NAZARENE COMPASSIONATE MINISTRIES, INC.

FINANCIAL STATEMENTS

Year Ended September 30, 2015
with
Independent Auditors’ Report

NAZARENE COMPASSIONATE MINISTRIES, INC.

FINANCIAL STATEMENTS

September 30, 2015

CONTENTS

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, 2015, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 2015, 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.

Keller & Owens, LLC

Overland Park, Kansas
February 10, 2016

NAZARENE COMPASSIONATE MINISTRIES, INC.

STATEMENT OF FINANCIAL POSITION
September 30, 2015

ASSETS

Current Assets:		
Cash	$	78,603
Accounts and grants receivable		155,870
Pledges receivable, net		98,245
Inventory		306,757
Total Current Assets		639,475
Property and Equipment, net		3,173
Beneficial Interest in Foundation		4,683
Total Assets	$	647,331

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable and accrued liabilities	$	35,716
Grant advances		14,921
Pass-thru contributions		41,750
Total Current Liabilities		92,387
Net Assets:		
Unrestricted		452,016
Temporarily restricted		102,928
Total Net Assets		554,944
Total Liabilities and Net Assets	$	647,331

See accompanying notes

NAZARENE COMPASSIONATE MINISTRIES, INC.

STATEMENT OF ACTIVITIES
Year Ended September 30, 2015

	Unrestricted	Temporarily Restricted	Total
Support and Revenue:			
Contributions and grants	$ 1,213,132	$ 127,735	$ 1,340,867
Gifts-in-kind:			
Materials and goods	6,743,356	-	6,743,356
Facilities and services	36,838	-	36,838
Other income	67	-	67
Net assets released from restrictions	149,765	(149,765)	-
Total Support and Revenue	8,143,158	(22,030)	8,121,128
Expenses:			
Program services:			
International emergency relief and community development	7,682,714	-	7,682,714
U.S.A. emergency relief and community development	857,947	-	857,947
Total Program Services	8,540,661	-	8,540,661
General and administrative	59,228	-	59,228
Fundraising	43,019	-	43,019
Total Expenses Before Loss	8,642,908	-	8,642,908
Loss on pledges receivable	-	42,786	42,786
Total Expenses	8,642,908	42,786	8,685,694
Change in Net Assets	(499,750)	(64,816)	(564,566)
Net Assets at Beginning of Period	951,766	167,744	1,119,510
Net Assets at End of Period	$ 452,016	$ 102,928	$ 554,944

See accompanying notes

NAZARENE COMPASSIONATE MINISTRIES, INC.

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended September 30, 2015

	Program Services			General and		Grand
	International	U.S.A.	Total	Administrative	Fundraising	Total
Donated materials distribution	$ 6,605,187	$ 614,084	$ 7,219,271	$ -	$ -	$ 7,219,271
Relief and community development	728,038	87,276	815,314	-	-	815,314
Donated facilities and services	25,523	5,041	30,564	4,502	1,771	36,837
Salaries and payroll taxes	188,195	99,975	288,170	26,128	29,236	343,534
Consultants	5,975	1,267	7,242	1,270	500	9,012
Employee benefits	51,597	16,866	68,463	10,793	4,247	83,503
Meetings and conferences	10,010	1,990	12,000	2,262	1,684	15,946
Occupancy	7,896	2,248	10,144	2,555	1,005	13,704
Supplies	1,612	510	2,122	225	88	2,435
Travel	25,717	18,892	44,609	2,127	837	47,573
Telephone	2,883	878	3,761	855	303	4,919
Professional fees	14,588	3,250	17,838	3,694	1,453	22,985
Publications and printing	745	53	798	61	24	883
Insurance	2,090	595	2,685	676	266	3,627
Depreciation	984	280	1,264	319	125	1,708
Postage	139	31	170	35	14	219
Maintenance	2,786	2,220	5,006	895	352	6,253
Board expenses	6,393	1,820	8,213	2,069	814	11,096
Miscellaneous	432	123	555	140	55	750
Bank service charges	1,924	548	2,472	622	245	3,339
Total Expenses Before Loss	$ 7,682,714	$ 857,947	$ 8,540,661	$ 59,228	$ 43,019	$ 8,642,908

See accompanying notes

NAZARENE COMPASSIONATE MINISTRIES, INC.

STATEMENT OF CASH FLOWS
Year Ended September 30, 2015

Cash Flows from Operating Activities:	
Change in net assets	$ (564,566)
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation	1,708
Loss on pledges receivable	42,786
Change in assets and liabilities:	
Accounts and grants receivable	(146,874)
Pledges receivable	(40,043)
Inventory	475,915
Prepaid expenses	3,050
Accounts payable and accrued liabilities	18,829
Pass-thru contributions	41,750
Grant advances	(13,287)
Net Cash Used by Operating Activities	(180,732)
Cash Flows from Investing Activities:	
Net change in beneficial interest in foundation	33,865
Net Cash Provided by Investing Activities	33,865
Net Decrease in Cash	(146,867)
Cash Balance at Beginning of Period	225,470
Cash Balance at End of Period	$ 78,603

See accompanying notes

NAZARENE COMPASSIONATE MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS
September 30, 2015

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, Inc. (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 Accounting Standards Codification (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, 2015.

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 Organization adopted ASU 2013-06 for recording donated services provided by an affiliate. Donated services provided by an affiliate will be valued by the cost of services recorded by the affiliate. The actual benefit received or the fair value of these items has been reflected in the Statement of Activities as donated gifts-in-kind: 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, 2015 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.

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

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 $112,927 for the year ended September 30, 2015. 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, 2015 and reflected their effects, if any, in these financial statements through February 10, 2016, the date the financial statements were available to be issued.

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, 2015:

	Level 3	Total
Beneficial interest in foundation	$ 4,683	$ 4,683
Total	$ 4,683	$ 4,683

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:

September 30, 2014	$	38,548
Distribution		(34,110)
Change in beneficial interest		245
September 30, 2015	$	4,683

Total gains or losses for the year ended September 30, 2015 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, grant advances, and pass-thru contributions approximated fair value as of September 30, 2015 due to their short-term nature.

3. PLEDGES RECEIVABLE

Unconditional pledges expected to be collected in:		
Less than one year	$	166,073
Less allowance for uncollectible pledges		(67,828)
Net Pledges Receivable	$	98,245

4. PROPERTY AND EQUIPMENT

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

Furniture and equipment:		
U.S.A.	$	9,595
		9,595
Less accumulated depreciation		(6,422)
Net Property and Equipment	$	3,173

5. TEMPORARILY RESTRICTED NET ASSETS

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

Time restrictions – pledges receivable	$ 98,245
Time restrictions – beneficial interest in Foundation	4,683
Total Temporarily Restricted Net Assets	$ 102,928

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	$ 67,447
Time restrictions – beneficial interest in Foundation	34,110
International projects	48,208
Net Assets Released from Restrictions	$ 149,765

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 $18,442 for the year ended September 30, 2015.

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 2015, approximately 10% of the total revenues and 60% of the total monetary contributions were received from grants from the United States Government. 41% of the accounts receivable balance is related to grants or pass-thru grants from the United States Government.

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 2015, the Organization received funding from the Church for shipping donated products to relief areas in the amount of $67,608, for a capacity development newsletter project in the amount of $50,000, and $173,051 for other projects and cost reimbursements. Included in accounts and grants receivable is $91,748 due from the Church.

Administration - The Church provides certain non-compensatory administrative services to the Organization. The value of the administrative salaries was $24,151 for 2015. 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 2015 were $13,704.

9. CHANGE IN NET ASSETS

The change in net assets of ($564,566) includes expenses for disaster response and readiness shipments above the corresponding revenue. Revenue for disaster response was reported in prior years resulting in a positive change in net assets. For the nine months ended September 30, 2014, the increase in net assets was $389,655. Reducing inventory means the Organization provided additional relief to more people rather than storing relief supplies.