

NAVAJO MINISTRIES, INC.

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

September 30, 2014 and 2013

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, 2014 and 2013, 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, 2014 and 2013, 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.

Correction of an Error

As discussed in Note 11 to the financial statements, an error resulting in overstatement of amounts previously reported for assets held for sale and for contributions as of September 30, 2013, was discovered by management of the Ministry during the audit of the current year. Accordingly, amounts reported for assets held for sale and contributions have been restated in the 2013 financial statements now presented, and an adjustment has been made to net assets as of September 30, 2013, to correct the error. Our opinion is not modified with respect to that matter.

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 13 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

FredrickZink & Associates, PC

January 15, 2015

FINANCIAL STATEMENTS

NAVAJO MINISTRIES, INC.

STATEMENTS OF FINANCIAL POSITION

September 30, 2014 and 2013

ASSETS

| | <u>2014</u> | <u>2013</u> (Restated) |
|---|----------------------------|----------------------------|
| Assets | | |
| Cash..... | \$ 145,730 | \$ 151,086 |
| Prepaid expenses and other assets (Note 10)..... | 32,496 | 65,514 |
| Assets held for sale (Note 3)..... | 67,705 | 87,642 |
| Investments - unrestricted (Note 2)..... | 87,086 | 70,630 |
| Income producing properties (Note 3)..... | 287,716 | 331,414 |
| Fiduciary investment trust (Note 2)..... | 214,078 | 207,554 |
| Fiduciary annuity trust (Notes 2 and 7)..... | 10,915 | 12,116 |
| Construction in progress (Note 4)..... | - | 1,190 |
| Property and equipment, net of accumulated depreciation (Note 5)..... | 1,784,728 | 1,833,571 |
| Total assets | <u>\$ 2,630,454</u> | <u>\$ 2,760,717</u> |

LIABILITIES AND NET ASSETS

| | | |
|--|----------------------------|----------------------------|
| Liabilities | | |
| Accounts payable..... | \$ 24,022 | \$ 9,009 |
| Accrued liabilities..... | 36,395 | 31,091 |
| Line of credit (Note 6)..... | 240,000 | 337,000 |
| Gift annuity obligation (Note 2)..... | 4,202 | 5,222 |
| Total liabilities | <u>304,619</u> | <u>382,322</u> |
| Net assets | | |
| Unrestricted net assets | | |
| Undesignated..... | 590,197 | 690,914 |
| Investment in property and equipment, net of related debt..... | 1,544,728 | 1,496,571 |
| Total unrestricted net assets | <u>2,134,925</u> | <u>2,187,485</u> |
| Temporarily restricted net assets (Note 8)..... | 9,000 | 9,000 |
| Permanently restricted net assets (Note 8)..... | 181,910 | 181,910 |
| Total net assets | <u>2,325,835</u> | <u>2,378,395</u> |
| Total liabilities and net assets | <u>\$ 2,630,454</u> | <u>\$ 2,760,717</u> |

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

NAVAJO MINISTRIES, INC.

STATEMENTS OF ACTIVITIES For the Years Ended September 30, 2014 and 2013

| | 2014 | | | |
|---|---------------------|-----------------------------------|-----------------------------------|---------------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
| Support, revenue and gains | | | | |
| Contributions..... | \$ 553,118 | \$ 586,006 | \$ - | \$ 1,139,124 |
| Contributions for capital projects..... | - | 27,385 | - | 27,385 |
| Investment income..... | 15,767 | - | - | 15,767 |
| Gain (loss) on disposal of assets..... | - | - | - | - |
| Other revenue and gains..... | 39,486 | 9,800 | - | 49,286 |
| Total before reclassifications..... | 608,371 | 623,191 | - | 1,231,562 |
| Net assets released from restriction..... | 623,191 | (623,191) | - | - |
| Total support, revenue and gains..... | <u>1,231,562</u> | <u>-</u> | <u>-</u> | <u>1,231,562</u> |
| Expenses and losses | | | | |
| Program services | | | | |
| Child care..... | 631,587 | | | 631,587 |
| Navajo Nation outreach..... | 22,195 | | | 22,195 |
| Radio..... | 188,748 | | | 188,748 |
| School..... | 40,951 | | | 40,951 |
| Counseling center..... | - | | | - |
| Total program services..... | <u>883,481</u> | | | <u>883,481</u> |
| Supporting services | | | | |
| Administration..... | 210,403 | | | 210,403 |
| Fund raising and development..... | 190,238 | | | 190,238 |
| Total supporting services..... | <u>400,641</u> | | | <u>400,641</u> |
| Total expenses..... | <u>1,284,122</u> | | | <u>1,284,122</u> |
| Change in net assets..... | (52,560) | - | - | (52,560) |
| Net assets at beginning of year..... | <u>2,187,485</u> | <u>9,000</u> | <u>181,910</u> | <u>2,378,395</u> |
| Net assets at end of year..... | <u>\$ 2,134,925</u> | <u>\$ 9,000</u> | <u>\$ 181,910</u> | <u>\$ 2,325,835</u> |

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

2013 (Restated)

| Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---------------------|------------------------|------------------------|---------------------|
| \$ 980,938 | \$ 479,470 | \$ 175,000 | \$ 1,635,408 |
| - | 83,250 | - | 83,250 |
| 9,263 | - | - | 9,263 |
| 2,200 | - | - | 2,200 |
| 60,996 | 9,692 | - | 70,688 |
| <u>1,053,397</u> | <u>572,412</u> | <u>175,000</u> | <u>1,800,809</u> |
| 1,458,340 | (1,458,340) | - | - |
| <u>2,511,737</u> | <u>(885,928)</u> | <u>175,000</u> | <u>1,800,809</u> |
| 579,390 | | | 579,390 |
| 15,762 | | | 15,762 |
| 158,452 | | | 158,452 |
| 48,987 | | | 48,987 |
| 21,669 | | | 21,669 |
| <u>824,260</u> | | | <u>824,260</u> |
| 190,365 | | | 190,365 |
| 161,889 | | | 161,889 |
| <u>352,254</u> | | | <u>352,254</u> |
| <u>1,176,514</u> | | | <u>1,176,514</u> |
| 1,335,223 | (885,928) | 175,000 | 624,295 |
| <u>852,262</u> | <u>894,928</u> | <u>6,910</u> | <u>1,754,100</u> |
| <u>\$ 2,187,485</u> | <u>\$ 9,000</u> | <u>\$ 181,910</u> | <u>\$ 2,378,395</u> |

NAVAJO MINISTRIES, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended September 30, 2014 and 2013

Increase (Decrease) in Cash

| | 2014 | 2013 (Restated) |
|--|-------------------|--------------------|
| Cash flows from operating activities: | | |
| Cash received from contributors and others..... | \$ 1,125,792 | \$ 1,103,849 |
| Cash paid to suppliers and employees..... | (1,105,659) | (1,253,650) |
| Insurance proceeds received..... | 12,515 | - |
| Interest and dividends received..... | 5,525 | 2,648 |
| Interest paid..... | (14,866) | (16,037) |
| Net cash provided (used) by operating activities..... | 23,307 | (163,190) |
| Cash flows from investing activities: | | |
| Proceeds from investment sales and redemptions..... | 248,839 | 248,428 |
| Investment purchases..... | (229,918) | (328,617) |
| Net royalties received..... | 63,635 | - |
| Proceeds from sale of assets..... | - | 2,200 |
| Capital expenditures..... | (40,584) | (85,328) |
| Reduction of cash restricted for long-term purposes..... | - | 15,000 |
| Net cash provided (used) by investing activities..... | 41,972 | (148,317) |
| Cash flows from financing activities: | | |
| Borrowings on line of credit..... | 20,000 | 133,000 |
| Payments on line of credit..... | (117,000) | (46,000) |
| Contributions restricted for long-term purposes..... | 27,385 | 82,067 |
| Contribution to permanent endowment..... | - | 175,000 |
| Principal payments of annuity obligation..... | (1,020) | (1,358) |
| Net cash provided (used) by financing activities..... | (70,635) | 342,709 |
| Net increase (decrease) in cash..... | (5,356) | 31,202 |
| Cash at beginning of year..... | 151,086 | 119,884 |
| Cash at end of year..... | \$ 145,730 | \$ 151,086 |

Non-cash investing and financing activities:

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

During 2013, the Ministry received contributions of marketable securities valued at \$14,138 and recorded the contribution of land and income producing properties valued at \$419,056.

NAVAJO MINISTRIES, INC.

STATEMENTS OF CASH FLOWS - Continued
For the Years Ended September 30, 2014 and 2013

| | <u>2014</u> | <u>2013</u> <u>(Restated)</u> |
|--|------------------|----------------------------------|
| Reconciliation of change in net assets to net cash provided (used) by operating activities: | | |
| Change in net assets | \$ (52,560) | \$ 624,295 |
| Adjustments to reconcile: | | |
| Depreciation..... | 88,992 | 87,745 |
| Contributions restricted for long-term purposes..... | (27,385) | (257,067) |
| Noncash contributions of assets..... | (34,465) | (433,194) |
| Noncash expenses..... | 1,625 | - |
| Recalculation of annuity obligation..... | - | (376) |
| Net realized and unrealized gains on investments..... | (6,235) | (5,976) |
| Net (gain) loss on disposal of assets..... | - | (2,200) |
| Decrease (increase) in: | | |
| Prepaid expenses and other assets..... | 33,017 | (3,030) |
| Increase (decrease) in: | | |
| Accounts payable..... | 15,014 | (177,649) |
| Accrued liabilities..... | 5,304 | 4,262 |
| Total adjustments..... | <u>75,867</u> | <u>(787,485)</u> |
| Net cash provided (used) by operating activities..... | <u>\$ 23,307</u> | <u>\$ (163,190)</u> |

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

NAVAJO MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2014 and 2013

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 five 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 counseling center, which was discontinued in 2013, primarily provided for the counseling needs of the children and support for the house parents while also meeting the needs of others in and outside of the Navajo Nation. 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, 2014 and 2013

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, 2014 and 2013

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. However, see Note 11 for the effect of a prior period adjustment.

Subsequent events

Management has evaluated subsequent events through January 15, 2015, the date which the financial statements were available to be issued. In January 2015, the Ministry entered into a capital lease agreement for the acquisition of a telephone system. The lease term is five years with monthly payments of \$986 per month and includes a purchase option at the end of the lease term.

NOTE 2 - INVESTMENTS

Investments - unrestricted

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

| | <u>September 30, 2014</u> | | <u>September 30, 2013</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 | \$ 20,580 | \$ 20,580 | \$ 18,924 | \$ 18,924 |
| Mutual funds and stocks | 60,483 | 66,506 | 47,891 | 51,706 |
| Total marketable securities | <u>\$ 81,063</u> | <u>\$ 87,086</u> | <u>\$ 66,815</u> | <u>\$ 70,630</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>2014</u> | <u>2013</u> |
|------------------------|-----------------|-----------------|
| Interest and dividends | \$ 1,718 | \$ 1,217 |
| Realized gain | 355 | 10 |
| Unrealized gain | 2,209 | 3,877 |
| | <u>\$ 4,282</u> | <u>\$ 5,104</u> |

NAVAJO MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS - Continued September 30, 2014 and 2013

NOTE 2 - INVESTMENTS - Continued

Fiduciary investment trust

The fiduciary investment trust includes permanently restricted endowments of \$181,910 at September 30, 2014 and 2013, 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, 2014 | | September 30, 2013 | |
|------------------|--------------------|------------|--------------------|------------|
| | Cost | Market | Cost | Market |
| Cash equivalents | \$ 4,900 | \$ 4,900 | \$ 7,394 | \$ 7,394 |
| Mutual funds | 208,145 | 209,178 | 197,755 | 200,160 |
| | \$ 213,045 | \$ 214,078 | \$ 205,149 | \$ 207,554 |

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

| | 2014 | 2013 |
|-------------------------------|----------|----------|
| Interest and dividends | \$ 3,577 | \$ 1,163 |
| Realized gain | 8,269 | 1,712 |
| Unrealized gain (loss) | (4,500) | 1,011 |
| Administrative fees and taxes | (2,269) | (328) |
| | \$ 5,077 | \$ 3,558 |

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, 2014 | | September 30, 2013 | |
|------------------|--------------------|-----------|--------------------|-----------|
| | Cost | Market | Cost | Market |
| Cash equivalents | \$ 160 | \$ 160 | \$ 244 | \$ 244 |
| Mutual funds | 10,471 | 10,755 | 11,758 | 11,872 |
| | \$ 10,631 | \$ 10,915 | \$ 12,002 | \$ 12,116 |

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

| | 2014 | 2013 |
|-------------------------------|---------|----------|
| Interest and dividends | \$ 226 | \$ 265 |
| Realized gain | 84 | 110 |
| Unrealized gain (loss) | 170 | (743) |
| Administrative fees and taxes | (505) | (510) |
| | \$ (25) | \$ (878) |

NAVAJO MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS - Continued September 30, 2014 and 2013

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 (restated, see Note 11) 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%. Royalty payments received prior to the September 30, 2013 valuation were recorded as contribution income and totaled \$7,765 for the year ended September 30, 2013. 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.

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 has decided to hold them out for sale. As of September 30, 2013, the carrying value of the working interests was estimated at \$62,642 (restated, see Note 11), 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.

NOTE 4 - CONSTRUCTION IN PROGRESS

At September 30, 2013, construction in progress of \$1,190 represented costs incurred on an uncompleted fence project. The fence was completed during 2014 and placed into service.

Construction costs for the Education and Activity Center included related party transactions in 2013. The Ministry contracted with Cambridge Stone which is a company owned by a member of the Ministry's Administration Advisory Council who was rehired as an employee in 2013. Cambridge Stone was paid \$10,003 during the year ended September 30, 2013.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of September 30, 2014 and 2013:

| | <u>2014</u> | <u>2013</u> |
|---------------------------------|---------------------|---------------------|
| Land | \$ 47,500 | \$ 47,500 |
| Buildings and site improvements | 2,773,361 | 2,770,083 |
| Equipment and vehicles | 649,759 | 611,263 |
| Artwork (not amortized) | <u>7,800</u> | <u>9,425</u> |
| | 3,478,420 | 3,438,271 |
| Accumulated depreciation | <u>(1,693,692)</u> | <u>(1,604,700)</u> |
| Net property and equipment | <u>\$ 1,784,728</u> | <u>\$ 1,833,571</u> |

NAVAJO MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS - Continued

September 30, 2014 and 2013

NOTE 6 - LINE OF CREDIT

The Ministry maintained a \$400,000 revolving line of credit with Citizens Bank expiring April 30, 2015. The line carries an interest rate of 5.25% applied to outstanding borrowings and is secured by real estate that is fully depreciated. The balance outstanding under this agreement at September 30, 2014 and 2013 was \$240,000 and \$337,000, respectively. Interest expense was \$14,866 and \$16,037, respectively, for the years ended September 30, 2014 and 2013.

NOTE 7 - COMMITMENTS

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, 2014 and 2013, was \$4,202 and \$5,222, 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.

NOTE 8 - 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. Temporarily restricted net assets of \$9,000 at September 30, 2014 and 2013, represent a temporary endowment fund.

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. Any earnings generated by the permanent endowment are unrestricted and available to support the general operations of the Ministry. During the year ended September 30, 2013, the Ministry received a restricted bequest of \$175,000, bringing the endowment balance to \$181,910. The Ministry is in the process of developing endowment fund policies to comply with the requirements of state law and generally accepted accounting principles.

NOTE 9 - EMPLOYEE BENEFITS

Employees of the Ministry are entitled to paid vacation depending on length of service and other factors. At September 30, 2014 and 2013, \$16,661 and \$23,590, 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.

NAVAJO MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS - Continued September 30, 2014 and 2013

NOTE 10 - 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 2013, the Ministry incurred expenses on behalf of the Heritage Center of \$1,856 and collected contributions of \$1,390, resulting in a cumulative balance due to the Ministry of \$43,916 at September 30, 2013. During 2014, the Ministry incurred expenses on behalf of the Heritage Center of \$436 and collected contributions of \$44,047, reducing the balance due to the Ministry to \$305 at September 30, 2014. 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.

NOTE 11 - PRIOR PERIOD ADJUSTMENT

During the audit of the 2014 financial statements, an error was discovered in the application of the methodology applied in 2013 to estimate the value of certain working interests received by the Ministry by bequest. As described in Note 3, the estimated value of the working interests was based on a calculation of the present value of estimated future net cash flows over a short period. The calculated value was inadvertently overstated as a result of incorrect attribution of certain past cash flows. Management has estimated that the resulting present value was overstated by \$50,000 and has, accordingly, reduced the carrying value of assets held for sale as of September 30, 2013. The effect on the year then ended was to reduce the change in net assets by \$50,000 and reduce total net assets by an equal amount. There is no effect on the year ended September 30, 2014.

SUPPLEMENTARY INFORMATION

NAVAJO MINISTRIES, INC.

SCHEDULE OF REVENUES, EXPENSES AND CAPITAL EXPENDITURES BY PROGRAM

For the Year Ended September 30, 2014

(With comparative totals for 2013)

| | PROGRAM SERVICES | | | |
|---|---------------------|--------------------|--------------------|-----------------|
| | Child Care | Navajo Outreach | Radio | School |
| Support, revenue and gains | | | | |
| Contributions - cash..... | \$ 371,938 | \$ 14,682 | \$ 141,812 | \$ 23,109 |
| Contributions - non-cash..... | 34,465 | - | - | - |
| Investment income..... | - | - | - | - |
| Fees for services..... | - | - | - | - |
| Other revenue and gains (losses)..... | 24,980 | 2,524 | 3,971 | 9,800 |
| Total support, revenue and gains..... | <u>431,383</u> | <u>17,206</u> | <u>145,783</u> | <u>32,909</u> |
| Expenses | | | | |
| Salaries..... | 316,024 | 6,109 | 81,058 | 10,170 |
| Payroll taxes and benefits..... | 25,922 | 449 | 6,474 | 1,129 |
| Cost of events..... | - | - | 15,800 | - |
| Donations and promotion..... | 923 | 4,697 | 170 | - |
| Food, clothing allowance..... | 62,824 | - | - | 24 |
| Insurance..... | 23,296 | 688 | 6,459 | 1,402 |
| Interest..... | - | - | - | - |
| Licenses, fees and dues..... | 3,821 | 34 | 9,172 | - |
| Maintenance and repairs..... | 31,984 | 400 | 14,451 | 96 |
| Postage..... | 939 | 99 | 1,077 | 93 |
| Professional services..... | 11,004 | - | 8,253 | 12,490 |
| Printing and publishing..... | 636 | 22 | 1,694 | 232 |
| Supplies..... | 11,705 | 6,683 | 6,374 | 938 |
| Telephone and utilities..... | 60,854 | - | 27,453 | 3,936 |
| Travel and vehicle expense..... | 11,217 | 1,197 | 1,617 | - |
| Other expenses..... | 1,902 | 1,817 | 1,748 | 335 |
| Total expenses excluding depreciation..... | <u>563,051</u> | <u>22,195</u> | <u>181,800</u> | <u>30,845</u> |
| Excess (deficiency) of revenues over expenses, excluding depreciation..... | (131,668) | (4,989) | (36,017) | 2,064 |
| Less capital expenditures..... | <u>22,758</u> | <u>-</u> | <u>16,854</u> | <u>-</u> |
| Net after capital expenditures..... | <u>\$ (154,426)</u> | <u>\$ (4,989)</u> | <u>\$ (52,871)</u> | <u>\$ 2,064</u> |

| SUPPORTING SERVICES | | | | | | 2013 |
|---------------------|--------------------|-------------------|-------------------------|------------------|-------------------|-------------------|
| Administration | Fund Raising | Non-Specified | Total Before Facilities | Facilities | 2014 Total | Total (Restated) |
| \$ - | \$ 132,216 | \$ 420,902 | \$ 1,104,659 | \$ 27,385 | \$ 1,132,044 | \$ 1,285,464 |
| - | - | - | 34,465 | - | 34,465 | 433,194 |
| - | - | 15,767 | 15,767 | - | 15,767 | 9,263 |
| - | - | - | - | - | - | 11,929 |
| 7,840 | 171 | - | 49,286 | - | 49,286 | 60,959 |
| <u>7,840</u> | <u>132,387</u> | <u>436,669</u> | <u>1,204,177</u> | <u>27,385</u> | <u>1,231,562</u> | <u>1,800,809</u> |
| 114,711 | 66,688 | - | 594,760 | - | 594,760 | 578,619 |
| 8,724 | 4,945 | - | 47,643 | - | 47,643 | 46,570 |
| - | 64,485 | - | 80,285 | - | 80,285 | 57,727 |
| 54 | 829 | - | 6,673 | - | 6,673 | 5,497 |
| - | - | - | 62,848 | - | 62,848 | 59,667 |
| 7,630 | 5,669 | - | 45,144 | - | 45,144 | 43,299 |
| - | - | - | - | 14,866 | 14,866 | 16,037 |
| 9,859 | 2,154 | - | 25,040 | - | 25,040 | 20,457 |
| 12,735 | 6,342 | - | 66,008 | - | 66,008 | 30,791 |
| 1,307 | 7,534 | - | 11,049 | - | 11,049 | 10,980 |
| 15,243 | 8,605 | - | 55,595 | - | 55,595 | 69,745 |
| 3,986 | 10,104 | - | 16,674 | 26 | 16,700 | 15,537 |
| 6,377 | 5,108 | - | 37,185 | - | 37,185 | 21,547 |
| 11,056 | 4,393 | - | 107,692 | - | 107,692 | 93,295 |
| 1,307 | 733 | - | 16,071 | - | 16,071 | 13,492 |
| 1,085 | 666 | - | 7,553 | 18 | 7,571 | 5,509 |
| <u>194,074</u> | <u>188,255</u> | <u>-</u> | <u>1,180,220</u> | <u>14,910</u> | <u>1,195,130</u> | <u>1,088,769</u> |
| (186,234) | (55,868) | 436,669 | 23,957 | 12,475 | 36,432 | 712,040 |
| - | 972 | - | 40,584 | - | 40,584 | 85,328 |
| <u>\$ (186,234)</u> | <u>\$ (56,840)</u> | <u>\$ 436,669</u> | <u>\$ (16,627)</u> | <u>\$ 12,475</u> | <u>\$ (4,152)</u> | <u>\$ 626,712</u> |