

**NAZARENE COMPASSIONATE MINISTRIES, INC.**

**FINANCIAL STATEMENTS**

**Nine Months Ended September 30, 2014**

**with**

**Independent Auditors' Report**

# NAZARENE COMPASSIONATE MINISTRIES, INC.

## FINANCIAL STATEMENTS

September 30, 2014

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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 September 30, 2014, and the related statements of activities, functional expenses, and cash flows for the nine months 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**

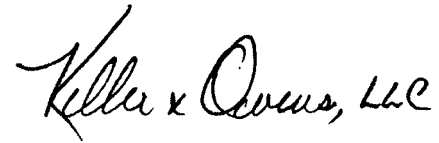
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 September 30, 2014, and the changes in its net assets and its cash flows for the nine months 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  
March 19, 2015

# NAZARENE COMPASSIONATE MINISTRIES, INC.

## STATEMENT OF FINANCIAL POSITION

September 30, 2014

### ASSETS

Current Assets:	
Cash	\$ 225,470
Prepaid expenses	3,050
Accounts and grants receivable	8,996
Pledges receivable	100,988
Inventory	<u>782,672</u>
Total Current Assets	1,121,176
Property and Equipment	4,881
Beneficial Interest in Foundation	<u>38,548</u>
Total Assets	<u>\$ 1,164,605</u>

### LIABILITIES AND NET ASSETS

Current Liabilities:	
Accounts payable and accrued liabilities	\$ 16,887
Grant advances	<u>28,208</u>
Total Current Liabilities	45,095
Net Assets:	
Unrestricted	951,766
Temporarily restricted	<u>167,744</u>
Total Net Assets	<u>1,119,510</u>
Total Liabilities and Net Assets	<u>\$ 1,164,605</u>

*See accompanying notes*

# NAZARENE COMPASSIONATE MINISTRIES, INC.

## STATEMENT OF ACTIVITIES Nine Months Ended September 30, 2014

	Unrestricted	Temporarily Restricted	Total
Support and Revenue:			
Contributions and grants	\$ 571,640	\$ 159,802	\$ 731,442
Gifts-in-kind:			
Materials and goods	3,867,500	-	3,867,500
Facilities and services	38,490	-	38,490
Other income	2,524	-	2,524
Net assets released from restrictions	<u>87,051</u>	<u>(87,051)</u>	<u>-</u>
Total Support and Revenue	4,567,205	72,751	4,639,956
Expenses:			
Program services:			
International emergency relief and community development	3,858,314	-	3,858,314
U.S.A. emergency relief and community development	<u>264,452</u>	<u>-</u>	<u>264,452</u>
Total Program Services	4,122,766	-	4,122,766
General and administrative	52,231	-	52,231
Fundraising	<u>41,755</u>	<u>-</u>	<u>41,755</u>
Total Expenses Before Loss	4,216,752	-	4,216,752
Loss on pledges receivable	<u>-</u>	<u>33,549</u>	<u>33,549</u>
Total Expenses	<u>4,216,752</u>	<u>33,549</u>	<u>4,250,301</u>
Change in Net Assets	350,453	39,202	389,655
Net Assets at Beginning of Period	<u>601,313</u>	<u>128,542</u>	<u>729,855</u>
Net Assets at End of Period	<u>\$ 951,766</u>	<u>\$ 167,744</u>	<u>\$ 1,119,510</u>

*See accompanying notes*

# NAZARENE COMPASSIONATE MINISTRIES, INC.

## STATEMENT OF FUNCTIONAL EXPENSES Nine Months Ended September 30, 2014

	Program Services			General and Administrative	Fundraising	Grand Total
	International	U.S.A.	Total			
Donated materials distribution	\$ 3,273,629	\$ 224,952	\$ 3,498,581	\$ -	\$ -	\$ 3,498,581
Relief and community development	334,551	-	334,551	-	-	334,551
Donated facilities and services	28,341	-	28,341	5,688	4,461	38,490
Salaries and payroll taxes	120,048	37,500	157,548	23,410	18,359	199,317
Consultants	872	2,000	2,872	55	43	2,970
Employee benefits	31,336	-	31,336	10,031	7,866	49,233
Meetings and conferences	1,530	-	1,530	349	1,069	2,948
Occupancy	6,386	-	6,386	2,181	1,711	10,278
Supplies	1,453	-	1,453	117	92	1,662
Travel	30,203	-	30,203	1,980	1,553	33,736
Telephone	3,927	-	3,927	948	744	5,619
Professional fees	14,400	-	14,400	4,387	3,439	22,226
Publications and printing	2,375	-	2,375	10	8	2,393
Insurance	1,161	-	1,161	397	311	1,869
Depreciation	806	-	806	276	216	1,298
Postage	603	-	603	206	161	970
Maintenance	2,689	-	2,689	829	650	4,168
Board expenses	2,659	-	2,659	908	712	4,279
Bank service charges	1,345	-	1,345	459	360	2,164
<b>Total Expenses Before Loss</b>	<b>\$ 3,858,314</b>	<b>\$ 264,452</b>	<b>\$ 4,122,766</b>	<b>\$ 52,231</b>	<b>\$ 41,755</b>	<b>\$ 4,216,752</b>

*See accompanying notes*

## NAZARENE COMPASSIONATE MINISTRIES, INC.

### STATEMENT OF CASH FLOWS Nine Months Ended September 30, 2014

Cash Flows from Operating Activities:	
Change in net assets	\$ 389,655
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	1,298
Loss on pledges receivable	33,549
Change in assets and liabilities:	
Accounts and grants receivable	116,752
Pledges receivable	(64,821)
Inventory	(368,919)
Prepaid expenses	(3,050)
Accounts payable and accrued liabilities	(10,621)
Grant advances	<u>28,208</u>
Net Cash Provided by Operating Activities	122,051
Cash Flows from Investing Activities:	
Net change in beneficial interest in foundation	(1,222)
Purchase of property and equipment	<u>(2,420)</u>
Net Cash Used by Investing Activities	(3,642)
Net Increase in Cash	118,409
Cash Balance at Beginning of Period	<u>107,061</u>
Cash Balance at End of Period	<u><u>\$ 225,470</u></u>

*See accompanying notes*



# NAZARENE COMPASSIONATE MINISTRIES, INC.

## NOTES TO FINANCIAL STATEMENTS

September 30, 2014

### 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 September 30, 2014.

# NAZARENE COMPASSIONATE MINISTRIES, INC.

## NOTES TO FINANCIAL STATEMENTS

September 30, 2014

### 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.

**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 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 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.

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 September 30, 2014 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.

# NAZARENE COMPASSIONATE MINISTRIES, INC.

## NOTES TO FINANCIAL STATEMENTS

September 30, 2014

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

**Inventories** - Inventories consist of crisis care kits, clothing, medical equipment, computers, and other similar items for relief distribution. Inventories are stated at fair 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 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.

**Shipping costs** – Shipping costs totaled \$62,745 for the nine months ended September 30, 2014. These costs are included in program services in the Statement of Activities.

**Subsequent events** – Management has evaluated events and transactions that have occurred since September 30, 2014 and reflected their effects, if any, in these financial statements through March 19, 2015, the date the financial statements were available to be issued.

# NAZARENE COMPASSIONATE MINISTRIES, INC.

## NOTES TO FINANCIAL STATEMENTS

September 30, 2014

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

**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.

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 September 30, 2014:

	<u>Level 3</u>	<u>Total</u>
Beneficial interest in foundation	\$ 38,548	\$ 38,548
Total	<u>\$ 38,548</u>	<u>\$ 38,548</u>

# NAZARENE COMPASSIONATE MINISTRIES, INC.

## NOTES TO FINANCIAL STATEMENTS

September 30, 2014

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

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

December 31, 2013	\$ 37,326
Change in beneficial interest	<u>1,222</u>
September 30, 2014	<u>\$ 38,548</u>

Total gains or losses for the nine months ended September 30, 2014 were immaterial and not reported by the Organization.

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 and grant advances approximated fair value as of September 30, 2014 due to their short-term nature.

### 3. PLEDGES RECEIVABLE

Unconditional pledges expected to be collected in:	
Less than one year	\$ 173,974
Less allowance for uncollectible pledges	<u>(72,986)</u>
Net Pledges Receivable	<u>\$ 100,988</u>

### 4. PROPERTY AND EQUIPMENT

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

Furniture and equipment:	
U.S.A.	\$ <u>11,377</u>
	11,377
Less accumulated depreciation	<u>(6,496)</u>
Net Property and Equipment	<u>\$ 4,881</u>

# NAZARENE COMPASSIONATE MINISTRIES, INC.

## NOTES TO FINANCIAL STATEMENTS

September 30, 2014

### 5. TEMPORARILY RESTRICTED NET ASSETS

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

Time restrictions – pledges receivable	\$ 100,988
Time restrictions – beneficial interest in Foundation	38,548
Purpose restrictions – international programs	<u>28,208</u>
Total Temporarily Restricted Net Assets	<u>\$ 167,744</u>

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>\$ 87,051</u>
Net Assets Released from Restrictions	<u>\$ 87,051</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 totaled \$11,191 for the nine months ended September 30, 2014.

### 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.

During 2014, approximately 8% of the total revenues and 49% of the total monetary contributions were received from grants from the United States Government.

# NAZARENE COMPASSIONATE MINISTRIES, INC.

## NOTES TO FINANCIAL STATEMENTS

September 30, 2014

### 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 2014, the Organization received funding from the Church for shipping donated products to relief areas in the amount of \$54,698 and for a capacity development newsletter project in the amount of \$50,000. Included in accounts and grants receivable is \$8,996 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 \$26,802 for 2014. 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 are required. Total rental payments for 2014 were \$10,278.

### 9. CHANGE IN FISCAL YEAR END

The Board of Directors voted to change the Organization's fiscal year end from December 31 to September 30. The change was made to conform with the Church's fiscal year end. The Organization's inventory consists primarily of care kits that are distributed to individuals affected by hurricanes. The inventory is distributed to others in need after the hurricane season ends in November. Due to the change in fiscal year ends, the inventory increased by approximately \$370,000. If the fiscal year had remained December 31, part of the inventory would have been distributed between October 1<sup>st</sup> and December 31<sup>st</sup>; thus, increasing expenses and decreasing inventory and net income.