing interest	<u>(2,955)</u>
Present value of future minimum lease payments	19,716
Less: current portion	<u>(4,729)</u>
Long-term portion	<u>\$ 14,987</u>

### **NOTE 8 - NOTE PAYABLE**

In 2019, the Organization entered into a secured loan renewal agreement for the 2015 long-term note with Citizens Bank. The maturity of the note is March 2023 and is payable in monthly installments of \$1,907, including interest at a rate of 6.5%. The note is secured by real estate that is fully depreciated and includes a balloon payment due in March 2023. The balance outstanding was \$187,912 and \$198,444 at September 30, 2019 and 2018, respectively. Interest expense was \$11,176 and \$10,516, respectively, for the years ended September 30, 2019 and 2018.

A summary of principal maturities on long-term debt is as follows:

2020	\$ 10,975
2021	11,710
2022	12,496
2023	<u>152,731</u>
	<u>\$ 187,912</u>

# **NAVAJO MINISTRIES, INC.**

## **NOTES TO FINANCIAL STATEMENTS - Continued** September 30, 2019 (Reviewed) and 2018 (Audited)

### **NOTE 9 - EMPLOYEE BENEFITS**

Employees of the Organization are entitled to paid vacation depending on length of service and other factors. At September 30, 2019 and 2018, \$12,422 and \$13,462, 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 10 - NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restriction are restricted for the following purposes or periods at September 30:

	<u>2019</u>	<u>2018</u>
Subject to the passage of time or expenditure for specified purpose:		
Navajo outreach	\$ -	\$ 87
Radio program	-	17,158
School	23,265	20,494
Endowment	<u>9,000</u>	<u>9,000</u>
Total subject to the passage of time or expenditure for Specified purpose	32,265	46,739
Perpetuity:		
Endowment	<u>181,910</u>	<u>181,910</u>
Total net assets with donor restrictions	<u>\$ 214,175</u>	<u>\$ 228,649</u>

### **NOTE 11 - ENDOWMENT**

Organization endowment funds consist of cash, securities, or other assets held to provide income to fulfill the purpose of the Organization. The use of the assets may be with or without donor restrictions. The portion of the funds that must be maintained in perpetuity, not used up, expended or otherwise exhausted and the portion of the funds that must be maintained for a specific term or for a specified purpose are classified as net assets with donor restrictions. The portion of the funds that may be expended at the discretion of the Board of Directors is classified as net assets without restrictions.

#### **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.

# **NAVAJO MINISTRIES, INC.**

## **NOTES TO FINANCIAL STATEMENTS - Continued** September 30, 2019 (Reviewed) and 2018 (Audited)

### **NOTE 11 - ENDOWMENT - Continued**

#### **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.

#### **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, 2019 and 2018, 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.

### **NOTE 12 - INVOLUNTARY CONVERSION**

In March and in May the Organization incurred damage to its property located at 2103 West Main Street, Farmington, New Mexico as result of the City of Farmington causing the sewer lines to back up on the Organization's property. The City and the Organization entered into an agreement to reimburse the Organization for damages. The total amount reimbursed to the Organization was \$190,678 and the total amount spent on building repairs and replacement was \$207,727.

### **NOTE 13 - LIQUIDITY**

The following reflects the Organization's financial assets as of the statement of financial position date, reduced by amounts not available for general use within one year of the balance sheet date because of contractual or donor-imposed restrictions.

	<u>2019</u>
Financial assets:	
Cash	\$ 58,903
Prepaid expenses and other current assets	100
Investments	264,274
Current liabilities	<u>(97,065)</u>
Financial assets, at year-end	226,212
Less those unavailable for general expenditure within one year due to:	
Perpetual endowments	<u>(181,910)</u>
Financial assets available to meet cash needs for general expenditures within one year:	<u>\$ 44,302</u>

**SUPPLEMENTARY INFORMATION**

# **NAVAJO MINISTRIES, INC.**

## **SCHEDULE OF REVENUES, EXPENSES AND CAPITAL EXPENDITURES BY PROGRAM**

For the Year Ended September 30, 2019

(With comparative totals for 2018)

	Program Services			
	Child Care	Navajo Outreach	Radio	After School
<b>Support, revenue and gains</b>				
Contributions - cash.....	\$ 291,561	\$ 5,233	\$ 142,586	\$ 15,546
Contributions - non-cash.....	-	-	10,850	-
Net investment income.....	-	-	-	-
Other revenue and gains.....	23,626	851	3,530	2,678
Total support, revenue and gains.....	315,187	6,084	156,966	18,224
<b>Expenses</b>				
Salaries.....	248,654	2,700	83,376	3,195
Payroll taxes and benefits.....	20,111	-	5,698	-
Cost of events.....	-	-	12,523	-
Donations and promotion.....	203	2,388	6,958	-
Food, clothing allowance.....	33,502	-	-	-
Insurance.....	24,951	-	5,805	582
Interest.....	-	-	-	-
Licenses, fees and dues.....	4,213	2	9,662	-
Maintenance and repairs.....	40,197	-	4,798	763
Postage.....	422	61	400	-
Professional services.....	12,998	-	4,773	377
Printing and publishing.....	135	-	581	21
Supplies.....	13,855	1,963	6,460	401
Telephone and utilities.....	66,210	-	27,063	8,878
Travel and vehicle expense.....	4,695	1,180	950	-
Other expenses.....	2,521	4,223	1,651	-
Total expenses excluding depreciation and losses.....	472,667	12,517	170,698	14,217
Excess (deficiency) of revenues over expenses, excluding depreciation, loss on sale of assets and gain on involuntary conversion.....	(157,480)	(6,433)	(13,732)	4,007
Less capital expenditures.....	238,212	-	8,333	1,236
Net after capital expenditures.....	\$ (395,692)	\$ (6,433)	\$ (22,065)	\$ 2,771

See accompanying notes and independent accountant's review report.

Supporting Services						
Administration	Fund Raising	Non-Specified	Total Before Facilities	Facilities	2019 Total	2018 Total
\$ -	\$ 106,349	\$ 344,894	\$ 906,169	\$ 4,759	\$ 910,928	\$ 1,211,598
-	-	49,460	60,310	-	60,310	15,353
-	-	9,671	9,671	-	9,671	8,571
3,325	290	-	34,300	-	34,300	37,376
<u>3,325</u>	<u>106,639</u>	<u>404,025</u>	<u>1,010,450</u>	<u>4,759</u>	<u>1,015,209</u>	<u>1,272,898</u>
105,593	69,229	-	512,747	-	512,747	597,179
6,333	8,342	-	40,484	-	40,484	48,665
-	45,269	-	57,792	-	57,792	74,663
-	1,724	-	11,273	-	11,273	14,011
-	-	-	33,502	-	33,502	46,271
7,739	5,488	-	44,565	-	44,565	45,615
9,240	-	-	9,240	11,176	20,416	12,950
9,969	856	-	24,702	-	24,702	32,408
20,951	3,575	-	70,284	-	70,284	27,623
1,071	6,628	-	8,582	-	8,582	11,103
18,922	4,901	-	41,971	-	41,971	37,672
1,326	17,797	-	19,860	-	19,860	14,638
3,793	4,631	-	31,103	-	31,103	36,049
7,103	1,621	-	110,875	-	110,875	100,123
613	388	-	7,826	-	7,826	12,451
1,597	980	-	10,972	-	10,972	12,620
<u>194,250</u>	<u>171,429</u>	<u>-</u>	<u>1,035,778</u>	<u>11,176</u>	<u>1,046,954</u>	<u>1,124,041</u>
(190,925)	(64,790)	404,025	(25,328)	(6,417)	(31,745)	148,857
<u>45,592</u>	<u>-</u>	<u>-</u>	<u>293,373</u>	<u>1,973</u>	<u>295,346</u>	<u>25,357</u>
<u>\$ (236,517)</u>	<u>\$ (64,790)</u>	<u>\$ 404,025</u>	<u>\$ (318,701)</u>	<u>\$ (8,390)</u>	<u>\$ (327,091)</u>	<u>\$ 123,500</u>