

NAVAJO MINISTRIES, INC.

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

September 30, 2015 and 2014

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Navajo Ministries, Inc.
Farmington, New Mexico

We have audited the accompanying financial statements of Navajo Ministries, Inc. (a non-profit corporation) which comprise the statements of financial position as of September 30, 2015 and 2014, and the related statements of activities 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, 2015 and 2014, 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.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The 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 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 information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Fredrick Zink & Associates, PC

Fredrick Zink & Associates, PC
January 15, 2016

FINANCIAL STATEMENTS

NAVAJO MINISTRIES, INC.

STATEMENTS OF FINANCIAL POSITION

September 30, 2015 and 2014

ASSETS

	<u>2015</u>	<u>2014</u>
Assets		
Cash.....	\$ 63,297	\$ 145,730
Prepaid expenses and other current assets.....	882	32,496
Assets held for sale (Note 3).....	30,276	67,705
Investments - unrestricted (Note 2).....	66,850	87,086
Income producing properties (Note 3).....	112,620	287,716
Fiduciary investment trust (Note 2).....	203,402	214,078
Fiduciary annuity trust (Notes 2 and 6).....	9,378	10,915
Other non-current assets (Note 3).....	41,500	-
Property and equipment, net of accumulated depreciation (Note 4).....	1,796,368	1,784,728
Total assets	<u>\$ 2,324,573</u>	<u>\$ 2,630,454</u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable.....	\$ 19,868	\$ 24,022
Accrued liabilities.....	37,932	36,395
Line of credit (Note 5).....	-	240,000
Note payable (Note 5).....	233,708	-
Gift annuity obligation (Note 6).....	3,140	4,202
Capital lease obligation (Note 6).....	53,972	-
Total liabilities	<u>348,620</u>	<u>304,619</u>
Net assets		
Unrestricted net assets		
Undesignated.....	264,895	590,197
Investment in property and equipment, net of related debt.....	1,508,688	1,544,728
Total unrestricted net assets	<u>1,773,583</u>	<u>2,134,925</u>
Temporarily restricted net assets (Note 7).....	20,460	9,000
Permanently restricted net assets (Note 7).....	181,910	181,910
Total net assets	<u>1,975,953</u>	<u>2,325,835</u>
Total liabilities and net assets	<u>\$ 2,324,573</u>	<u>\$ 2,630,454</u>

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

NAVAJO MINISTRIES, INC.

STATEMENTS OF ACTIVITIES For the Years Ended September 30, 2015 and 2014

	2015			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support, revenue and gains				
Contributions.....	\$ 532,241	\$ 631,409	\$ -	\$ 1,163,650
Contributions for capital projects.....	-	9,081	-	9,081
Investment income (loss).....	(8,131)	-	-	(8,131)
Other revenue and gains.....	46,731	7,300	-	54,031
Total before reclassifications.....	570,841	647,790	-	1,218,631
Net assets released from restriction.....	636,330	(636,330)	-	-
Total support, revenue and gains.....	<u>1,207,171</u>	<u>11,460</u>	<u>-</u>	<u>1,218,631</u>
Expenses and losses				
Program services				
Child care.....	697,009			697,009
Navajo Nation outreach.....	19,395			19,395
Radio.....	204,682			204,682
School.....	42,809			42,809
Total program services.....	<u>963,895</u>			<u>963,895</u>
Supporting services				
Administration.....	205,131			205,131
Fund raising and development.....	205,317			205,317
Total supporting services.....	<u>410,448</u>			<u>410,448</u>
Total expenses.....	<u>1,374,343</u>			<u>1,374,343</u>
Change in net assets before valuation adjustment.....	(167,172)	11,460	-	(155,712)
Valuation adjustment (Note 3).....	(194,170)	-	-	(194,170)
Change in net assets after valuation adjustment.....	(361,342)	11,460	-	(349,882)
Net assets at beginning of year.....	2,134,925	9,000	181,910	2,325,835
Net assets at end of year.....	<u>\$ 1,773,583</u>	<u>\$ 20,460</u>	<u>\$ 181,910</u>	<u>\$ 1,975,953</u>

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

2014

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 553,118	\$ 586,006	\$ -	\$ 1,139,124
-	27,385	-	27,385
15,767	-	-	15,767
39,486	9,800	-	49,286
<u>608,371</u>	<u>623,191</u>	<u>-</u>	<u>1,231,562</u>
623,191	(623,191)	-	-
<u>1,231,562</u>	<u>-</u>	<u>-</u>	<u>1,231,562</u>
631,587			631,587
23,170			23,170
188,748			188,748
40,951			40,951
<u>884,456</u>			<u>884,456</u>
209,472			209,472
190,194			190,194
<u>399,666</u>			<u>399,666</u>
<u>1,284,122</u>			<u>1,284,122</u>
(52,560)	-	-	(52,560)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(52,560)	-	-	(52,560)
<u>2,187,485</u>	<u>9,000</u>	<u>181,910</u>	<u>2,378,395</u>
<u>\$ 2,134,925</u>	<u>\$ 9,000</u>	<u>\$ 181,910</u>	<u>\$ 2,325,835</u>

NAVAJO MINISTRIES, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended September 30, 2015 and 2014

Increase (Decrease) in Cash

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Cash received from contributors and others.....	\$ 1,144,766	\$ 1,125,792
Cash paid to suppliers and employees.....	(1,200,609)	(1,105,659)
Insurance proceeds received.....	-	12,515
Interest and dividends received.....	5,830	5,525
Interest paid.....	(13,023)	(14,866)
Net cash provided (used) by operating activities.....	<u>(63,036)</u>	<u>23,307</u>
Cash flows from investing activities:		
Proceeds from investment sales and redemptions.....	33,017	248,839
Investment purchases.....	(14,529)	(229,918)
Net royalties received.....	18,355	63,635
Capital expenditures.....	(48,471)	(40,584)
Net cash provided (used) by investing activities.....	<u>(11,628)</u>	<u>41,972</u>
Cash flows from financing activities:		
Borrowings on line of credit.....	-	20,000
Payments on line of credit.....	-	(117,000)
Payments on note payable.....	(6,292)	-
Contributions restricted for long-term purposes.....	9,081	27,385
Principal payments of annuity obligation.....	(1,062)	(1,020)
Principal payments on capital lease obligation.....	(9,496)	-
Net cash used by financing activities.....	<u>(7,769)</u>	<u>(70,635)</u>
Net decrease in cash.....	(82,433)	(5,356)
Cash at beginning of year.....	<u>145,730</u>	<u>151,086</u>
Cash at end of year.....	<u>\$ 63,297</u>	<u>\$ 145,730</u>

Non-cash investing and financing activities:

During 2015, the Ministry settled the \$240,000 balance due under a line of credit by issuing a note payable. Also in 2015, the Ministry acquired office equipment with capital lease financing of \$63,468.

During 2014, the Ministry received contributions of marketable securities valued at \$34,465 and recorded the contribution of merchandise for \$3,930.

NAVAJO MINISTRIES, INC.

STATEMENTS OF CASH FLOWS - Continued
For the Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Reconciliation of change in net assets to net cash provided (used) by operating activities:		
Change in net assets	\$ (349,882)	\$ (52,560)
Adjustments to reconcile:		
Depreciation.....	98,225	88,992
Contributions restricted for long-term purposes.....	(9,081)	(27,385)
Noncash contributions.....	(72,915)	(34,465)
Noncash expenses.....	33,489	1,625
Net realized and unrealized (gains) losses on investments.....	13,961	(6,235)
Valuation adjustment.....	194,170	-
Decrease (increase) in:		
Prepaid expenses and other current assets.....	31,614	33,017
Increase (decrease) in:		
Accounts payable.....	(4,154)	15,014
Accrued liabilities.....	1,537	5,304
Total adjustments.....	<u>286,846</u>	<u>75,867</u>
Net cash provided (used) by operating activities.....	<u>\$ (63,036)</u>	<u>\$ 23,307</u>

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

NAVAJO MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2015 and 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

Financial statement presentation

The Ministry 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 whose 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 Ministry 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 Ministry 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 Ministry 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 Ministry continues to qualify to be treated as a tax-exempt Ministry 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 Ministry 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, 2015 and 2014

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 Ministry'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 Ministry defines cash to include all demand deposits and cash on hand. Cash carried in investment accounts is not included.

Fair value measurements

The Ministry 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 Ministry'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.

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, 2015 and 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Property and equipment

The Ministry capitalizes property and equipment acquisitions of \$500 or more when the useful life is more than one year. Property and equipment purchased by the Ministry is recorded at cost. Property and equipment donated to the Ministry 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 Ministry reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Ministry reclassifies temporarily restricted net assets to unrestricted net assets at that time. Construction in progress includes direct costs incurred in connection with construction and other site improvements on projects not complete at year end. 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.

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 total net assets are unchanged by these reclassifications.

Subsequent events

Management has evaluated subsequent events through January 15, 2016, the date which the financial statements were available to be issued. 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, 2015</u>		<u>September 30, 2014</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	\$ 4,736	\$ 4,736	\$ 20,580	\$ 20,580
Mutual funds and stocks	61,316	62,114	60,483	66,506
Total marketable securities	<u>\$ 66,052</u>	<u>\$ 66,850</u>	<u>\$ 81,063</u>	<u>\$ 87,086</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>2015</u>	<u>2014</u>
Interest and dividends	\$ 1,384	\$ 1,718
Realized gain	1,606	355
Unrealized gain (loss)	(5,227)	2,209
	<u>\$ (2,237)</u>	<u>\$ 4,282</u>

NAVAJO MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS - Continued

September 30, 2015 and 2014

NOTE 2 - INVESTMENTS - Continued

Fiduciary investment trust

The fiduciary investment trust includes permanently restricted endowments of \$181,910 at September 30, 2015 and 2014, temporarily restricted endowments of \$9,000 both years, with the remainder each year being board designated funds. 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, 2015		September 30, 2014	
	Cost	Market	Cost	Market
Cash equivalents	\$ 3,533	\$ 3,533	\$ 4,900	\$ 4,900
Mutual funds	213,840	199,869	208,145	209,178
	\$ 217,373	\$ 203,402	\$ 213,045	\$ 214,078

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

	2015	2014
Interest and dividends	\$ 4,263	\$ 3,577
Realized gain (loss)	(2,845)	8,269
Unrealized loss	(15,058)	(4,500)
Administrative fees and taxes	(2,345)	(2,269)
	\$ (15,985)	\$ 5,077

Fiduciary annuity trust

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

	September 30, 2015		September 30, 2014	
	Cost	Market	Cost	Market
Cash equivalents	\$ 367	\$ 367	\$ 160	\$ 160
Mutual funds	8,714	9,011	10,471	10,755
	\$ 9,081	\$ 9,378	\$ 10,631	\$ 10,915

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

	2015	2014
Interest and dividends	\$ 182	\$ 226
Realized gain	116	84
Unrealized gain	10	170
Administrative fees and taxes	(670)	(505)
	\$ (362)	\$ (25)

NAVAJO MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS - Continued

September 30, 2015 and 2014

NOTE 3 - ASSETS RECEIVED BY BEQUEST

Income producing properties

Income producing properties include royalty interests in oil and gas wells in locations over several states. These royalty interests were part of a bequest directed to the Ministry in 2008. The Ministry did not recognize the contribution in 2008 because the value could not be reasonably estimated at that time. As of September 30, 2013, the Ministry determined a reasonable estimate of the value of all of the assets of the estate based on evidence gathered over time, and recognized contribution income of \$471,622 which included cash of \$52,566 and other assets described below. As of September 30, 2013, the value of the royalty interests was estimated at \$331,414 based on the present value of estimated future net cash flows using a discount rate equal to the prime rate of 3.25%. The carrying value of \$287,716 at September 30, 2014, reflects the reduction of \$43,698 for the net royalties received during the year and receivable at year end. As of September 30, 2015, The Ministry determined the value of the income producing properties was impaired due to current market conditions. Accordingly, management revised their calculation of the present value of estimated future net cash flows using actual net cash flows received in 2015 of \$10,873 and a discount rate of 3.25%. As of September 30, 2015 an impairment loss of \$164,223 was recognized, bringing the carrying value of the royalty interests to \$112,620.

Assets held for sale

Included in the estate assets described above were working interests in oil and gas wells and a partial interest in undeveloped land. Because of the nature of these assets, management has determined that maintaining ownership would not be within the Ministry's mission and decided to hold them out for sale. As of September 30, 2013, the carrying value of the working interests was estimated at \$62,642, based on the present value of estimated future net cash flows over a short period. The value of the partial interest in land was estimated at \$25,000, based on property values in the area, discounted for lack of exclusive ownership. The total carrying value of \$67,705 at September 30, 2014, reflects the reduction of \$19,937 for royalties received and receivable in 2014. As of September 30, 2015, The Ministry determined the assets held for sale were impaired and recalculated the present value of estimated future net cash flows using actual net cash flows received in 2015 of \$7,482 and a discount rate equal of 3.25%. As of September 30, 2015 the value of the land and royalty interests was estimated at \$30,276, reflecting an impairment loss of \$29,947.

Other non-current assets

During 2015, The Ministry received title to land valued at \$41,500. The Ministry anticipates using the property as a location for a future staff training and retreat facility.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of September 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Land	\$ 47,500	\$ 47,500
Buildings and site improvements	2,804,775	2,773,361
Equipment and vehicles	698,090	649,759
Artwork (not amortized)	5,725	7,800
	<u>3,556,090</u>	<u>3,478,420</u>
Accumulated depreciation	(1,759,722)	(1,693,692)
Net property and equipment	<u>\$ 1,796,368</u>	<u>\$ 1,784,728</u>

NAVAJO MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS - Continued

September 30, 2015 and 2014

NOTE 5 – NOTE PAYABLE

The Ministry maintained a \$400,000 revolving line of credit with Citizens Bank that expired on April 30, 2015. The balance outstanding under the line of credit agreement was \$240,000 at September 30, 2014. During 2015, The Ministry refinanced the line of credit by entering into a note payable agreement 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 note payable agreement at September 30, 2015 was \$233,708. Interest expense was \$11,794 and \$14,866, respectively, for the years ended September 30, 2015 and 2014.

Future maturities of debt at September 30, 2015 are as follows:

<u>Year ending September 30,</u>	<u>Amount</u>
2016	\$ 11,130
2017	11,747
2018	12,364
2019	198,467
	<u>\$ 233,708</u>

NOTE 6 - COMMITMENTS

Gift annuity obligation

The Ministry is obligated to make periodic payments to individuals under certain gift annuity agreements (Note 2). Under existing agreements, future annual cash payments amount to \$1,175. Applying the assumptions described below, the total present value of the future obligation as of September 30, 2015 and 2014, was \$3,140 and \$4,202, 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 Ministry 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 \$10,026 the year ended September 30, 2015. Interest expense under the capital lease obligations was \$1,351 for the year ended September 30, 2015.

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

Equipment	\$ 63,468
Accumulated depreciation	<u>(10,026)</u>
Net book value of leased equipment	<u>\$ 53,442</u>

NAVAJO MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS - Continued September 30, 2015 and 2014

NOTE 6 - COMMITMENTS - Continued

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

<u>Year ending September 30,</u>	
2016	\$ 14,053
2017	14,053
2018	14,053
2019	14,053
2020	1,541
	<u>57,753</u>
Less: amount representing interest	<u>3,781</u>
Present value of future minimum lease payments	53,972
Less: current portion	12,478
Long-term portion	<u>\$ 41,494</u>

Operating leases

In April 2014, The Ministry 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>
2016	\$ 2,639
2017	2,639
2018	2,639
2019	1,539
	<u>\$ 9,456</u>

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, 2014, temporarily restricted net assets of \$9,000 represented a temporary endowment fund. At September 30, 2015, temporarily restricted net assets of \$20,460 included the \$9,000 endowment and \$11,460 of contributions restricted for the radio ministry in excess of qualifying expenditures incurred during the year ended September 30, 2015.

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 Ministry. The Ministry has adopted certain investment policies and is continuing to develop specific endowment fund policies to comply with the requirements of state law and generally accepted accounting principles.

NAVAJO MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS - Continued

September 30, 2015 and 2014

NOTE 8 - EMPLOYEE BENEFITS

Employees of the Ministry are entitled to paid vacation depending on length of service and other factors. At September 30, 2015 and 2014, \$25,614 and \$16,661, 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 Ministry 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 Ministry, 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 Ministry served as fiscal administrator for the entire campaign through 2013. During 2014, the Ministry incurred expenses on behalf of the Heritage Center of \$436 and collected contributions of \$44,047, resulting in a cumulative balance due to the Ministry of \$305 at September 30, 2014. During 2015, the Ministry incurred expenses on behalf of the Heritage Center of \$524 and collected contributions of \$262, increasing the balance due to the Ministry to \$567 at September 30, 2015. The balance due to the Ministry at the end of each year is included in the caption prepaid expenses and other assets in the accompanying statements of financial position.

SUPPLEMENTARY INFORMATION

NAVAJO MINISTRIES, INC.

SCHEDULE OF REVENUES, EXPENSES AND CAPITAL EXPENDITURES BY PROGRAM

For the Year Ended September 30, 2015

(With comparative totals for 2014)

	PROGRAM SERVICES			
	Child Care	Navajo Outreach	Radio	School
Support, revenue and gains				
Contributions - cash.....	\$ 367,725	\$ 17,498	\$ 190,981	\$ 23,790
Contributions - non-cash.....	-	-	31,415	-
Investment income (expense).....	-	-	-	-
Other revenue and gains (losses).....	36,164	2,114	3,565	7,318
Total support, revenue and gains.....	<u>403,889</u>	<u>19,612</u>	<u>225,961</u>	<u>31,108</u>
Expenses				
Salaries.....	380,718	7,017	79,370	11,397
Payroll taxes and benefits.....	29,445	499	6,455	1,230
Cost of events.....	-	-	12,227	-
Donations and promotion.....	855	4,944	19,935	-
Food, clothing allowance.....	64,734	-	-	-
Insurance.....	25,137	712	6,558	1,416
Interest.....	689	-	446	27
Licenses, fees and dues.....	3,331	-	7,898	-
Maintenance and repairs.....	21,273	50	11,418	150
Postage.....	872	130	1,173	115
Professional services.....	12,817	-	3,898	13,134
Printing and publishing.....	326	-	1,401	-
Supplies.....	10,802	2,595	10,806	568
Telephone and utilities.....	58,941	-	28,677	3,944
Travel and vehicle expense.....	12,204	1,132	1,271	-
Other expenses.....	2,102	2,316	2,932	522
Total expenses excluding depreciation.....	<u>624,246</u>	<u>19,395</u>	<u>194,465</u>	<u>32,503</u>
Excess (deficiency) of revenues over expenses, excluding depreciation and extraordinary items.....	(220,357)	217	31,496	(1,395)
Less capital expenditures.....	<u>31,414</u>	<u>-</u>	<u>16,471</u>	<u>-</u>
Net after capital expenditures.....	<u>\$ (251,771)</u>	<u>\$ 217</u>	<u>\$ 15,025</u>	<u>\$ (1,395)</u>

SUPPORTING SERVICES						
Administration	Fund Raising	Non-Specified	Total Before Facilities	Facilities	2015 Total	2014 Total
\$ -	\$ 178,693	\$ 311,233	\$ 1,089,920	\$ 9,081	\$ 1,099,001	\$ 1,132,044
-	-	41,500	72,915	-	72,915	34,465
-	-	(8,131)	(8,131)	-	(8,131)	15,767
3,738	1,947	-	54,846	-	54,846	49,286
<u>3,738</u>	<u>180,640</u>	<u>344,602</u>	<u>1,209,550</u>	<u>9,081</u>	<u>1,218,631</u>	<u>1,231,562</u>
122,942	86,730	-	688,174	-	688,174	594,760
9,445	6,057	-	53,131	-	53,131	47,643
-	54,499	-	66,726	-	66,726	80,285
-	1,604	-	27,338	-	27,338	6,673
-	-	-	64,734	-	64,734	62,848
8,577	7,144	-	49,544	-	49,544	45,144
-	67	-	1,229	11,794	13,023	14,866
11,194	2,116	-	24,539	-	24,539	25,040
6,747	4,217	-	43,855	-	43,855	66,008
1,710	7,420	-	11,420	-	11,420	11,049
14,037	2,236	-	46,122	-	46,122	55,595
2,918	12,392	-	17,037	57	17,094	16,700
4,974	5,287	-	35,032	-	35,032	37,185
7,216	2,441	-	101,219	-	101,219	107,692
682	970	-	16,259	-	16,259	16,071
473	9,563	-	17,908	-	17,908	7,571
<u>190,915</u>	<u>202,743</u>	<u>-</u>	<u>1,264,267</u>	<u>11,851</u>	<u>1,276,118</u>	<u>1,195,130</u>
(187,177)	(22,103)	344,602	(54,717)	(2,770)	(57,487)	36,432
<u>586</u>	<u>-</u>	<u>-</u>	<u>48,471</u>	<u>-</u>	<u>48,471</u>	<u>40,584</u>
<u>\$ (187,763)</u>	<u>\$ (22,103)</u>	<u>\$ 344,602</u>	<u>\$ (103,188)</u>	<u>\$ (2,770)</u>	<u>\$ (105,958)</u>	<u>\$ (4,152)</u>