

NEIGHBORS IN NEED OF SERVICES, INC.

**AUDITED ANNUAL CONSOLIDATED
FINANCIAL REPORT**

FOR THE FISCAL YEAR ENDED MARCH 31, 2017

NEIGHBORS IN NEED OF SERVICES, INC.
AUDTIED ANNUAL CONSOLIDATED FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED MARCH 31, 2017

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NEIGHBORS IN NEED OF SERVICES, INC.
AUDITED ANNUAL CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED MARCH 31, 2017

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Oscar R. González
Melissa González

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Neighbors in Need of Services, Inc.
San Benito, TX

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Neighbors in Need of Services, Inc. (a nonprofit organization) and subsidiaries, which comprise the consolidated statement of financial position as of March 31, 2017, and the related consolidated statements of activities, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Neighbors in Need of Services, Inc. and subsidiaries as of March 31, 2017 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidated schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 or to 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2017 on our consideration of Neighbors in Needs of Service's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Neighbors in Need of Service's internal control over financial reporting and compliance.

Oscar R. Gonzalez CPA & Associates PLLC

Oscar R. Gonzalez, CPA & Associates, PLLC
Certified Public Accountants
Pharr, TX
December 12, 2017

BASIC CONSOLIDATED FINANCIAL STATEMENTS

NEIGHBORS IN NEED OF SERVICES. INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
MARCH 31, 2017

| ASSETS | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Current Assets | | | | |
| Cash and Cash Equivalents | \$ 146,916 | \$ 8,070 | \$ - | \$ 154,986 |
| Certificate of Deposit | 1,923 | - | - | 1,923 |
| Accounts Receivable | 20,282 | - | - | 20,282 |
| Grants Receivable | 1,405,151 | - | - | 1,405,151 |
| Prepaid Items | 543,391 | - | - | 543,391 |
| Due From Other funds | 20,710 | - | - | 20,710 |
| Total Current Assets | <u>2,138,373</u> | <u>8,070</u> | <u>-</u> | <u>2,146,443</u> |
| Fixed Assets | | | | |
| Land | 416,627 | - | - | 416,627 |
| Building and Improvements | 3,377,534 | - | - | 3,377,534 |
| Vehicles and Equipment | 2,176,529 | - | - | 2,176,529 |
| Less: Accumalated Depreciation | (4,403,964) | - | - | (4,403,964) |
| Construction in Progress | 1,792,117 | - | - | 1,792,117 |
| Total Fixed Assets | <u>3,358,843</u> | <u>-</u> | <u>-</u> | <u>3,358,843</u> |
| Total Assets | <u>\$ 5,497,216</u> | <u>\$ 8,070</u> | <u>\$ -</u> | <u>\$ 5,505,286</u> |
| LIABILITIES AND NET ASSETS | | | | |
| Current Liabilities | | | | |
| Overdraft | \$ 369,489 | \$ - | \$ - | \$ 369,489 |
| Accounts Payable | 437,546 | - | - | 437,546 |
| Wages and Salaries Payable | 601,432 | - | - | 601,432 |
| Payroll Liabilities | 408,300 | - | - | 408,300 |
| Deferred Income | 543,391 | - | - | 543,391 |
| Current Portion-Note Payable | 40,497 | - | - | 40,497 |
| Total Current Liabilities | <u>2,400,655</u> | <u>-</u> | <u>-</u> | <u>2,400,655</u> |
| Note Payable- USDA | 1,541,768 | - | - | 1,541,768 |
| Total Liabilities | <u>3,942,424</u> | <u>-</u> | <u>-</u> | <u>3,942,424</u> |
| Net Assets | | | | |
| Net Assets | 1,554,792 | 8,070 | - | 1,562,862 |
| Total Net Assets | <u>1,554,792</u> | <u>8,070</u> | <u>-</u> | <u>1,562,862</u> |
| Total Liabilities and Net Assets | <u>\$ 5,497,216</u> | <u>\$ 8,070</u> | <u>\$ -</u> | <u>\$ 5,505,286</u> |

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

NEIGHBORS IN NEED OF SERVICES. INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED MARCH 31, 2017

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|---------------------|---------------------------|---------------------------|---------------------|
| Revenues, Gains and Other Support | | | | |
| U.S. Department of Health and Human Services | \$ - | \$ 21,103,187 | \$ - | \$ 21,103,187 |
| Texas Department of Agriculture | - | 2,387,982 | - | 2,387,982 |
| Program Income | 32,507 | - | - | 32,507 |
| Contributions and Donations | 5,320,334 | - | - | 5,320,334 |
| Other Revenue | 100,538 | 29,584 | - | 130,122 |
| | <u>5,453,379</u> | <u>23,520,753</u> | <u>-</u> | <u>28,974,132</u> |
| Net Assets Released from Restrictions | | | | |
| Restrictions satisfied by incurring expenses imposed by donor | 23,516,769 | (23,516,769) | - | - |
| Total Revenues, Gains and Other Support | 28,970,148 | 3,984 | - | 28,974,132 |
| Expenses | | | | |
| Program Services | 27,376,802 | - | - | 27,376,802 |
| Total Program Services | <u>27,376,802</u> | <u>-</u> | <u>-</u> | <u>27,376,802</u> |
| Supporting Services | | | | |
| General and Administrative | 1,970,723 | - | - | 1,970,723 |
| Total Support Services | <u>1,970,723</u> | <u>-</u> | <u>-</u> | <u>1,970,723</u> |
| Total Expenses | <u>29,347,525</u> | <u>-</u> | <u>-</u> | <u>29,347,525</u> |
| Change in unrestricted net assets | (377,377) | 3,984 | - | (373,393) |
| Other Income (Expense) | | | | |
| Interest Expense | (4,939) | - | - | (4,939) |
| Total Other Expense | <u>(4,939)</u> | <u>-</u> | <u>-</u> | <u>(4,939)</u> |
| Change in Net Assets | (382,316) | 3,984 | - | (378,332) |
| Net Assets, April 1, 2016 | 1,954,745 | 4,086 | - | 1,958,831 |
| Prior Period | (17,637) | - | - | (17,637) |
| Net Assets, March 31, 2017 | <u>\$ 1,554,792</u> | <u>\$ 8,070</u> | <u>\$ -</u> | <u>\$ 1,562,862</u> |

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

NEIGHBORS IN NEED OF SERVICES, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED MARCH 31, 2017

| | | |
|--|----------------|---------------------|
| Cash Flows from Operating Activities: | | |
| Cash Received from Government Grants | \$ 23,455,880 | |
| Cash Received from Program Services and Other | <u>149,290</u> | \$ 23,605,170 |
| Cash Payments to Employees for Services | (17,885,208) | |
| Cash Payments to Suppliers for Goods and Services | (6,099,260) | |
| Cash Payments to Interest | <u>(4,939)</u> | <u>(23,989,408)</u> |
| Net Cash Provided (Used) by Operating Activities | | (384,238) |
| Cash Flows from Investing Activities: | | |
| Purchase of Property and Equipment | (348,531) | |
| Construction in Progress | (1,792,117) | |
| Redemption of Certificate of Deposit | <u>244,985</u> | |
| Net Cash Provided (Used) by Investing Activities | | (1,895,663) |
| Cash Flows from Financing Activities: | | |
| Loan Proceeds | 1,478,296 | |
| Principal Payments | <u>(6,654)</u> | |
| Net Cash Provided (Used) by Financing Activities | | <u>1,471,642</u> |
| Net Increase (Decrease) in Cash | | (808,259) |
| Cash and Cash Equivalents at Beginning of Year - Restated | | 593,756 |
| Cash and Cash Equivalents - End of Year | | <u>\$ (214,503)</u> |
| <i>Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities:</i> | | |
| Change in Net Assets | | \$ (378,332) |
| Adjustments to Reconcile Change in Net Cash Provided (Used) by Operating Activities | | |
| Depreciation | 237,357 | |
| Change in Assets and Liabilities: | | |
| (Increase) Decrease in Accounts Receivables | (13,339) | |
| (Increase)Decrease in Grant Receivable | (213,436) | |
| (Increase)Decrease in Prepaid Expenses | (178,147) | |
| Increase (Decrease) in Accounts Payable | (105,487) | |
| Increase (Decrease) in Payroll Accrual | 70,772 | |
| Increase (Decrease) in Payroll Liabilities | 18,228 | |
| Increase (Decrease) in Deferred Revenues | 178,147 | (5,906) |
| Net Cash Provided (Used) by Operating Activities | | <u>\$ (384,238)</u> |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NEIGHBORS IN NEED OF SERVICES, INC.

Notes to Financial Statements

For the Fiscal Year Ended March 31, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

Neighbors In Need Of Services, Inc. ("NINOS") is a not-for-profit Texas corporation organized in 1990. The primary purpose of NINOS is to operate the Head Start Program in Cameron and Willacy Counties as sponsored by the U.S. Department of Health and Human Services. NINOS provides child development services including education services to children from infancy up to compulsory enrollment in school. These services are available to children based on family income guidelines and include children with disabilities. NINOS also operates the Child and Adult Care Food Program from the Texas Department of Human Services, which is sponsored by the U.S. Department of Agriculture. The Food Program participates with the Head Start and Early Head Start Programs in providing support for nutrition assistance services. NINOS also receives funding from the Head Start/Early Head Start Regional office via the Training and Technical Assistance Program (T/TA). The financial activity of Advocacy of NINOS, Inc. and the Head Start Policy Council, both subsidiaries of NINOS for the purpose of financial reporting have been consolidated with NINOS' financial activity and all appropriate consolidating eliminations have been made as a result of the consolidation.

B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The financial statements are prepared on the accrual basis in conformity with accounting principles generally accepted in the United States of America.

Financial Statement Presentation, Contributions and Support

NINOS has elected to adopt Statement of Financial Accounting Standards ("SFAS") No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No.117, NINOS is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

NINOS also elected to adopt SFAS No. 116, Accounting for Contributions Received and Contributions Made. In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. When a donor restriction expires, that is, when the 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 restrictions: satisfaction or usage restriction. NINOS has no permanently restricted net assets.

Cash and Cash Equivalents

For the purpose of stating the statement of cash flows, the Organization considers all cash accounts, which are not subject to withdrawal restrictions or penalties, purchased with maturities of three months or less to be cash equivalents.

Recognition of Grant Support

Head Start, Early Head Start, ARRA and THHSC grant funds are recognized as support when related program expenses are incurred. Food Program grants funds are recognized as support when complete program meals and snacks are provided to eligible participants. The amount of resources recognized under the food program is based on the number of complete program meals and snacks provided times the related rates authorized by the grantor.

NEIGHBORS IN NEED OF SERVICES, INC.

Notes to Financial Statements

For the Fiscal Year Ended March 31, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (Continued)

Functional Allocation of Expenses

The expenses of NINOS have been reported on a functional basis. This requires the allocation of certain expenses between program and support services based on an analysis of each expense account or in certain instances on estimates made by management.

Concentration of Risk

In 2017, 72% of the Organization's revenues were provided through grants from the US Department of Health and Human Services.

Inventory

Inventory is stated at the lower of cost or market. Cost is determined by the first-in, first- out method, and market represents the lower of replacement cost or estimated net realizable value.

Property and Equipment

Leasehold improvements are carried at cost net of accumulated amortization. Amortization is computed on a straight-line basis over the term of the lease.

Equipment, furnishings and building in excess of \$5,000 are capitalized and carried at cost net of accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful lives of the related assets of a period ranging from 5 to 50 years. Equipment and furnishings costing less than \$5,000 are charged to expense when incurred.

Buildings, furniture and equipment of NINOS are depreciated using the straight line method over the following estimated useful lives

| <u>Assets</u> | <u>Cost</u> |
|------------------------------|-------------|
| Buildings | 40 |
| Leashold Improvements | 39 |
| Land Improvements | 20 |
| Portable Buildings | 15 |
| Office Equipment | 10 |
| Motor Vehicles | 5 |
| Heavy Construction Equipment | 5 |
| Computer Equipment | 5 |
| Kitchen Equipment | 5 |

All property, equipment, and furnishings have been acquired with Federal grant assistance; therefore, any proceeds received from the disposition of such property are to be administered as follows. If NINO' S program for which the property was acquired is still receiving grant support from the same federal program, the grantor may authorize use of any proceeds received for allowable costs of that program. Otherwise, the net amount of any proceeds received must be remitted to the grantor. The net property and equipment balance has been recorded as a separate component in unrestricted net assets.

NEIGHBORS IN NEED OF SERVICES, INC.

Notes to Financial Statements

For the Fiscal Year Ended March 31, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (Continued)

Income Taxes

NINOS is a not-for-profit organized under section 501(c) (3) of the Internal Revenue Code and is generally exempt from Federal income taxes and, accordingly, no provision for income taxes is included in the financial statements. In addition, it has been determined by the Internal Revenue Service not to be a "Private" foundation with the meaning of section 509 (a) of the Internal Revenue Code. There was no unrelated business income for the year ended March 31, 2017. Federal income tax and information returns for the tax years 2014, 2015, and 2016 remain subject to examination by the Internal Revenue Service.

Accumulation of Employee Benefits

Employees of NINOS are entitled to paid vacation depending on length of service and other factors. At year end, there was no accrued time owed to employees.

Sick leave is not accrued because it does not vest. Employees are not paid for any unused sick leave at termination of employment.

Advertising Costs

The Organization expenses advertising costs as they are incurred. As of March 31, 2017, advertising costs totaled \$0.

Estimates

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

C. DEPOSITS AND INVESTMENTS AND CREDIT RISK

At March 31, 2017, the carrying amount of the NINOS' deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was (\$214,504) and the bank balance was \$426,282. \$500,000 of NINOS' cash deposits at March 31, 2017 and during the year ended March 31, 2017 was entirely covered by FDIC insurance (\$250,000 per depository institution). \$29,194 was unsecured. NINOS has not experienced any losses on these accounts and management believes it is not exposed to any significant credit risk on the excess amounts.

D. GRANTS AND OTHER RECEIVABLES

Grants and other receivables as of March 31, 2017 consist of the following:

| <u>Account Receivables</u> | <u>Amount</u> |
|---|--------------------|
| U.S. Department of Health and Human Services | \$ 945,505 |
| TX Department of Agriculture- Nutrition program | 459,646 |
| Total Grant Receivables | <u>\$1,405,151</u> |

NEIGHBORS IN NEED OF SERVICES, INC.
Notes to Financial Statements
For the Fiscal Year Ended March 31, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. RETIREMENT PLAN

NINOS sponsors an employee retirement plan similar to a profit-sharing plan covering employees who have completed at least six months of service. Participation in the plan begins on the 1st day of the following January, April, July, or October with satisfaction of the eligibility requirements. Under the plan, NINOS may contribute an amount to be determined annually by the board of directors. Employees may also make voluntary "Tax Deferred" contributions up to 15% of their pay to the plan. Employees will be 100% vested as to the employer contributions plus earnings, after 5 years of service. During the year ended March 31, 2017 the board of directors authorized contributions to the plan of 8% of an eligible employee's salary. The total employer contributions for the year ended March 31, 2017 totaled \$837,961.

E. PROPERTY AND EQUIPMENT

| <i>Capital Assets, Not Being Depreciated:</i> | Beginning | | | Ending |
|---|---------------------|---------------------|------------------|---------------------|
| | Balance | Increases | Decreases | Balance |
| Land | \$ 416,627 | \$ - | \$ - | \$ 416,627 |
| Construction in Progress | - | 1,792,117 | - | 1,792,117 |
| Total Capital Assets, Not Being Depreciated | 416,627 | 1,792,117 | - | 2,208,744 |
| <i>Capital Assets, Being Depreciated</i> | | | | |
| Vehicles | 2,691,276 | 312,906 | (922,598) | 2,081,584 |
| Furniture and Equipment | 59,320 | 35,625 | - | 94,945 |
| Leasehold Improvements | 765,674 | - | - | 765,674 |
| Buildings | 2,611,860 | - | - | 2,611,860 |
| Total Capital Assets, Being Depreciated | 6,128,130 | 348,531 | (922,598) | 5,554,063 |
| <i>Less Accumulated Depreciation For:</i> | | | | |
| Vehicles | (2,276,455) | (198,230) | 922,598 | (1,552,087) |
| Furniture and Equipment | (47,069) | (5,684) | - | (52,753) |
| Leasehold Improvements | (599,449) | (9,256) | - | (608,705) |
| Buildings | (230,119) | (11,835) | - | (241,954) |
| Portables | (1,834,719) | (5,591) | - | (1,840,310) |
| Sebastian | (101,395) | (6,760) | - | (108,155) |
| Total Accumulated Depreciation | (5,089,206) | (237,356) | 922,598 | (4,403,964) |
| Total Capital Assets, Being Depreciated, Net | 1,038,924 | 111,175 | - | 1,150,099 |
| Total Capital Assets | \$ 1,455,551 | \$ 1,903,292 | \$ - | \$ 3,358,843 |

Depreciation expense for the year totaled \$237,357.

NEIGHBORS IN NEED OF SERVICES, INC.
Notes to Financial Statements
For the Fiscal Year Ended March 31, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. CONTINGENCIES

NINOS participants in programs that are sponsored by Federal government grants. Expenditures financed by grants are subject to audit by the appropriate grantor agency. If program expenditures or support claims are disallowed due to noncompliance with grant program regulations, NINOS may be required to reimburse the grantor. NINOS believes it has substantially complied with applicable laws and regulations and any subsequent examinations will not have a material effect on any of the individual governmental resources of the overall financial position of NINOS. The future operations of NINOS are contingent upon continual funding from the U.S. Department of Health and Human Services and the U.S. Department of Agriculture.

H. OPERATING LEASES

NINOS leases operating space for all of its centers under operating leases primarily from governmental agencies. The lease agreements are generally for a one to five year term. Total rent paid for the year ended March 31, 2017 was \$57,294. Total minimum lease payment obligations of these leases are as follows:

| | <u>Minimum Lease Payment obligations</u> |
|------|--|
| 2018 | \$ 57,294 |
| 2019 | \$ 57,294 |
| 2020 | \$ 57,294 |
| 2021 | \$ 57,294 |
| 2022 | \$ 57,294 |

I. IN-KIND CONTRIBUTIONS

NINOS Inc. received a total of \$5,320,334 in In-Kind contributions related to rent, donations and volunteer labor. This amount is reflected in the financial statements.

NEIGHBORS IN NEED OF SERVICES, INC.
Notes to Financial Statements
For the Fiscal Year Ended March 31, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. NOTE PAYABLE

NINOS has notes payable with the USDA. Note 1 in the original loan amount of \$138,000, 4.75% interest rate, with monthly payments due of \$732 due until April 24, 2030. Note 3 in the original amount of \$35,800, 5.125% interest rate with monthly payments of \$198 due April 24, 2030. Note Payable-Rio in the amount of \$1,498,296, 2.75% interest rate with monthly payments of \$10,309, due May 30, 2057.

Amortization Schedules for Long Term Debt

| | <u>USDA 1</u> | <u>USDA 3</u> | <u>Rio</u> | <u>Total Note Payable</u> | <u>Current Portion</u> |
|---------------------------|---------------|---------------|--------------|---------------------------|------------------------|
| Beginning Balance 3/31/16 | \$ 87,489 | \$ 23,134 | \$ - | \$ 110,623 | \$ 4,432 |
| Proceeds | - | - | 1,478,296 | 1,478,296 | 1,350 |
| Payments | 4,159 | 2,495 | - | 6,654 | 34,715 |
| Ending Balance 3/31/17 | \$ 83,330 | \$ 20,639 | \$ 1,478,296 | \$ 1,582,265 | \$ 40,497 |

The long term payments are as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------|---------------------|---------------------|---------------------|
| 2018 | \$ 40,497 | \$ 72,999 | \$ 113,496 |
| 2019 | 48,788 | 85,325 | 134,113 |
| 2020 | 50,278 | 83,835 | 134,113 |
| 2021 | 51,816 | 82,297 | 134,113 |
| 2022 | 53,403 | 80,709 | 134,112 |
| 2023-2027 | 292,692 | 377,871 | 670,563 |
| 2028-2032 | 315,051 | 331,178 | 646,229 |
| 2033-2037 | 331,742 | 286,782 | 618,524 |
| 2038-2042 | 380,581 | 237,943 | 618,524 |
| 2043-2047 | 31,877 | 17,406 | 49,283 |
| | <u>\$ 1,596,725</u> | <u>\$ 1,656,345</u> | <u>\$ 3,253,070</u> |

The USDA loan was approved for \$2,999,100, of which \$1,478,296 was drawn as of year-ended 3/31/17. The remaining amount was drawn by August 2017 as the building was completed.

NEIGHBORS IN NEED OF SERVICES, INC.
Notes to Financial Statements
For the Fiscal Year Ended March 31, 2017

K. PRIOR PERIOD ADJUSTMENT

To correct beginning account balances.

| <u>Prior Period Adjustment</u> | <u>Amount</u> |
|--------------------------------------|--------------------|
| Grant Recievable-USDA | \$ (34,032) |
| Operating Account | (13,307) |
| Operating Account | 29,702 |
| Total Prior Period Adjustment | \$ (17,637) |

L. LITIGATION

The Organization is currently involved in claims and litigation. In the opinion of legal counsel, these matters are in the preliminary stages and will not have a material effect on the financial position or results of the Organization.

M. SUBSEQUENT EVENTS

NINOS, Inc. was awarded a loan from the USDA in the amount of \$2,999,100, to provide funding for the construction of an Administrative/Training Site in Rio Hondo TX, with a projected total cost of \$3,499,130. On July 14, 2016 Mr. Henry Lopez, Board Chairperson signed the Loan Resolution Security Agreement in the amount of \$2,999,100 at a 2.75%. Advocacy of NINOS, Inc. will provide funding for the local matching portion of the loan in the amount of \$500,030.

The Office of Head Start approved the 1309 application for long term funding of the debt service, which will be used to repay the USDA funding. The funding had been approved for the Fiscal Year 2017/2018. Upon completion of the project, estimated to be May of 2017, the funding will repay the mortgage loan amount to USDA.

As of fiscal year end 3/31/17, \$1,478,296 has been drawn down on the construction loan, with the remaining amount drawn down subsequent to year end as the construction was completed. The Nino's administrative building was completed in August of 2017.

Subsequent events have also been evaluated through December 12, 2017 the date the report was available to be issued.

SUPPLEMENTARY INFORMATION

NEIGHBORS IN NEED OF SERVICES, INC.
CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE FISCAL YEAR ENDED MARCH 31, 2017

| | Program Services | Support Services Management and General | Total Expenses |
|-------------------------|----------------------|--|----------------------|
| Classroom | \$ 218,626 | \$ - | \$ 218,626 |
| Dues and Publications | 6,986 | 5,359 | 12,345 |
| Depreciation | 228,101 | 9,256 | 237,357 |
| In-kind Utilization | 5,320,334 | - | 5,320,334 |
| Insurance | 268,033 | - | 268,033 |
| Nutrition Program | 2,008,122 | - | 2,008,122 |
| Parent Services | 88,443 | - | 88,443 |
| Professional Fees | 66,014 | 93,793 | 159,807 |
| Rent | 92,811 | - | 92,811 |
| Repairs and Maintenance | 579,416 | 104,950 | 684,366 |
| Scholarship | 25,600 | - | 25,600 |
| Salaries | 11,701,449 | 1,620,461 | 13,321,910 |
| Payroll Taxes | 1,452,442 | - | 1,452,442 |
| Employee Benefits | 3,199,857 | - | 3,199,857 |
| Property taxes | 155 | - | 155 |
| Staff Development | - | 29,041 | 29,041 |
| Supplies | 356,339 | - | 356,339 |
| Telephone | 95,994 | - | 95,994 |
| Travel | 60,798 | 107,863 | 168,661 |
| Vehicle | 83,053 | - | 83,053 |
| Utilities | 387,906 | - | 387,906 |
| Other | 1,136,324 | - | 1,136,324 |
| Total Expenses | <u>\$ 27,376,802</u> | <u>\$ 1,970,723</u> | <u>\$ 29,347,525</u> |

FEDERAL AWARDS SECTION

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
Neighbors in Need of Services, Inc.
San Benito, TX

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Neighbors in Need of Services (a nonprofit organization), which comprise the statement of financial position as of March 31, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 12, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Neighbors in Need of Services, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Neighbors in Need of Services, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Neighbors in Need of Services, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

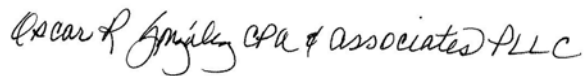
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Neighbors in Need of Services, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The

results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Oscar Gonzalez, CPA and Associates, PLLC
Certified Public Accountants
Pharr, Texas
December 12, 2017

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors of
Neighbors in Need of Services, Inc.
San Benito, TX

Report on Compliance for Each Major Federal Program

We have audited Neighbors in Need of Services, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Neighbors in Need of Services, Inc.'s major federal programs for the year ended March 31, 2017. Neighbors in Need of Services, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Neighbors in Need of Services, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Neighbors in Need of Services, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Neighbors in Need of Services, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Neighbors in Need of Services, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended March 31, 2017.

Report on Internal Control Over Compliance

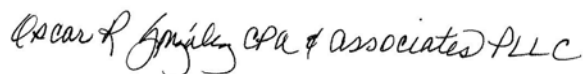
Management of Neighbors in Need of Services, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Neighbors in Need of Services, Inc.'s internal control over

compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Neighbors in Need of Services, Inc.'s internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Oscar R. Gonzalez, CPA and Associates, PLLC
Certified Public Accountants
Pharr, TX
December 12, 2017

NEIGHBORS IN NEED OF SERVICES, INC
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED MARCH 31, 2017

A. Summary of Auditor's Results

1. Financial Statements

| | | | | |
|--|-------|-------------------|----------------------|---------------|
| Type of auditor's report issued: | | <u>Unmodified</u> | | |
| Internal control over financial reporting: | | | | |
| One or more material weaknesses identified? | _____ | YES | _____ <u>X</u> _____ | NO |
| One or more significant deficiencies identified that are not considered to be material weaknesses? | _____ | YES | _____ <u>X</u> _____ | None Reported |
| Non-compliance material to financial statements noted? | _____ | YES | _____ <u>X</u> _____ | NO |

2. Federal Awards

| | | | | |
|--|----------------------|-----|----------------------|---------------|
| Internal control over major programs: | | | | |
| One or more material weaknesses identified? | _____ | YES | _____ <u>X</u> _____ | NO |
| One or more significant deficiencies identified that are not considered to be material weaknesses? | _____ | YES | _____ <u>X</u> _____ | None Reported |
| Type of auditor's report issued on compliance for major programs: | | | <u>Unmodified</u> | |
| Any audit findings disclosed that are required to be reported in accordance with section 200.516(b) of Uniform Guidance? | _____ | YES | _____ <u>X</u> _____ | NO |
| Dollar threshold used to distinguish between type A and type B programs: | | | <u>\$750,000</u> | |
| Auditee qualified as a low-risk auditee? | _____ <u>X</u> _____ | YES | _____ _____ | NO |

Identification of major programs:

| <u>CFDA Numbers</u> | <u>Name of Federal Program or Cluster</u> |
|---------------------|---|
| 93.600 | Head Start/ Early Head Start |
| 10.558 | Child and Adult Care Food Program |

B. Financial Statement Findings

None

C. Federal Award Findings

None

NEIGHBORS IN NEED OF SERVICES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED MARCH 31, 2017

| Federal Grantor/ Pass-Through Grantor/ Program Title | Federal CFDA Number | Grant Number | Federal Expenditures |
|--|---------------------------|-----------------|-------------------------|
| <u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u> | | | |
| Head Start Program amd Early Head Start | 93.60 | 06CH385-25 | \$ 21,103,187 |
| Total Direct Programs | | | 21,103,187 |
| Total U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | 21,103,187 |
| <u>U.S. DEPARTMENT OF AGRICULTURE</u> | | | |
| Passed Through Texas Department of Agriculture: | | | |
| Child and Adult Care Food Program | 10.558 | 16166TX332N109 | 2,387,982 |
| Total CFDA Number 10.558 | | | 2,387,982 |
| Total Passed Through texas Department of Agriculture | | | 2,387,982 |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | \$ 23,491,169 |

NEIGHBORS IN NEED OF SERVICES, INC.
NOTES ON ACCOUNTING POLICIES
FOR FEDERAL AWARDS
FOR FISCAL YEAR ENDED MARCH 31, 2017

1. General

The accompanying Schedule of Expenditures of Federal and Awards presents the activity of all federal programs of Neighbors In Need of Services, Inc. (a nonprofit organization).

2. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in Note 1 to the financial statements. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

3. Relationship to Federal Financial Reports Basis of Accounting

Amounts reported in the accompanying schedule may not agree with the amounts reported in the related Federal financial reports filed with the grantor agencies because of accruals made in the schedule, which will be included in future reports filed with the agencies.

4. Indirect Cost Rate

Neighbors In Need Of Services, Inc. did not elect to use the 10% de minimis indirect cost rate.