

NAZARENE COMPASSIONATE MINISTRIES, INC.

FINANCIAL STATEMENTS

**Year Ended December 31, 2013
with
Independent Auditors' Report**

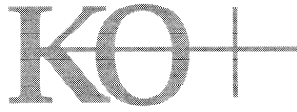
NAZARENE COMPASSIONATE MINISTRIES, INC.

FINANCIAL STATEMENTS

December 31, 2013

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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, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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.

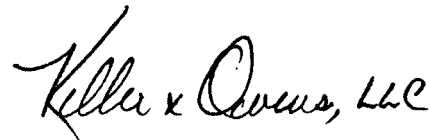
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013, 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.

Report on Summarized Comparative Information

We have previously audited **Nazarene Compassionate Ministries, Inc.**'s 2012 financial statements, and our report dated April 17, 2013, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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

Overland Park, Kansas
June 9, 2014

NAZARENE COMPASSIONATE MINISTRIES, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2013

(With comparative totals as of December 31, 2012)

ASSETS

	<u>2013</u>	<u>2012</u>
Current Assets:		
Cash	\$ 107,061	\$ 116,979
Accounts and grants receivable	125,748	175,640
Pledges receivable	69,716	70,754
Inventory	<u>413,753</u>	<u>435,871</u>
Total Current Assets	716,278	799,244
Property and Equipment	3,759	4,340
Beneficial Interest in Foundation	<u>37,326</u>	<u>32,764</u>
Total Assets	<u>\$ 757,363</u>	<u>\$ 836,348</u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable and accrued liabilities	\$ 27,508	\$ 32,566
Grant advances	-	1,722
Loan payable	<u>-</u>	<u>100,000</u>
Total Current Liabilities	27,508	134,288
Net Assets:		
Unrestricted	601,313	598,542
Temporarily restricted	<u>128,542</u>	<u>103,518</u>
Total Net Assets	<u>729,855</u>	<u>702,060</u>
Total Liabilities and Net Assets	<u>\$ 757,363</u>	<u>\$ 836,348</u>

See accompanying notes

NAZARENE COMPASSIONATE MINISTRIES, INC.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2013

(With comparative totals for the year ended December 31, 2012)

	2013			2012
	Unrestricted	Temporarily Restricted	Total	
Support and Revenue:				
Contributions and grants	\$ 847,098	\$ 227,639	\$ 1,074,737	\$ 2,904,674
Gifts-in-kind:				
Materials and goods	1,569,939	-	1,569,939	3,924,156
Facilities and services	54,695	-	54,695	53,625
Interest income	-	-	-	247
Other income	2,990	-	2,990	6,724
Net assets released from restrictions	153,317	(153,317)	-	-
Total Support and Revenue	2,628,039	74,322	2,702,361	6,889,426
Expenses:				
Program services:				
International emergency relief and community development	1,369,107	-	1,369,107	4,860,038
U.S.A. emergency relief and community development	974,192	-	974,192	1,991,301
Total Program Services	2,343,299	-	2,343,299	6,851,339
General and administrative	135,804	-	135,804	132,901
Fundraising	146,165	-	146,165	118,389
Total Expenses Before Loss	2,625,268	-	2,625,268	7,102,629
Loss on pledges receivable	-	49,298	49,298	47,222
Total Expenses	2,625,268	49,298	2,674,566	7,149,851
Change in Net Assets	2,771	25,024	27,795	(260,425)
Net Assets at Beginning of Year	598,542	103,518	702,060	962,485
Net Assets at End of Year	\$ 601,313	\$ 128,542	\$ 729,855	\$ 702,060

See accompanying notes

NAZARENE COMPASSIONATE MINISTRIES, INC

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2013

(With comparative totals for the year ended December 31, 2012)

	2013						2012 Total
	Program Services			General and Administrative	Fundraising	Grand Total	
	International	U.S.A.	Total				
Donated materials distribution	\$ 795,661	\$ 796,396	\$ 1,592,057	\$ -	\$ -	\$ 1,592,057	\$ 4,235,332
Relief and community development	484,399	32,201	516,600	-	-	516,600	2,052,879
Donated facilities and services	12,310	13,182	25,492	16,240	12,963	54,695	53,625
Salaries and payroll taxes	39,426	84,904	124,330	69,400	70,104	263,834	337,365
Consultants	11,210	17,860	29,070	382	21,115	50,567	208,152
Employee benefits	10,158	16,322	26,480	22,346	17,837	66,663	94,791
Meetings and conferences	2,059	2,048	4,107	3,974	4,242	12,323	5,105
Occupancy	2,287	2,279	4,566	5,082	4,056	13,704	13,704
Supplies	269	322	591	389	310	1,290	3,058
Travel	2,886	1,385	4,271	2,746	2,808	9,825	35,118
Telephone	629	768	1,397	1,397	1,115	3,909	8,035
Professional fees	4,400	3,845	8,245	8,576	6,845	23,666	26,812
Publications and printing	27	26	53	58	46	157	3,124
Insurance	494	492	986	1,097	876	2,959	3,064
Depreciation	213	213	426	475	379	1,280	1,555
Postage	115	95	210	211	168	589	2,761
Maintenance	365	363	728	810	647	2,185	8,516
Board expenses	1,112	1,110	2,222	2,475	1,976	6,673	5,724
Bank service charges	1,087	381	1,468	146	678	2,292	3,909
Total Expenses Before Loss	\$ 1,369,107	\$ 974,192	\$ 2,343,299	\$ 135,804	\$ 146,165	\$ 2,625,268	\$ 7,102,629

See accompanying notes

NAZARENE COMPASSIONATE MINISTRIES, INC.

STATEMENT OF CASH FLOWS Year Ended December 31, 2013

(With comparative totals for the year ended December 31, 2012)

	2013	2012
Cash Flows from Operating Activities:		
Change in net assets	\$ 27,795	\$ (260,425)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	1,280	1,555
Loss on pledges receivable	49,298	47,222
Change in assets and liabilities:		
Accounts and grants receivable	49,892	79,737
Pledges receivable	(48,260)	(44,204)
Inventory	22,118	311,178
Accounts payable and accrued liabilities	(5,058)	(166,092)
Grant advances	(1,722)	1,722
	95,343	(29,307)
Net Cash Provided (Used) by Operating Activities		
Cash Flows from Investing Activities:		
Net change in sweep account	-	9,147
Net change in beneficial interest in foundation	(4,562)	525
Purchase of property and equipment	(699)	(2,654)
	(5,261)	7,018
Net Cash (Used) Provided by Investing Activities		
Cash Flows from Financing Activities:		
Forgiveness of debt	(100,000)	100,000
	(100,000)	100,000
Net Cash (Used) Provided by Financing Activities		
Net (Decrease) Increase in Cash	(9,918)	77,711
Cash Balance at Beginning of Year	116,979	39,268
Cash Balance at End of Year	\$ 107,061	\$ 116,979

See accompanying notes

NAZARENE COMPASSIONATE MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

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, 2013 and 2012.

NAZARENE COMPASSIONATE MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

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, 2012, 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, 2013

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, 2013 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, 2013

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

Shipping costs – Shipping costs totaled \$75,607 and \$97,957 for the years ended December 31, 2013 and 2012, respectively. These costs are included in program services in the Statement of Activities.

Subsequent events – Management has evaluated events and transactions that have occurred since December 31, 2013 and reflected their effects, if any, in these financial statements through June 9, 2014, 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, 2013

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, 2013:

	<u>Level 3</u>	<u>Total</u>
Beneficial interest in foundation	\$ 37,326	\$ 37,326
Total	<u>\$ 37,326</u>	<u>\$ 37,326</u>

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:

	<u>Level 3</u>	<u>Total</u>
Beneficial interest in foundation	\$ 32,764	\$ 32,764
Total	<u>\$ 32,764</u>	<u>\$ 32,764</u>

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

December 31, 2011	\$ 33,289
Purchases, contributions, and accruals	<u>(525)</u>
December 31, 2012	32,764
Change in beneficial interest	<u>4,562</u>
December 31, 2013	<u>\$ 37,326</u>

Total gains or losses for the years ended December 31, 2013 and 2012 were immaterial and not reported by the Organization.

NAZARENE COMPASSIONATE MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

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

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

- The fair value of the beneficial interest in foundation is based primarily upon the fair value determined by the trustee of the beneficial interest.

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, 2013 and 2012 due to their short-term nature.

3. PLEDGES RECEIVABLE

	<u>2013</u>	<u>2012</u>
Unconditional pledges expected to be collected in:		
Less than one year	\$ 109,153	\$ 115,558
Less allowance for uncollectible pledges	<u>(39,437)</u>	<u>(44,804)</u>
Net Pledges Receivable	<u>\$ 69,716</u>	<u>\$ 70,754</u>

4. PROPERTY AND EQUIPMENT

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

Furniture and equipment:		
U.S.A.	\$ <u>8,956</u>	\$ <u>8,257</u>
	8,956	8,257
Less accumulated depreciation	<u>(5,197)</u>	<u>(3,917)</u>
Net Property and Equipment	<u>\$ 3,759</u>	<u>\$ 4,340</u>

NAZARENE COMPASSIONATE MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

5. TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2013</u>	<u>2012</u>
Time restrictions – pledges receivable	\$ 69,716	\$ 70,754
Time restrictions – beneficial interest in Foundation	37,326	32,764
Purpose restrictions – international programs	<u>21,500</u>	<u>-</u>
Total Temporarily Restricted Net Assets	<u>\$ 128,542</u>	<u>\$ 103,518</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	\$ 115,817	\$ 134,429
Purpose restrictions – international programs	<u>37,500</u>	<u>-</u>
Net Assets Released from Restrictions	<u>\$ 153,317</u>	<u>\$ 134,429</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 \$12,811 and \$17,534 in 2013 and 2012, 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, 2013, 77% of accounts and grants receivable are due either directly or via pass-through from the United States Government. As of December 31, 2012, 84% of accounts and grants receivable are due either directly or via pass-through from the United States Government.

During 2013 and 2012, approximately 19% and 27%, respectively, of revenues were received from grants from the United States Government.

NAZARENE COMPASSIONATE MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

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 2013, the Organization received funding from the Church for shipping donated products to relief areas in the amount of \$88,085, and for a capacity development newsletter project in the amount of \$50,000. Included in accounts and grants receivable is \$5,324 due from the Church.

In 2012, the Organization received funding from the Church for shipping donated products to relief areas in the amount of \$75,133. Included in accounts and grants receivable is \$13,752 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 \$43,795 and \$42,936 for 2013 and 2012, 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 \$1,142 for 2013 and 2012, respectively, are required. Total rental payments for 2013 and 2012 were \$13,704 and \$13,704, 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. In 2013, the Church decided these funds were a grant and did not need to be repaid. The Organization recognized the \$100,000 as income in 2013.