

NAZARENE COMPASSIONATE MINISTRIES, INC.

FINANCIAL STATEMENTS

**Year Ended December 31, 2011
with
Report of Independent Auditors**

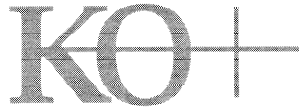
NAZARENE COMPASSIONATE MINISTRIES, INC.

FINANCIAL STATEMENTS

December 31, 2011

CONTENTS

	<u>Page</u>
Report of Independent Auditors	1
Financial Statements:	
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows.....	5
Notes to Financial Statements.....	6 - 14



Keller & Owens, LLC

Certified Public Accountants

REPORT OF INDEPENDENT AUDITORS

Board of Directors

Nazarene Compassionate Ministries, Inc.

We have audited the accompanying statement of financial position of **Nazarene Compassionate Ministries, Inc.** (a Missouri non-profit corporation) as of December 31, 2011, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2010 financial statements and, in our report dated July 28, 2011 we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Nazarene Compassionate Ministries, Inc.**, as of December 31, 2011, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

March 14, 2012

NAZARENE COMPASSIONATE MINISTRIES, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2011

(With comparative totals as of December 31, 2010)

ASSETS

	<u>2011</u>	<u>2010</u>
Current Assets:		
Cash	\$ 39,268	\$ 37,719
Investments	9,147	149,065
Accounts and grants receivable	255,377	215,892
Pledges receivable	73,772	80,966
Inventory	747,049	1,014,779
Prepaid expenses	<u>-</u>	<u>200</u>
Total Current Assets	1,124,613	1,498,621
Property and Equipment	3,241	6,133
Beneficial Interest in Foundation	<u>33,289</u>	<u>34,117</u>
Total Assets	<u>\$ 1,161,143</u>	<u>\$ 1,538,871</u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable and accrued liabilities	\$ 198,658	\$ 33,059
Grant advances	<u>-</u>	<u>197,265</u>
Total Current Liabilities	198,658	230,324
Net Assets:		
Unrestricted	855,424	1,193,464
Temporarily restricted	<u>107,061</u>	<u>115,083</u>
Total Net Assets	<u>962,485</u>	<u>1,308,547</u>
Total Liabilities and Net Assets	<u>\$ 1,161,143</u>	<u>\$ 1,538,871</u>

See accompanying notes

NAZARENE COMPASSIONATE MINISTRIES, INC.

STATEMENT OF ACTIVITIES Year Ended December 31, 2011

(With comparative totals for the year ended December 31, 2010)

	2011			2010
	Unrestricted	Temporarily Restricted	Total	
Support and Revenue:				
Contributions and grants	\$ 3,578,166	\$ 194,792	\$ 3,772,958	\$ 3,627,899
Gifts-in-kind:				
Materials and goods	3,657,868	-	3,657,868	5,377,505
Facilities and services	35,460	-	35,460	18,362
Interest income	669	-	669	932
Other income	7,515	-	7,515	12,817
Net assets released from restrictions	<u>157,005</u>	<u>(157,005)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	7,436,683	37,787	7,474,470	9,037,515
Expenses:				
Program services:				
International emergency relief and community development	4,718,478	-	4,718,478	7,770,125
U.S.A. emergency relief and community development	2,877,364	-	2,877,364	1,103,985
Total Program Services	<u>7,595,842</u>	<u>-</u>	<u>7,595,842</u>	<u>8,874,110</u>
General and administrative	153,766	-	153,766	173,877
Fundraising	25,115	-	25,115	19,848
Total Expenses Before Loss	<u>7,774,723</u>	<u>-</u>	<u>7,774,723</u>	<u>9,067,835</u>
Loss on pledges receivable	<u>-</u>	<u>45,809</u>	<u>45,809</u>	<u>55,878</u>
Total Expenses	<u>7,774,723</u>	<u>45,809</u>	<u>7,820,532</u>	<u>9,123,713</u>
Change in Net Assets	(338,040)	(8,022)	(346,062)	(86,198)
Net Assets at Beginning of Year	<u>1,193,464</u>	<u>115,083</u>	<u>1,308,547</u>	<u>1,394,745</u>
Net Assets at End of Year	<u>\$ 855,424</u>	<u>\$ 107,061</u>	<u>\$ 962,485</u>	<u>\$ 1,308,547</u>

See accompanying notes

NAZARENE COMPASSIONATE MINISTRIES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2011

(With comparative totals for the year ended December 31, 2010)

	2011						2010 Total
	Program Services			General and Administrative	Fundraising	Grand Total	
	International	U.S.A.	Total				
Donated materials distribution	\$ 2,315,487	\$ 750,260	\$ 3,065,747	\$ -	\$ -	\$ 3,065,747	\$ 5,394,466
Relief and community development	1,941,067	817,462	2,758,529	-	-	2,758,529	2,404,692
Donation to Fawn Grove Compassion Center, Inc.	-	859,851	859,851	-	-	859,851	-
Donated facilities and services	31,524	2,017	33,541	1,715	204	35,460	18,362
Salaries and payroll taxes	197,977	190,159	388,136	78,763	8,678	475,577	490,224
Consultants	96,446	108,993	205,439	22,876	2,719	231,034	304,657
Employee benefits	45,615	40,868	86,483	20,009	2,193	108,685	117,966
Meetings and conferences	3,518	3,770	7,288	2,380	282	9,950	11,558
Occupancy	10,614	7,258	17,872	6,170	733	24,775	40,235
Supplies	3,482	2,906	6,388	324	39	6,751	9,872
Travel	34,832	58,037	92,869	6,828	811	100,508	138,325
CFC campaigns	-	-	-	-	2,557	2,557	1,514
Telephone	7,986	5,973	13,959	2,775	330	17,064	23,608
Professional fees	11,001	8,282	19,283	6,791	1,188	27,262	27,131
Publications and printing	4,898	2,539	7,437	570	571	8,578	4,779
Insurance	1,559	4,092	5,651	1,107	131	6,889	11,486
Depreciation	999	834	1,833	709	85	2,627	4,014
Postage	3,435	680	4,115	507	1,935	6,557	18,153
Maintenance	3,500	11,135	14,635	331	2,432	17,398	34,845
Board expenses	1,648	1,376	3,024	1,169	139	4,332	7,463
Bank service charges	2,890	872	3,762	742	88	4,592	4,485
Total Expenses Before Loss	<u>\$ 4,718,478</u>	<u>\$ 2,877,364</u>	<u>\$ 7,595,842</u>	<u>\$ 153,766</u>	<u>\$ 25,115</u>	<u>\$ 7,774,723</u>	<u>\$ 9,067,835</u>

See accompanying notes

NAZARENE COMPASSIONATE MINISTRIES, INC.

STATEMENT OF CASH FLOWS Year Ended December 31, 2011

(With comparative totals for the year ended December 31, 2010)

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ (346,062)	\$ (86,198)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	2,627	4,014
Loss on pledges receivable	45,809	55,878
Book value of donated assets	1,536	-
Change in assets and liabilities:		
Accounts and grants receivable	(39,485)	(60,329)
Pledges receivable	(38,615)	(60,850)
Inventory	267,730	16,961
Prepaid expenses	200	-
Accounts payable and accrued liabilities	165,599	(62,864)
Grant advances	<u>(197,265)</u>	<u>(303,212)</u>
Net Cash Used by Operating Activities	(137,926)	(496,600)
Cash Flows from Investing Activities:		
Net change in sweep account	139,918	510,146
Net change in beneficial interest in foundation	828	(3,159)
Purchase of property and equipment	<u>(1,271)</u>	<u>(5,809)</u>
Net Cash Provided by Investing Activities	<u>139,475</u>	<u>501,178</u>
Net Increase in Cash	1,549	4,578
Cash Balance at Beginning of Year	<u>37,719</u>	<u>33,141</u>
Cash Balance at End of Year	<u>\$ 39,268</u>	<u>\$ 37,719</u>

See accompanying notes

NAZARENE COMPASSIONATE MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - Nazarene Compassionate Ministries, Inc. (the Organization) is a non-profit organization incorporated in the state of Missouri in 1990. The Organization provides assistance in the United States and throughout the world to economically disadvantaged people. This assistance includes emergency relief, social transformation assistance emphasizing long-term solutions to human needs, and educational services to poverty-stricken individuals and disaster victims by helping them develop skills and resources needed to achieve health and self-sufficiency.

The Organization receives support from the General Board of the Church of the Nazarene (the Church), a Missouri non-profit corporation, as well as from non-denominational resources.

Accounts, grants and pledges receivable – Accounts and grants receivable are due from its contributors and from its grant agencies. These receivables are generally expected to be collected within one year and are stated at amounts due. Accounts outstanding longer than their contractual payment terms are considered past due. The Organization reviews accounts monthly to determine if any receivables are uncollectible and a reserve required. The Organization considers accounts and grants receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made. Any payments subsequently received on such receivables are credited to operations. No collateral is required.

Unconditional promises to give (pledges receivable) are generally expected to be collected within one year and are recorded at net realizable value. Pledges receivable are stated net of an allowance for doubtful accounts. The Organization estimates the allowance based on its historical experience of the relationship between actual bad debts and net amounts pledged. Conditional promises to give are not included as revenue until the conditions are substantially met.

Basis of accounting - The financial statements have been prepared on the accrual basis of accounting.

Basis of presentation - Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) in FASB ASC 958. Under FASB ASC 958, the Organization 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. There were no permanently restricted net assets at December 31, 2011 and 2010.

NAZARENE COMPASSIONATE MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents – For purposes of the Statement of Cash Flows, cash consists of cash on hand and in interest-bearing checking accounts subject to minimal withdrawal restrictions.

Comparative financial statements - The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2010, from which the summarized information was derived.

Functional expenses - The cost of providing various program and supporting services has been summarized on a functional basis in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the projects and supporting services benefited.

Gifts-in-kind and Contributed Services – The financial statements reflect the value of medical equipment, medical supplies, clothing and other items received and distributed to recipients in need of assistance. Their value is determined by estimating the fair market value at the date of receipt. In addition, the Organization received the free use of warehouse space from other organizations for storage of inventory. The Organization recognizes the fair value of contributed services received if such services a) create or enhance nonfinancial assets or b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not contributed. The actual benefit received or the fair market value of these items has been reflected in the Statement of Activities as donated materials, goods, facilities, and services.

Income taxes - The Organization is a non-profit corporation exempt from federal income taxes, except on unrelated business income, if any, under Section 501(c)(3) of the Internal Revenue Code. The Organization has been classified as a publicly supported organization that is not a private foundation under Section 509(a) of the code. Among other things, the Organization is exempt from income, FUTA and state and local real estate taxes.

NAZARENE COMPASSIONATE MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes (continued) - In accordance with FASB ASC 740-10, the Organization's policy is to record a liability for any tax position that is beneficial to the Organization, including any related interest and penalties, when it is more likely than not the position taken by management with respect to the transaction or class of transactions will be overturned by a taxing authority upon examination. Management believes there are no such positions as of December 31, 2011 and, accordingly, no liability has been accrued. However, tax years through December 31, 2011 remain subject to IRS examination.

Inventories - Inventories consist of crisis care kits, clothing, medical equipment, computers, and other similar items for relief distribution. Inventories are stated at fair market value at date usability is determined.

Property and equipment - Property and equipment over a nominal amount are recorded at cost at the date of acquisition or fair market value at date of donation, in the case of gift. Maintenance and repairs are charged to expense as incurred. When items of property or equipment are sold or retired, the related cost is removed from the accounts and any gain or loss is included in the results of operations. Depreciation is provided over the estimated useful lives of the respective assets on the straight-line basis. Lives for depreciation are as follows:

Furniture and equipment	2 -7 years
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Reclassifications – Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements.

Restricted and unrestricted support and revenue - Contributions received are recorded as unrestricted or temporarily restricted support and revenue based on the existence of any donor restrictions. Amounts received without donor stipulations are recorded as unrestricted support and revenue. When the expenses are disbursed for their designated purpose, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions.

Gifts of land, buildings, equipment and other long-lived assets are also reported as unrestricted revenue and net assets, unless subject to time restrictions. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service.

NAZARENE COMPASSIONATE MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent events – Management has evaluated events and transactions that have occurred since December 31, 2011 and reflected their effects, if any, in these financial statements through March 14, 2012, the date the financial statements were available to be issued.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

2. FAIR VALUE MEASUREMENTS OF ASSETS AND LIABILITIES

The objective of a fair value measurement is to determine 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 (an exit price). Accordingly, the fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three-tier hierarchy of inputs is summarized in the three broad levels below:

- Level 1 – inputs are unadjusted quoted market prices in active independent markets for identical assets and liabilities;
- Level 2 – inputs are directly or indirectly observable estimates from quotes for similar but not identical assets and liabilities, market trades for identical assets not actively traded or other external independent means;
- Level 3 – inputs are unobservable and reflect assumptions on the part of the reporting entity.

NAZARENE COMPASSIONATE MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

2. FAIR VALUE MEASUREMENTS OF ASSETS AND LIABILITIES (continued)

The following table sets forth information about the level within the fair value hierarchy at which the Organization's financial assets and liabilities are measured on a recurring basis at December 31, 2011:

	Level 2	Level 3	Total
Investments (Securities in bank sweep accounts – FNMA bond)	\$ 9,147	\$ -	\$ 9,147
Beneficial interest in foundation	-	33,289	33,289
Total	\$ 9,147	\$ 33,289	\$ 42,436

The following table sets forth information about the level within the fair value hierarchy at which the Organization's financial assets and liabilities are measured on a recurring basis at December 31, 2010:

	Level 2	Level 3	Total
Investments (Securities in bank sweep accounts – GNMA bond)	\$ 149,065	\$ -	\$ 149,065
Beneficial interest in foundation	-	34,117	34,117
Total	\$ 149,065	\$ 34,117	\$ 183,182

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) include beneficial interest in foundation:

January 1, 2010	\$ 30,958
Purchases, contributions, and accruals	3,159
December 31, 2010	34,117
Contributions	(828)
December 31, 2011	\$ 33,289

Total gains or losses for the years ended December 31, 2011 and 2010 were immaterial and not reported by the Organization.

NAZARENE COMPASSIONATE MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

2. FAIR VALUE MEASUREMENTS OF ASSETS AND LIABILITIES (continued)

The fair values for Level 2 and 3 assets were valued using a market approach and were determined as follows:

- The fair value of securities in bank sweep accounts is equal to the stated value from the bank.
- The fair value of the beneficial interest in foundation is equal to the stated value from the foundation.

The carrying amounts of financial instruments including cash, accounts and grants receivable, pledges receivable and accounts payable and accrued liabilities approximated fair value as of December 31, 2011 and 2010 due to their short-term nature.

3. PLEDGES RECEIVABLE

	<u>2011</u>	<u>2010</u>
Unconditional pledges expected to be collected in:		
Less than one year	\$ 121,705	\$ 132,470
Less allowance for uncollectible pledges	<u>(47,933)</u>	<u>(51,504)</u>
Net Pledges Receivable	<u>\$ 73,772</u>	<u>\$ 80,966</u>

4. PROPERTY AND EQUIPMENT

Property and equipment is described in Note 1 and includes the following:

Furniture and equipment:		
International	\$ 1,939	\$ 9,669
U.S.A	<u>43,784</u>	<u>42,188</u>
	45,723	51,857
Less accumulated depreciation	<u>(42,482)</u>	<u>(45,724)</u>
Total Property and Equipment	<u>\$ 3,241</u>	<u>\$ 6,133</u>

NAZARENE COMPASSIONATE MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

5. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets include amounts held for the following purposes:

	<u>2011</u>	<u>2010</u>
Time restrictions – pledges receivable	\$ 73,772	\$ 80,966
Time restrictions – beneficial interest in Foundation	<u>33,289</u>	<u>34,117</u>
Total Temporarily Restricted Net Assets	<u>\$ 107,061</u>	<u>\$ 115,083</u>

Restricted assets included pledges receivable and beneficial interest in Foundation.

Per provisions of FASB ASC 958 regarding expiration of donor restrictions, the following activities were incurred which satisfied the restricted purpose or occurrence of events specified by donors:

Time restrictions – pledges receivable	<u>\$ 157,005</u>	<u>\$ 158,492</u>
Net Assets Released from Restrictions	<u>\$ 157,005</u>	<u>\$ 158,492</u>

6. EMPLOYEE BENEFIT PLANS

The Organization participates in a defined contribution pension plan sponsored by the Church. All employees are eligible to participate in the plan. Employer contributions are made for all full-time employees up to 6% of eligible compensation. Employer contributions to this plan were \$19,068 and \$20,199 in 2011 and 2010, respectively.

7. CONCENTRATION OF RISK

The Organization's financial instruments that are exposed to a concentration of risk consist primarily of pledges receivable and accounts and grants receivable. It routinely assesses the financial strength of its receivables and, as a consequence, believes its credit risk exposure is limited. Sixty-eight percent of accounts and grants receivable are due either directly or via pass-through from the United States Government, and 25% are due from a foundation.

During 2011 and 2010, approximately 35% and 33%, respectively, of revenues were received from grants from the United States Government.

NAZARENE COMPASSIONATE MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

8. RELATED PARTIES

Board of Directors - Members of the Board of Directors of the Organization are approved by the Church, the sole member of the Organization.

Grants – In 2011, the Organization received funding from the Church for establishment of a capacity building project in the amount of \$25,436, for shipping donated products to relief areas in the amount of \$130,351, and for general operations in the amount of \$2,701.

In 2010, the Organization received funding from the Church for establishment of a capacity building project in the amount of \$144,126 and for shipping donated products to relief areas in the amount of \$193,161.

Administration - The Church provides certain non-compensatory administrative services to the Organization. They have provided certain administrative salaries in the amount of \$6,352. This was included in gifts-in-kind: facilities and services.

Lease – The Organization signed a yearly periodic tenancy lease for office space with the Church effective December 1, 2010. Monthly rental payments of \$1,904 are required. Total rental payments for 2011 and 2010 were \$22,848 and \$1,904, respectively.

9. LEASE GUARANTEE

The Organization has signed a lease for one of its sister organizations in Swaziland which the sister organization pays directly to the lessor. The lease is due in monthly installments equivalent to US dollars at December 31, 2011 of \$1,524 through March 2012. Since the inception of the lease in February 2009, the sister organization has paid all monthly rental payments.

10. DONATION OF INVENTORY TO FAWN GROVE COMPASSION CENTER, INC.

The Organization donated inventory with a fair value of \$859,851 to Fawn Grove Compassion Center, Inc. (FGCC) (a newly established organization). This transaction was a non-cash donation of clothing and household goods to establish the inventory of their warehouse operation. The Organization has contracted with FGCC to provide storage and handling of the Crisis Care Kits and School Pal Paks.

NAZARENE COMPASSIONATE MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

11. SUBSEQUENT EVENTS

In January 2012, the Organization received \$100,000 from Nazarene Compassionate Ministries, a department of the International Church of the Nazarene General Board, for short-term cash flow. The amount is to be repaid when grant receivable funds are collected. No interest or collateral is required.