

Northwest Assistance Ministries

Consolidated Financial Statements
and Independent Auditor's Report
September 30, 2018 and 2017

Northwest Assistance Ministries
Table of Contents

Independent Auditor’s Report..... 1

Financial Statements:

Consolidated Statements of Financial Position..... 3

Consolidated Statements of Activities 4

Consolidated Statements of Functional Expenses..... 5

Consolidated Statements of Cash Flows 6

Consolidating Statements:

Consolidating Statement of Financial Position..... 7

Consolidating Statement of Activities 8

Consolidating Statement of Cash Flows 9

Notes to Financial Statements..... 10

Supplemental Information:

Schedule of Expenditures of Federal Awards..... 23

Notes to the Schedule of Expenditures of
Federal and State Awards 24

Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards 25

Report on Compliance For Each Major Program and on Internal Control
Over Compliance Required by the Uniform Guidance..... 27

Schedule of Findings and Questioned Costs..... 29



Report of Independent Auditors

To The Board of Directors
Northwest Assistance Ministries

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Northwest Assistance Ministries (a nonprofit organization), which comprise the consolidated statements of financial position as of September 30, 2018 and 2017, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended (presenting only comparative totals for 2017), 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 audits 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 Northwest Assistance Ministries as of September 30, 2018 and 2017, 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 Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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. Additionally, a consolidating statement of financial position as of September 30, 2018 and the related consolidating statements of activities and cash flows for the year then ended are also 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 March 26, 2019, on our consideration of Northwest Assistance Ministries' 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 Northwest Assistance Ministries' internal control over financial reporting and compliance

Ralph and Ralph, P.C.

Houston, Texas
March 26, 2019

Northwest Assistance Ministries
Consolidated Statements of Financial Position
September 30, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	\$ 2,975,957	\$ 708,845
Investments	2,191,319	2,053,767
Accounts receivable, net	40,845	36,109
Contributions receivable	304,346	686,050
Government grants receivable	337,498	302,361
Inventory	253,507	461,703
Prepaid assets	73,908	72,750
Long-term investments	19,028	15,722
Land, building and equipment	7,637,328	7,815,253
Total assets	\$ 13,833,736	\$ 12,152,560
Liabilities and net assets		
Liabilities		
Accounts payable	237,108	112,169
Accrued liabilities	237,708	231,755
Line of credit	300,000	200,000
Notes payable	888,868	922,942
Total liabilities	1,663,684	1,466,866
Net assets		
Unrestricted	8,164,004	7,699,827
Temporarily restricted	3,256,417	2,311,236
Permanently restricted	749,631	674,631
Total net assets	12,170,052	10,685,694
Total liabilities and net assets	\$ 13,833,736	\$ 12,152,560

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

Northwest Assistance Ministries
Consolidated Statements of Activities
For the Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Changes in unrestricted net assets		
Revenues and support		
Contributions	\$ 5,387,992	\$ 4,684,690
Government grants	2,739,672	2,234,089
Special events	727,500	723,803
Sales	646,737	860,721
Donated goods and services	1,587,354	2,004,389
Program service fees	366,589	415,224
Miscellaneous income	61,255	26,721
Net assets released from restrictions	2,421,350	4,070,207
Total unrestricted revenues and support	<u>13,938,449</u>	<u>15,019,844</u>
Expenses:		
Program services	12,063,306	8,304,926
Management and general	659,423	669,585
Fundraising and development	662,666	571,247
Distribution of earnings	-	-
Total expenses	<u>13,385,395</u>	<u>9,545,758</u>
Increase (decrease) in unrestricted net assets	<u>553,054</u>	<u>5,474,086</u>
Changes in temporarily restricted net assets		
Contributions	3,174,775	1,323,978
Income on long-term investments	60,188	37,107
Net unrealized and realized gains/losses, long-term investments	42,691	89,183
Net assets released from restrictions	(2,421,350)	(4,070,207)
Increase (decrease) in temporarily restricted net assets	<u>856,304</u>	<u>(2,619,939)</u>
Changes in permanently restricted net assets		
Contributions	75,000	162,095
Transfers to NAM Endowment	-	-
Increase in permanently restricted net assets	<u>75,000</u>	<u>162,095</u>
Increase (decrease) in total net assets	<u>1,484,358</u>	<u>3,016,242</u>
Net assets, beginning of year	<u>10,685,694</u>	<u>7,669,452</u>
Net assets, end of year	<u><u>\$ 12,170,052</u></u>	<u><u>\$ 10,685,694</u></u>

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

Northwest Assistance Ministries
Consolidated Statements of Functional Expenses
For the Year Ended September 30, 2018, With Comparative Totals for 2017

	2018										
	Assistance Programs	Family Violence	Children's Clinic	Training and Employment	Resale Shops	Senior Programs	Total Program Services	Management and General	Fundraising and Development	Total	2017 Total
Salaries and wages	\$ 650,690	\$ 448,631	\$ 473,491	\$ 128,202	310,556	\$ 365,281	\$ 2,376,851	\$ 773,759	\$ 307,157	\$ 3,457,767	\$ 3,280,510
Payroll taxes/benefits	157,710	120,811	128,112	23,249	87,104	133,794	650,780	137,183	58,960	846,923	797,329
Professional services	21,283	50,901	12,561	22,871	21,307	5,351	134,274	335,086	210,469	679,829	530,410
In-kind donations	1,218,479	25,495	90,569	77	166,830	53,160	1,554,610	12,086	2,338	1,569,034	1,719,018
Direct aid to clients	3,507,192	833,187	245,497	45,953	-	536,742	5,168,571	-	-	5,168,571	1,798,568
Donated services	-	18,475	187,868	15	-	12,561	218,919	9,192	450	228,561	190,280
Office and program supplies	5,982	3,920	10,252	2,365	8,494	5,470	36,483	3,873	9,559	49,915	62,435
Postage and delivery	48	-	-	-	33	-	81	4,148	15,288	19,517	16,253
Utilities and building cost	13,461	40,652	-	1,923	51,749	20,787	128,572	143,214	-	271,786	227,264
Rent	6,021	2,105	4,906	2,001	42,510	2,885	60,428	7,620	2,261	70,309	186,882
Repair and maintenance	12,200	281	346	246	7,884	205	21,162	80,947	-	102,109	58,167
Communications	661	7,722	833	175	4,071	462	13,924	50,749	-	64,673	62,434
Insurance	-	604	-	-	9,318	1,609	11,531	61,199	3,435	76,165	61,561
Vehicle expense	9,986	-	-	-	25,624	9,518	45,128	-	-	45,128	37,234
Interest expense	800	-	-	-	-	-	800	37,286	-	38,086	40,455
Public relations and fundraising	3,910	1,050	3,868	2,327	19,636	838	31,629	17,975	283,636	333,240	241,904
Depreciation expense	42,005	17,716	14,189	11,867	85,307	35,022	206,106	100,379	4,830	311,315	185,259
Miscellaneous expense	230	211	-	15	14,326	31	14,813	4,860	15,969	35,642	43,729
NAM Endowment expenses	-	-	-	-	-	-	-	16,825	-	16,825	6,066
Overhead allocation	536,565	251,107	192,131	77,853	106,037	224,951	1,388,644	(1,136,958)	(251,686)	-	-
Total functional expenses	\$ 6,187,223	\$ 1,822,868	\$ 1,364,623	\$ 319,139	\$ 960,786	\$ 1,408,667	\$ 12,063,306	\$ 659,423	\$ 662,666	\$ 13,385,395	\$ 9,545,758

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

Northwest Assistance Ministries
Consolidated Statements of Cash Flows
For the Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Activities		
Change in net assets	\$ 1,484,358	\$ 3,016,242
Adjustments to reconcile change in net assets to net cash		
Depreciation	311,315	185,259
Unrealized (gain)/loss on investments	(76,952)	(100,466)
Loss on disposal of asset	2,000	-
(Increase) decrease from operating assets:		
Accounts receivable, net	(3,579)	(301,750)
Contributions receivable	381,704	(53,138)
Government grants receivable	(35,137)	(70,701)
Inventory	208,196	(96,253)
Prepaid assets	(1,158)	(7,720)
Restricted assets, long-term use	-	3,107,915
Increase (decrease) from operating liabilities:		
Accounts payable	125,603	(55,389)
Accrued liabilities	5,953	(5,923)
Accrued income	-	(20,324)
Due to NAM Endowment	(1,821)	2,389
Net cash provided (used) by operating activities	<u>2,400,482</u>	<u>5,600,141</u>
Investing Activities		
Purchase of property and equipment	(135,390)	(4,953,431)
Investments, net purchases and sales	<u>(63,906)</u>	<u>(111,300)</u>
Net cash provided (used) by for investing activities	<u>(199,296)</u>	<u>(5,064,731)</u>
Financing Activities		
Proceeds from borrowing agreements	64,000	-
Line of credit, borrowings	100,000	-
Payments on long-term debt	<u>(98,074)</u>	<u>(51,940)</u>
Net cash provided (used) by for investing activities	<u>65,926</u>	<u>(51,940)</u>
Net change in cash and cash equivalents	2,267,112	483,470
Cash and cash equivalents, beginning of year	<u>708,845</u>	<u>225,375</u>
Cash and cash equivalents, end of year	<u>\$ 2,975,957</u>	<u>\$ 708,845</u>
Supplemental information: Interest paid, cash basis	<u>\$ 32,880</u>	<u>\$ 40,455</u>

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

Consolidating Statements

Northwest Assistance Ministries
Consolidating Statement of Financial Position
September 30, 2018

	NAM	NAM Endowment	Eliminations	Consolidated
Assets				
Cash and cash equivalents	\$ 2,975,957	\$ -	\$ -	\$ 2,975,957
Investments	-	2,191,319	-	2,191,319
Accounts receivable, net	41,945	568	(1,668)	40,845
Contributions receivable	304,346	-	-	304,346
Government grants receivable	337,498	-	-	337,498
Inventory	253,507	-	-	253,507
Prepaid assets	73,908	-	-	73,908
Long-term investments	19,028	-	-	19,028
Land, building and equipment	7,637,328	-	-	7,637,328
Total assets	<u>\$ 11,643,517</u>	<u>\$ 2,191,887</u>	<u>\$ (1,668)</u>	<u>\$ 13,833,736</u>
Liabilities and net assets				
Liabilities				
Accounts payable	\$ 237,108	\$ 1,100	\$ (1,100)	\$ 237,108
Accrued liabilities	237,708	-	-	237,708
Due to NAM Endowment	568	-	(568)	-
Line of credit payable	300,000	-	-	300,000
Note payable	888,868	-	-	888,868
Total liabilities	<u>1,664,252</u>	<u>1,100</u>	<u>(1,668)</u>	<u>1,663,684</u>
Net assets				
Unrestricted	6,839,668	1,324,336	-	8,164,004
Temporarily restricted	3,139,597	116,820	-	3,256,417
Permanently restricted	-	749,631	-	749,631
Total net assets	<u>9,979,265</u>	<u>2,190,787</u>	<u>-</u>	<u>12,170,052</u>
Total liabilities and net assets	<u>\$ 11,643,517</u>	<u>\$ 2,191,887</u>	<u>\$ (1,668)</u>	<u>\$ 13,833,736</u>

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

Northwest Assistance Ministries
Consolidating Statement of Activities
For the Year Ended September 30, 2018

	NAM	NAM Endowment	Eliminations	Consolidated
Changes in unrestricted net assets				
Revenues and support				
Contributions	\$ 5,387,992	\$ -	\$ -	\$ 5,387,992
Government grants	2,739,672	-	-	2,739,672
Special events	727,500	-	-	727,500
Sales	646,737	-	-	646,737
Donated goods and services	1,587,354	-	-	1,587,354
Program services fees	366,589	-	-	366,589
Miscellaneous income	33,544	27,711	-	61,255
Net assets released from restrictions	1,433,252	988,098	-	2,421,350
Total unrestricted revenues and support	<u>\$ 12,922,640</u>	<u>\$ 1,015,809</u>	<u>\$ -</u>	<u>\$ 13,938,449</u>
Expenses				
Program services	12,063,306	-	-	12,063,306
Management and general	642,598	16,825	-	659,423
Fundraising and development	662,666	-	-	662,666
Distribution of earnings	-	88,877	(88,877)	-
Total expenses	<u>13,368,570</u>	<u>105,702</u>	<u>(88,877)</u>	<u>13,385,395</u>
Change in unrestricted net assets	<u>(445,930)</u>	<u>910,107</u>	<u>88,877</u>	<u>553,054</u>
Changes in temporarily restricted net assets				
Contributions	3,228,473	35,179	(88,877)	3,174,775
Income on long-term investments	-	60,188	-	60,188
Net unrealized and realized gains on long-term investments	-	42,691	-	42,691
Net assets released from restrictions	(1,433,252)	(988,098)	-	(2,421,350)
Change in temporarily restricted net assets	<u>1,795,221</u>	<u>(850,040)</u>	<u>(88,877)</u>	<u>856,304</u>
Changes in permanently restricted net assets				
Contributions	-	75,000	-	75,000
Transfers to NAM Endowment	-	-	-	-
Change in permanently restricted net assets	<u>-</u>	<u>75,000</u>	<u>-</u>	<u>75,000</u>
Total change in net assets	1,349,291	135,067	-	1,484,358
Net assets, beginning of year	8,629,974	2,055,720	-	10,685,694
Net assets, end of year	<u>\$ 9,979,265</u>	<u>\$ 2,190,787</u>	<u>\$ -</u>	<u>\$ 12,170,052</u>

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

Northwest Assistance Ministries
Consolidating Statement of Cash Flows
For the Year Ended September 30, 2018

	NAM	NAM Endowment	Eliminations	Consolidated
Operating Activities				
Change in net assets	\$ 1,349,291	\$ 135,067	\$ -	\$ 1,484,358
Adjustments to reconcile change in net assets to net cash provided by:				
Depreciation	311,315	-	-	311,315
Unrealized gain/ loss on investments	(3,306)	(73,646)	-	(76,952)
Loss on disposal of asset	2,000	-	-	2,000
(Increase) decrease in:				
Accounts receivable, net	(5,400)	1,821	-	(3,579)
Contributions receivable	381,704	-	-	381,704
Government grants receivable	(35,137)	-	-	(35,137)
Inventory	208,196	-	-	208,196
Prepaid assets	(1,158)	-	-	(1,158)
Increase (decrease) in:				
Accounts payable	124,939	664	-	125,603
Accrued liabilities	5,953	-	-	5,953
Due to NAM Endowment	(1,821)	-	-	(1,821)
Net cash provided by operating activities	<u>\$ 2,336,576</u>	<u>\$ 63,906</u>	<u>\$ -</u>	<u>\$ 2,400,482</u>
Investing Activities				
Purchase of property and equipment	(135,390)	-	-	(135,390)
Investments, net purchases and sales	-	(63,906)	-	(63,906)
Net cash used in investing activities	<u>(135,390)</u>	<u>(63,906)</u>	<u>-</u>	<u>(199,296)</u>
Financing Activities				
Proceeds from borrowings	64,000	-	-	64,000
Line of credit, borrowings	100,000	-	-	100,000
Payments on long-term debt	(98,074)	-	-	(98,074)
Net cash provided by financing activities	<u>65,926</u>	<u>-</u>	<u>-</u>	<u>65,926</u>
Net change in cash and cash equivalents	2,267,112	-	-	2,267,112
Cash and cash equivalents, beginning of year	708,845	-	-	708,845
Cash and cash equivalents, end of year	<u>\$ 2,975,957</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,975,957</u>

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

Northwest Assistance Ministries
Notes to Financial Statements
September 30, 2018 and 2017

Note 1 – Organization and Significant Accounting Policies

Organization

Northwest Assistance Ministries (NAM) is a coalition of various congregations and affiliate groups incorporated as a non-profit organization under the laws of the State of Texas. NAM has been serving people in the northwest part of Harris County since November of 1983. NAM provides direct assistance to individuals for food, housing, clothing, utilities, medical and transportation needs. NAM is supported by funds received through donations from corporate and individual donors, federal and state grants, grants from private foundations, and sales revenues from NAM resale shops.

NAM Endowment Fund, Inc. (NAM Endowment) was established in August of 2000, to receive, administer and distribute funds or other property exclusively for religious, charitable, scientific, literary, educational or other exempt purposes as defined in Sections 501(c)(3) and 170(c)(2) of the Internal Revenue Code of 1986. NAM Endowment maintains assets with both temporary and permanent donor restrictions. Any contributions received by NAM with permanent restrictions are transferred to the NAM Endowment. Distributions are made from the NAM Endowment to NAM on a periodic basis. These distributions are calculated based on the distributions policy for the Endowment and in compliance with the original donor restrictions.

Basis of consolidation

NAM has both control and economic interest in NAM Endowment. These consolidated statements include the assets, liabilities, net assets, and activities of NAM and NAM Endowment (collectively, the Organization). Significant balances and transactions between these consolidated entities have been eliminated.

Federal income tax status

Both NAM and NAM Endowment are not-for-profit organizations that are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and are classified by the Internal Revenue Service as other than private. The Organization's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending 2015, 2016, and 2017 are subject to examination by the IRS, generally for three years after they were filed.

Cash and cash equivalents

For purposes of the statement of financial position and cash flows, cash and cash equivalents include all highly liquid investments with original maturities of one year or less. Cash restricted or designated for acquisition of long-lived assets, endowments that are perpetual in nature, or other long-term purposes are excluded from this definition.

Accounts and government grants receivable

Accounts receivable consists primarily of non-interest bearing amounts due for program service fees for the Children's Clinic. An allowance for uncollectible accounts receivable is provided when management believes balances may not be collected in full based on historical experience, an assessment of economic conditions, and a review of subsequent collections.

Northwest Assistance Ministries
Notes to Financial Statements (Continued)
September 30, 2018 and 2017

Note 1 – Organization and Significant Accounting Policies (Continued)

Accounts and government grants receivable (Continued)

Accounts receivable are written off against the allowance when management determines a receivable is not collectible. It is possible that management's estimate regarding collectability will change in the near term resulting in a change in the carrying value of accounts receivable. At September 30, 2018 and 2017, the allowance for uncollectible accounts was \$127,020 and \$155,207, respectively.

At September 30, 2018 and 2017, government grants receivable were determined to be fully collectible. As such, no allowance for uncollectible accounts was recorded.

Contributions receivable

Contributions receivable that are expected to be collected within one year are reported at net realizable value. Contributions receivable that are expected to be collected in future years are discounted to estimate the present value of future cash flows. An allowance for uncollectible accounts receivable is provided when management believes balances may not be collected in full based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Contributions receivable are written off against the allowance when management determines a receivable is not collectible. It is possible that management's estimate regarding collectability will change in the near term resulting in a change in the carrying value of accounts receivable. At September 30, 2018, all contributions receivable are expected to be collected within one year and were determined to be fully collectible. As such, no allowance for uncollectible accounts was recorded.

Investments

Investments consist of pooled separate accounts and are reported at fair value. Net investment return (loss) consists of interest and dividend income, realized and unrealized gains and losses, less external investment expenses. Net investment return is reported in the statement of activities as a change in unrestricted net assets unless the use of the income is limited by donor-imposed restrictions. Net investment return whose use is restricted by the donor is reported as an increase or decrease in temporarily restricted net assets.

Inventory

The inventory balance is comprised of the donated food maintained at the NAM pantry, NAM resale shop merchandise, and the Children's Clinic medication. The NAM pantry and the Children's Clinic inventory is valued at the estimated value as of the report date. The goods available for sale at the NAM resale shops are stated at the expected sales price which approximates fair market value.

Land, building and equipment

The Organization capitalizes land, building and equipment additions over \$2,000 at cost, or if donated, at fair value on the date of the donation, and with useful lives of more than one year. Lesser amounts are expensed. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, as determined on each asset. Estimated useful lives used to calculate depreciation range from three to five years on furniture and equipment; five to ten years on transportation equipment and 39 years is used for the building. Maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed when incurred.

Northwest Assistance Ministries
Notes to Financial Statements (Continued)
September 30, 2018 and 2017

Note 1 – Organization and Significant Accounting Policies (Continued)

Net asset classification

Net assets, revenue, gains and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

Unrestricted net assets - These net assets are not subject to donor-imposed stipulations. They are available for use in general operations and may have some limitations, such as by contact or board designation.

Temporarily restricted net assets- These net assets are subject to donor-imposed restrictions, which are temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor.

Permanently restricted net assets - These net assets are subject to donor-imposed restrictions, which are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Donor imposed restrictions are released when the stipulated time has elapsed, the stipulated purpose has been fulfilled, or both. Contributions of long-lived assets and of cash restricted for the acquisition of long-lived assets are released when the assets are placed in service. Donor restricted endowment earnings are released when those earnings are appropriated in accordance with spending policies and are used for their restricted purpose.

Contributions

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions that are received with donor stipulations that limit their use are classified as restricted support. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire or are satisfied in the fiscal year in which the contributions are recognized. All other donor restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restriction.

Non-cash contributions

Donated materials, use of facilities, and services are recognized at fair value as contributions when an unconditional commitment is received from the donor. The related expense is recognized when the item is used. Contributions of service are recognized only when service received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

NAM receives significant food donations, which are distributed to clients. The Children's Clinic receives donated materials and supplies. Donated merchandise sold at the NAM resale shops is recorded as sales income, at the time of sale. Volunteer medical and other professional personnel contribute substantial amounts of services toward the fulfillment of projects initiated by NAM.

In addition to donated time which meets financial reporting requirements for inclusion in the accounting records, NAM also receives significant volunteer time not presented in the Organization's financial statements.

Northwest Assistance Ministries
Notes to Financial Statements (Continued)
September 30, 2018 and 2017

Note 1 – Organization and Significant Accounting Policies (Continued)

Non-cash contributions (Continued)

Presented below is the value of this volunteer time not presented in the Organization’s financial statements. Values were calculated based on volunteer logs with an estimated value as of \$10.00 per hour.

Program	Estimated value	
	2018	2017
Assistance programs	\$ 155,854	\$ 147,205
Children's clinic	22,960	25,063
Training and employment	7,555	9,025
Resale shops	206,960	269,595
Senior programs	307,764	297,430
Management and general	6,998	2,965
Fundraising and development	15,358	13,503
	\$ 723,449	\$ 764,786

Program service fees

Program service fees represents fees associated with services provided by the Children’s Clinic. Fees are recognized as earned when services are provided to clients.

Advertising

Advertising costs are expensed as incurred.

Functional allocation of expenses

The statement of functional expenses presents the natural classification of expenses by function. Certain expenses have been allocated among the programs and supporting services benefited. Expenses allocated include depreciation, interest, and occupancy, which are allocated on a square footage basis, and salaries and benefits, payroll taxes, information technology, general supplies and equipment rental and insurance, which are allocated on the basis of estimated time and effort.

During the years ended September 30, 2018 and 2017, NAM incurred joint costs of \$462,706 and \$383,961, respectively, for informational materials and activities and staff costs that included fund raising appeals. NAM allocated \$165,785 and \$124,816, respectively, to fundraising expense, and \$296,921 and \$259,145, respectively, to management and program activities.

Estimates

Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts reported as revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Northwest Assistance Ministries
Notes to Financial Statements (Continued)
September 30, 2018 and 2017

Note 1 – Organization and Significant Accounting Policies (Continued)

Financial instruments and credit risk

Deposit concentration is managed by placing cash, money market accounts, and certificates of deposits with financial institutions believed to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. Credit risk associated with accounts receivable and contributions receivable is considered limited due to high historical collection rates and because substantial portions of the outstanding amounts are from foundations and government agencies supportive of our mission. Investments are made by third party investment managers whose performance is monitored by management and the Board of Directors. Although the fair values of investments are subject to fluctuation, management and the Board of Directors believe that the investment policies and guidelines are prudent for the long-term welfare of the Organization.

Note 2 – Contributions Receivable

Contributions receivable at September 30, 2018 and 2017 included \$248,820 and \$607,580, respectively in foundation pledges receivable, collectible within one year. The remaining pledges receivable balances primarily represent capital campaign pledges, for a facility expansion, completed in 2017, of \$29,500 and 53,999, as of September 30, 2018 and 2017, respectively.

Note 3 – Investments

Investments are reported in the statement of financial position as follows:

	2018	2017
NAM operating investments	\$ 19,028	\$ 15,722
NAM Endowment investments	2,191,319	2,053,767
	<u>\$ 2,210,347</u>	<u>\$ 2,069,489</u>

The NAM operating investment is a long-term investment interest in a partnership. NAM Endowment Fund funds are invested in pooled separate accounts with a third-party investment advisor.

Investments are exposed to various risks such as interest rate, market and credit risks. Because of these risks, it is at least reasonably possible that changes in values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

Investment return consists of the following:

	2018	2017
Interest and dividends	\$ 60,188	\$ 37,107
Net realized and unrealized gain	70,402	89,183
Management fees	(16,162)	(5,772)
	<u>\$ 114,428</u>	<u>\$ 120,518</u>

Northwest Assistance Ministries
Notes to Financial Statements (Continued)
September 30, 2018 and 2017

Note 4 – Fair Value Measurements

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes the inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* - Inputs are not observable and are based on the reporting entity’s assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at September 30, 2018 are as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<i>September 30, 2018</i>				
Pooled separate accounts:				
Equity accounts	\$ 1,276,584	\$ -	\$ 1,276,584	\$ -
Fixed income accounts	914,726	-	914,726	-
Inventory	253,508	80,175	45,051	128,282
Long-term investment in partnership	19,028	-	19,028	-
	<u>\$ 2,463,846</u>	<u>\$ 80,175</u>	<u>\$ 2,255,389</u>	<u>\$ 128,282</u>

Assets measured at fair value at September 30, 2017 are as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<i>September 30, 2017</i>				
Pooled separate accounts:				
Equity accounts	\$ 1,249,125	\$ -	\$ 1,249,125	\$ -
Fixed income accounts	804,642	-	804,642	-
Inventory	461,702	53,594	115,635	292,473
Long-term investment in partnership	15,722	-	15,722	-
	<u>\$ 2,531,191</u>	<u>\$ 53,594</u>	<u>\$ 2,185,124</u>	<u>\$ 292,473</u>

Northwest Assistance Ministries
Notes to Financial Statements (Continued)
September 30, 2018 and 2017

Note 4 – Fair Value Measurements (Continued)

Valuation methods used for assets measured at fair value are as follows:

- Investments in pooled separate accounts are valued at the reported net asset value of the interest or shares held. The fair values of the pooled separate accounts are estimated by the third party investment advisor using the net asset value per share of the investments, which are valued based on the quoted market prices of the underlying investments in the separate accounts. A significant portion of the underlying securities have level 1 quoted pricing inputs but net asset value of the pooled separate account is not publicly quoted.
- Level 1 valued inventory consists of medical supplies maintained in the Children’s Clinic. Children clinic inventory is valued at the replacement cost of the items at the report date.
- Level 2 valued inventory consists of food pantry items. Contributed assets donated by retail vendors are recorded at fair values as determined by the vendor. Other donated food is valued using a standard per pound rate, as provided by a national food pantry.
- Level 3 valued inventory consists of resale shop inventory. NAM receives significant non-cash contributions which are sold in resale shops or provided to clients through programs. At the end of the period, remaining items are recorded as inventory. Fair value of the inventory is determined based on expected sales price of items, based on resale shop experience.
- NAM owns an interest in a partnership, donated to the organization in a prior period. The value of the asset is based on the K-1 received from the partnership.

These valuation methods may produce a fair value that may not be indicative of the net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

Assets measured at fair value on a recurring basis using significant unobservable inputs (level 3):

	2018	2017
Resale shop inventory balance, beginning of year	\$ 292,473	\$ 233,282
Excess (deficit) of in-kind donations over sales	(164,191)	59,191
Resale shop inventory balance, end of year	<u>\$ 128,282</u>	<u>\$ 292,473</u>

Note 5 – Inventory

The inventory balances as of September 30, 2018 and 2017 are detailed below:

	2018	2017
Resale shop and senior program inventory	\$ 128,282	\$ 292,474
Children's clinic, medication	80,175	53,594
Food pantry inventory	45,050	60,009
Relief	-	55,626
Total inventory	<u>\$ 253,507</u>	<u>\$ 461,703</u>

Resale shop inventory decreased significantly, as the resale shop was moved from a leased retail space and into our expanded facilities. Inventory was decreased to conform to less warehouse storage.

Northwest Assistance Ministries
Notes to Financial Statements (Continued)
September 30, 2018 and 2017

Note 6 – Land, Building and Equipment

Land, building and equipment consists of the following:

	2018	2017
Land	\$ 439,000	\$ 439,000
Building and improvements	9,178,865	9,278,533
Furniture and equipment	717,986	669,442
Total land, building and equipment	\$ 10,335,851	\$ 10,386,975
Accumulated depreciation	(2,698,523)	(2,571,722)
	\$ 7,637,328	\$ 7,815,253

Depreciation expense for the years ended September 30, 2018 and 2017 totaled \$311,315 and \$185,259, respectively.

During 2018 and 2017, NAM disposed assets with a recorded value of \$185,514 and \$23,853, respectively. Asset disposal in 2018 resulted in a \$2,000 loss; 2017 disposed assets were fully depreciated.

Note 7 –Notes Payable and Line of Credit

NAM has a bank loan with balance of \$869,068 and \$922,942 at September 30, 2018 and 2017, respectively, due. The bank loan was issued during 2016, with an original principle balance of \$1,000,000. The loan is payable in monthly principle and interest installments of \$7,229, at 3.61% per annum through March 2021 and is secured by a first lien security interest in land and building.

A second bank loan issued on May 31, 2018 with an original principle of \$64,000. Under the agreed terms, the loan is payable in monthly principle and interest installments of \$1,102, at 7.24% per annum for 72 months. However, extra payments were made and the balance outstanding at September 30, 2018 is \$19,800.

NAM also has a line of credit agreement with a bank, which keeps funds available to NAM. This line of credit is secured by a second lien on the building. The credit limit is \$750,000 and the maturity date is July 31, 2019. NAM pays interest on any outstanding funds at the BBA LIBOR Daily Floating Rate plus 3.00%. At September 30, 2018 and 2017, the outstanding balance on this line was \$300,000 and \$200,000, respectively.

Total interest expense for the year ended September 30, 2018 and 2017 was \$32,880 and \$40,455, respectively.

Northwest Assistance Ministries
Notes to Financial Statements (Continued)
September 30, 2018 and 2017

Note 7 –Notes Payable and Line of Credit (Continued)

Note payments for the next five years are as follows:

Year Ending September 30,	Notes Payable Payments Due
2019	\$ 69,236
2020	\$ 66,226
2021	\$ 748,854

Note 8 – Commitments and Contingencies

Leases

The Organization leased retail space for its resale shop, at a rate of \$13,000 per month through December of 2017. For the years ended September 30, 2018 and 2017, rent expense for the retail space was \$39,000 and \$156,000, respectively.

The Organization leases office equipment under agreements with varying expiration dates through 2023, incurring a monthly lease expense of approximately \$2,500. For the years ended September 30, 2018 and 2017, equipment lease expense was approximately \$30,500. Minimum future lease payments are as follows:

Year Ending September 30,	Minimum lease payments due
2019	\$ 12,873
2020	\$ 12,873
2021	\$ 12,873
2022	\$ 12,873
2023	\$ 9,655

Note 9 – Permanently Restricted Endowment Funds

NAM Endowment maintains assets with both temporary and permanent donor restrictions. This disclosure relates only to the assets received with permanent donor restrictions and the unused earnings thereon.

Permanently restricted net assets at September 30, 2018 and 2017 consist of approximately eight individual funds established for a variety of purposes, including homelessness prevention, children’s services, and general operating expenses of NAM. Contributions to these endowment funds are subject to donor restrictions that stipulate the original principle of the gift is to be held and invested by the Organization indefinitely and income from the fund is to be expended for the purposes defined by the donor. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Northwest Assistance Ministries
Notes to Financial Statements (Continued)
September 30, 2018 and 2017

Note 9 – Permanently Restricted Endowment Funds (Continued)

The Board of Directors of NAM Endowment has interpreted the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, NAM Endowment classifies the original gifts to the Endowment as net assets with donor restrictions invested in perpetuity. Donor-restricted amounts not maintained in perpetuity are subject to appropriation for expenditure by the Endowment in a manner consistent with the standard of prudence prescribed by TUPMIFA. NAM Endowment considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- Duration and preservation of the fund
- The purposes of the Organization and the donor-restricted endowment funds
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of NAM Endowment

We have adopted investment and spending policies for NAM Endowment that attempt to provide a predictable stream of funding for operations while seeking to maintain the purchasing power of the endowment assets.

Spending policy

The spending policy provides for annual distributions as determined by the Board, using established guidelines for the various fund categories. Category guidelines include minimum spending rates based on earnings and on average fair value of underlying assets. In establishing the policy, rates were set with the objective of maintaining the long-term purchasing power of endowment assets over time.

During fiscal years 2018 and 2017, NAM Endowment distributed 4% and 8% of the average fair value of the investments, respectively. In conjunction with the authorization of the annual distribution, the Board of Directors of NAM Endowment will review the policy in light of current and expected market conditions and rate of inflation. Other distributions may be made from time to time at the discretion of the Board of Directors.

Investment policy

NAM Endowment funds are maintained in investment accounts which are managed by third party investment advisor subject to oversight by the Board of Directors. Investment decisions follow guidance provided in an investment policy approved by the Board of Directors of NAM Endowment. The investment policies attempt to provide a predictable stream of funding to programs supported while seeking to maintain the purchasing power of the endowment assets. Over time, the long-term rates of return should be equal to an amount sufficient to maintain the purchasing power of the Endowment assets, to provide necessary capital to fund the spending policy, and to cover the costs of managing the Endowment investments.

Northwest Assistance Ministries
Notes to Financial Statements (Continued)
September 30, 2018 and 2017

Note 9 – Permanently Restricted Endowment Funds (Continued)

Investment policy (Continued)

The investment policy requires that investments be appropriately diversified between equity, fixed income and other investment classes so as to minimize risk and volatility while maximizing returns. Investment diversification is reviewed annually with the investment advisor.

The donor-permanently restricted endowment funds are invested in pooled separate accounts, maintained by a third party investment advisor. The underlying assets of the pooled separate accounts include equity and fixed income funds.

The composition of endowment net assets and the changes in endowment net assets as of September 30, 2018 and 2017 are as follows:

	Temporarily Restricted	Permanently Restricted	Total
Permanently restricted endowment net assets, September 30, 2016	27,384	512,536	539,920
Contributions	33,197	165,000	198,197
Investment income	17,013	-	17,013
Net appreciation	50,195	-	50,195
Program expenditures/transfers	(34,723)	(2,905)	(37,628)
Permanently restricted endowment net assets, September 30, 2017	93,066	674,631	767,697
Transfers/Contributions	35,179	75,000	110,179
Investment income	20,887	-	20,887
Net appreciation	26,962	-	26,962
Program expenditures/transfers	(46,273)	-	(46,273)
Permanently restricted endowment net assets, September 30, 2018	\$ 129,821	\$ 749,631	\$ 879,452

Northwest Assistance Ministries
Notes to Financial Statements (Continued)
September 30, 2018 and 2017

Note 10 – Restrictions on Net Assets

Temporarily restricted net assets at September 30, 2018 and 2017 are presented below.

	2018	2017
NAM:		
Inventory, medicine	\$ 80,175	\$ 53,594
Children's services	282,388	315,076
Low-income and social assistance	44,754	215,757
Senior services	15,372	50,000
Educational services	60,115	38,550
Family violence	-	23,987
Mental health	55,633	-
Disaster relief	2,601,160	647,412
	\$ 3,139,597	\$ 1,344,376
NAM Endowment:		
Building maintenance	\$ -	\$ 860,015
Educational scholarship	14,710	13,779
Accumulated investment earnings (losses)	102,110	93,066
	\$ 116,820	\$ 966,860

In January of 2002, the Organization entered into an agreement with a donor foundation. The foundation matched funds raised by NAM. In accordance with this agreement, the combined amount was to be maintained by NAM Endowment with distributions to NAM restricted for the maintenance of the NAM building. In a prior period, the agreement was amended to permit the distribution of the corpus for building maintenance, as needed. In 2018, the donor organization released the restriction on these funds and the donation amount and the associated match were transferred to unrestricted net assets.

Note 11 – Permanently Restricted Net Assets

Permanently restricted net assets for NAM Endowment at September 30, 2018 and 2017 are detailed below:

	2018	2017
Restricted purpose:		
Homelessness prevention	145,782	140,782
Martens Endowed CEO Fund	350,000	300,000
Children's clinic operations	67,500	57,500
General operating expenses of NAM	186,349	176,349
	\$ 749,631	\$ 674,631

Northwest Assistance Ministries
Notes to Financial Statements (Continued)
September 30, 2018 and 2017

Note 12 – Concentration of Support

In the years ended September 30, 2018 and 2017, a significant amount of contributions was provided by a few major contributors. Notably, the Organization received approximately \$5 million from the Greater Houston Community Foundation, for Hurricane Harvey relief, in 2018. It is always considered reasonably possible that benefactors, grantors or contributors might be lost in the near term. The Organization's market is concentrated in the Houston, Texas, geographical area.

Note 13 – Subsequent Event

Management has evaluated subsequent events through March 26, 2019, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.

Supplemental Information

Schedule of Expenditures of Federal Awards
Northwest Assistance Ministries
For the Year Ended September 30, 2018

Federal Grantor/Pass Through Grantor/Program	Federal CFDA Number	Identifying Number	Federal Expenditure
U.S. Department of Housing and Urban Development:			
Direct Program:			
Continuum of Care Program	14.267	TX0273L6E001607	\$ 138,308
Continuum of Care Program	14.267	TX0273L6E001708	211,745
Pass-through programs from:			
Harris County			
Community Block Development Grant (MOW)	14.218	2017-0017	17,664
Community Block Development Grant (MOW)	14.218	2018-0017	31,697
Continuum of Care (FVC)	14.267	TX0429L6E001500	204,583
Continuum of Care (FVC)	14.267	TX0429L6E001	<u>802,953</u>
Total U.S. Department of Housing and Urban Development			<u>1,406,950</u>
U.S. Department of Justice:			
Pass-through programs from:			
State of Texas Criminal Justice Division			
Victims of Criminal Acts (VOCA)	16.575	1371517	262,367
Office of the Attorney General			
Office of Victims Assistance	16.582	1879816	28,805
Office of Victims Assistance	16.582	1987916	<u>2,188</u>
Total U.S. Department of Justice			<u>293,360</u>
U.S. Department of Health and Human Services:			
Pass-through programs from:			
Texas Health and Human Services Commission			
Family Violence Prevention and Services	93.671	529-15-0031-00008D	18,798
Family Violence Prevention and Services	93.671	529-15-0031-00008	1,848
Family Violence Prevention and Services	93.667	529-15-0031-00008D	40,068
Family Violence Prevention and Services	93.667	529-15-0031-00008	438
Family Violence Prevention and Services	93.558	529-15-0031-00008	<u>3,501</u>
Total U.S. Department of Health and Human Services			<u>64,653</u>
Department of Homeland Security:			
Direct Program:			
Emergency Food and Shelter	97.024	35-782800-026	<u>112,342</u>
Total Department of Homeland Security			<u>112,342</u>
Total Expenditures of Federal Awards			<u>\$ 1,877,305</u>

See Notes to the Schedule of Expenditures of Federal Awards.

Northwest Assistance Ministries
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2018

Note 1 - Basis of Presentation

The accompanying schedules of expenditures of federal awards include the federal grant activity of NAM and are presented on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States. The information in these schedules is presented in accordance with the requirements of OMB's *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.

In the administration of the federal programs awarded, NAM did not elect to use the 10% de minimus indirect cost rate.



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
Northwest Assistance Ministries

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 Northwest Assistance Ministries (a nonprofit organization), which comprise the consolidated statement of financial position as of September 30, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 26, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Northwest Assistance Ministries' 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 Northwest Assistance Ministries' internal control. Accordingly, we do not express an opinion on the effectiveness of Northwest Assistance Ministries' 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 Northwest Assistance Ministries' 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.

Ralph and Ralph, P.C.

Houston, Texas
March 26, 2019



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
Northwest Assistance Ministries

Report on Compliance for Each Major Federal Program

We have audited Northwest Assistance Ministries' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Northwest Assistance Ministries' major federal programs for the year ended September 30, 2018. Northwest Assistance Ministries' 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Northwest Assistance Ministries' 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 Northwest Assistance Ministries' 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 Northwest Assistance Ministries' compliance.

Opinion on Each Major Federal Program

In our opinion, Northwest Assistance Ministries 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 September 30, 2018.

Report on Internal Control Over Compliance

Management of Northwest Assistance Ministries 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 Northwest Assistance Ministries' 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 Northwest Assistance Ministries' 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.

Ralph and Ralph, P.C.

Houston, Texas
March 26, 2019

Northwest Assistance Ministries
Summary of Findings and Questioned Costs
For the Year Ended September 30, 2018

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weakness identified? _____ yes X no
Significant Deficiency identified? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

Material weakness identified? _____ yes X no
Significant Deficiency identified? _____ yes X none reported

Type of auditor’s report issued on compliance for major federal programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ yes X no

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
14.267	HUD Continuum of Care
16.575	DOJ Victims of Criminal Acts

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? _____ yes X no

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Awards Findings and Questioned Costs

No matters were reported.

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