

**NAZARENE COMPASSIONATE MINISTRIES, INC.**

**FINANCIAL STATEMENTS**

**Year Ended December 31, 2012  
with  
Independent Auditors' Report**

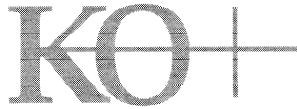
# NAZARENE COMPASSIONATE MINISTRIES, INC.

## FINANCIAL STATEMENTS

December 31, 2012

### CONTENTS

	<u>Page</u>
Independent Auditors' Report .....	1 - 2
Financial Statements:	
Statement of Financial Position .....	3
Statement of Activities .....	4
Statement of Functional Expenses .....	5
Statement of Cash Flows.....	6
Notes to Financial Statements.....	7 - 14



# Keller & Owens, LLC

*Certified Public Accountants*

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
**Nazarene Compassionate Ministries, Inc.**

We have audited the accompanying financial statements of **Nazarene Compassionate Ministries, Inc.** (the "Organization") (a Missouri non-profit corporation), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. The prior year summarized information has been derived from the Organization's 2011 financial statements and, in our report dated March 14, 2012, we expressed an unqualified opinion on those 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.

### **Auditors' Responsibility**

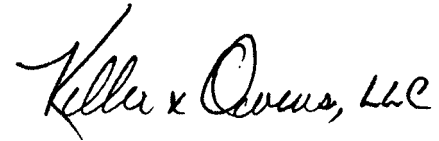
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 financial statements referred to above present fairly, in all material respects, the financial position of **Nazarene Compassionate Ministries, Inc.** as of December 31, 2012, 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.

A handwritten signature in black ink that reads "Keller & Owens, LLC". The signature is written in a cursive, flowing style.

Overland Park, Kansas  
April 17, 2013

# NAZARENE COMPASSIONATE MINISTRIES, INC.

## STATEMENT OF FINANCIAL POSITION

December 31, 2012

(With comparative totals as of December 31, 2011)

### ASSETS

	<u>2012</u>	<u>2011</u>
Current Assets:		
Cash	\$ 116,979	\$ 39,268
Investments	-	9,147
Accounts and grants receivable	175,640	255,377
Pledges receivable	70,754	73,772
Inventory	<u>435,871</u>	<u>747,049</u>
Total Current Assets	799,244	1,124,613
Property and Equipment	4,340	3,241
Beneficial Interest in Foundation	<u>32,764</u>	<u>33,289</u>
Total Assets	<u>\$ 836,348</u>	<u>\$ 1,161,143</u>

### LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable and accrued liabilities	\$ 32,566	\$ 198,658
Grant advances	1,722	-
Loan payable	<u>100,000</u>	<u>-</u>
Total Current Liabilities	134,288	198,658
Net Assets:		
Unrestricted	598,542	855,424
Temporarily restricted	<u>103,518</u>	<u>107,061</u>
Total Net Assets	<u>702,060</u>	<u>962,485</u>
Total Liabilities and Net Assets	<u>\$ 836,348</u>	<u>\$ 1,161,143</u>

*See accompanying notes*

## NAZARENE COMPASSIONATE MINISTRIES, INC.

### STATEMENT OF ACTIVITIES Year Ended December 31, 2012

(With comparative totals for the year ended December 31, 2011)

	2012			2011
	Unrestricted	Temporarily Restricted	Total	
Support and Revenue:				
Contributions and grants	\$ 2,726,566	\$ 178,108	\$ 2,904,674	\$ 3,772,958
Gifts-in-kind:				
Materials and goods	3,924,156	-	3,924,156	3,657,868
Facilities and services	53,625	-	53,625	35,460
Interest income	247	-	247	669
Other income	6,724	-	6,724	7,515
Net assets released from restrictions	<u>134,429</u>	<u>(134,429)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	6,845,747	43,679	6,889,426	7,474,470
Expenses:				
Program services:				
International emergency relief and community development	4,860,038	-	4,860,038	4,718,478
U.S.A. emergency relief and community development	<u>1,991,301</u>	<u>-</u>	<u>1,991,301</u>	<u>2,877,364</u>
Total Program Services	<u>6,851,339</u>	<u>-</u>	<u>6,851,339</u>	<u>7,595,842</u>
General and administrative	132,901	-	132,901	153,766
Fundraising	<u>118,389</u>	<u>-</u>	<u>118,389</u>	<u>25,115</u>
Total Expenses Before Loss	7,102,629	-	7,102,629	7,774,723
Loss on pledges receivable	<u>-</u>	<u>47,222</u>	<u>47,222</u>	<u>45,809</u>
Total Expenses	<u>7,102,629</u>	<u>47,222</u>	<u>7,149,851</u>	<u>7,820,532</u>
Change in Net Assets	(256,882)	(3,543)	(260,425)	(346,062)
Net Assets at Beginning of Year	<u>855,424</u>	<u>107,061</u>	<u>962,485</u>	<u>1,308,547</u>
Net Assets at End of Year	<u>\$ 598,542</u>	<u>\$ 103,518</u>	<u>\$ 702,060</u>	<u>\$ 962,485</u>

*See accompanying notes*

## NAZARENE COMPASSIONATE MINISTRIES, INC.

### STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2012

(With comparative totals for the year ended December 31, 2011)

	2012						2011 Total
	Program Services			General and Administrative	Fundraising	Grand Total	
	International	U.S.A.	Total				
Donated materials distribution	\$ 3,414,367	\$ 820,965	\$ 4,235,332	\$ -	\$ -	\$ 4,235,332	\$ 3,065,747
Relief and community development	1,222,404	830,475	2,052,879	-	-	2,052,879	2,758,529
Donation to Fawn Grove Compassion Center, Inc.	-	-	-	-	-	-	859,851
Donated facilities and services	19,857	12,820	32,677	12,928	8,020	53,625	35,460
Salaries and payroll taxes	47,015	147,330	194,345	67,110	75,910	337,365	475,577
Consultants	100,949	97,136	198,085	6,213	3,854	208,152	231,034
Employee benefits	15,485	44,058	59,543	21,753	13,495	94,791	108,685
Meetings and conferences	827	1,158	1,985	1,167	1,953	5,105	9,950
Occupancy	2,926	4,092	7,018	4,126	2,560	13,704	24,775
Supplies	708	906	1,614	891	553	3,058	6,751
Travel	16,145	13,998	30,143	2,801	2,174	35,118	100,508
CFC campaigns	-	-	-	-	-	-	2,557
Telephone	1,576	3,309	4,885	1,944	1,206	8,035	17,064
Professional fees	6,538	7,696	14,234	7,763	4,815	26,812	27,262
Publications and printing	3,046	30	3,076	30	18	3,124	8,578
Insurance	396	1,761	2,157	560	347	3,064	6,889
Depreciation	332	464	796	468	291	1,555	2,627
Postage	1,591	444	2,035	448	278	2,761	6,557
Maintenance	1,818	2,543	4,361	2,564	1,591	8,516	17,398
Board expenses	1,222	1,709	2,931	1,724	1,069	5,724	4,332
Bank service charges	2,836	407	3,243	411	255	3,909	4,592
Total Expenses Before Loss	<u>\$ 4,860,038</u>	<u>\$ 1,991,301</u>	<u>\$ 6,851,339</u>	<u>\$ 132,901</u>	<u>\$ 118,389</u>	<u>\$ 7,102,629</u>	<u>\$ 7,774,723</u>

*See accompanying notes*

## NAZARENE COMPASSIONATE MINISTRIES, INC.

### STATEMENT OF CASH FLOWS Year Ended December 31, 2012

(With comparative totals for the year ended December 31, 2011)

	2012	2011
Cash Flows from Operating Activities:		
Change in net assets	\$ (260,425)	\$ (346,062)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	1,555	2,627
Loss on pledges receivable	47,222	45,809
Book value of donated assets	-	1,536
Change in assets and liabilities:		
Accounts and grants receivable	79,737	(39,485)
Pledges receivable	(44,204)	(38,615)
Inventory	311,178	267,730
Prepaid expenses	-	200
Accounts payable and accrued liabilities	(166,092)	165,599
Grant advances	<u>1,722</u>	<u>(197,265)</u>
Net Cash Used by Operating Activities	(29,307)	(137,926)
Cash Flows from Investing Activities:		
Net change in sweep account	9,147	139,918
Net change in beneficial interest in foundation	525	828
Purchase of property and equipment	<u>(2,654)</u>	<u>(1,271)</u>
Net Cash Provided by Investing Activities	7,018	139,475
Cash Flows from Financing Activities:		
Advances on loan payable	<u>100,000</u>	<u>-</u>
Net Cash Provided by Financing Activities	<u>100,000</u>	<u>-</u>
Net Increase in Cash	77,711	1,549
Cash Balance at Beginning of Year	<u>39,268</u>	<u>37,719</u>
Cash Balance at End of Year	<u>\$ 116,979</u>	<u>\$ 39,268</u>

*See accompanying notes*



# NAZARENE COMPASSIONATE MINISTRIES, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2012

### 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, 2012 and 2011.

# NAZARENE COMPASSIONATE MINISTRIES, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2012

### 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, 2011, 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, 2012

### 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, 2012 and, accordingly, no liability has been accrued. However, the Organization's returns are subject to examination by the IRS generally for three years after they were filed.

**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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**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, 2012

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

**Subsequent events** – Management has evaluated events and transactions that have occurred since December 31, 2012 and reflected their effects, if any, in these financial statements through April 17, 2013, 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, 2012

### 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, 2012:

	Level 3	Total
Beneficial interest in foundation	\$ 32,764	\$ 32,764
Total	\$ 32,764	\$ 32,764

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

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

December 31, 2010	\$ 34,117
Purchases, contributions, and accruals	(828)
December 31, 2011	33,289
Contributions	(525)
December 31, 2012	\$ 32,764

Total gains or losses for the years ended December 31, 2012 and 2011 were immaterial and not reported by the Organization.

# NAZARENE COMPASSIONATE MINISTRIES, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2012

### 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, accounts payable and accrued liabilities, grant advances, and loan payable approximated fair value as of December 31, 2012 and 2011 due to their short-term nature.

### 3. PLEDGES RECEIVABLE

	<u>2012</u>	<u>2011</u>
Unconditional pledges expected to be collected in:		
Less than one year	\$ 115,558	\$ 121,705
Less allowance for uncollectible pledges	<u>(44,804)</u>	<u>(47,933)</u>
Net Pledges Receivable	<u>\$ 70,754</u>	<u>\$ 73,772</u>

### 4. PROPERTY AND EQUIPMENT

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

Furniture and equipment:		
International	\$ -	\$ 1,939
U.S.A	<u>8,257</u>	<u>43,784</u>
	8,257	45,723
Less accumulated depreciation	<u>(3,917)</u>	<u>(42,482)</u>
Net Property and Equipment	<u>\$ 4,340</u>	<u>\$ 3,241</u>

# NAZARENE COMPASSIONATE MINISTRIES, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2012

### 5. TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2012</u>	<u>2011</u>
Time restrictions – pledges receivable	\$ 70,754	\$ 73,772
Time restrictions – beneficial interest in Foundation	<u>32,764</u>	<u>33,289</u>
Total Temporarily Restricted Net Assets	<u>\$ 103,518</u>	<u>\$ 107,061</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>\$ 134,429</u>	<u>\$ 157,005</u>
Net Assets Released from Restrictions	<u>\$ 134,429</u>	<u>\$ 157,005</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 \$17,534 and \$19,068 in 2012 and 2011, 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. As of December 31, 2012, 84% of accounts and grants receivable are due either directly or via pass-through from the United States Government. As of December 31, 2011, 68% 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 2012 and 2011, approximately 27% and 35%, respectively, of revenues were received from grants from the United States Government.

# NAZARENE COMPASSIONATE MINISTRIES, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2012

### 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 2012, the Organization received funding from the Church for shipping donated products to relief areas in the amount of \$75,123. Included in accounts and grants receivable is \$13,752 due from the Church.

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. Included in accounts and grants receivable is \$17,455 due from the Church.

**Administration** - The Church provides certain non-compensatory administrative services to the Organization. They have provided certain administrative salaries in the amount of \$42,936 and \$6,352 for 2012 and 2011, respectively. 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. Monthly rental payments of \$1,142 and \$1,904 for 2012 and 2011, respectively, are required. Total rental payments for 2012 and 2011 were \$13,704 and \$22,848, respectively.

**Loan payable** - 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.

### 9. DONATION OF INVENTORY TO FAWN GROVE COMPASSION CENTER, INC.

In 2011, 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.