

**NAZARENE COMPASSIONATE MINISTRIES, INC.**

**FINANCIAL STATEMENTS**

**Year Ended September 30, 2016  
with  
Independent Auditors' Report**

# NAZARENE COMPASSIONATE MINISTRIES, INC.

## FINANCIAL STATEMENTS

September 30, 2016

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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.** (a Missouri non-profit corporation), which comprise the statement of financial position as of September 30, 2016, 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.

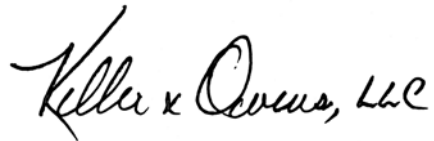
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **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, 2016, 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 Information**

We have previously audited **Nazarene Compassionate Ministries, Inc.**'s 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 10, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2015, 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  
March 10, 2017

# NAZARENE COMPASSIONATE MINISTRIES, INC.

## STATEMENT OF FINANCIAL POSITION

September 30, 2016

(With comparative totals as of September 30, 2015)

### ASSETS

	<u>2016</u>	<u>2015</u>
Current Assets:		
Cash	\$ 82,636	\$ 78,603
Prepaid expenses	122	-
Grants receivable	43,687	64,122
Accounts receivable - affiliate	10,999	91,748
Pledges receivable, net	73,028	98,245
Inventory	<u>395,509</u>	<u>306,757</u>
Total Current Assets	605,981	639,475
Property and Equipment, net	2,564	3,173
Beneficial Interest in foundation	<u>4,727</u>	<u>4,683</u>
Total Assets	<u>\$ 613,272</u>	<u>\$ 647,331</u>

### LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable and accrued liabilities	\$ 12,920	\$ 35,716
Grant advances	3,229	14,921
Pass-thru contributions	<u>35,824</u>	<u>41,750</u>
Total Current Liabilities	51,973	92,387
Net Assets:		
Unrestricted	465,534	452,016
Temporarily restricted	<u>95,765</u>	<u>102,928</u>
Total Net Assets	<u>561,299</u>	<u>554,944</u>
Total Liabilities and Net Assets	<u>\$ 613,272</u>	<u>\$ 647,331</u>

*See accompanying notes*

## NAZARENE COMPASSIONATE MINISTRIES, INC.

### STATEMENT OF ACTIVITIES

Year Ended September 30, 2016

(With comparative totals for the year ended September 30, 2015)

	2016			2015
	Unrestricted	Temporarily Restricted	Total	Total
Support and Revenue:				
Contributions and grants	\$ 1,190,296	\$ 192,603	\$ 1,382,899	\$ 1,340,867
Gifts-in-kind:				
Materials and goods	1,883,743	-	1,883,743	6,743,356
Facilities and services	30,364	-	30,364	36,838
Other income	35	-	35	67
Net assets released from restrictions	<u>162,437</u>	<u>(162,437)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	3,266,875	30,166	3,297,041	8,121,128
Expenses:				
Program services:				
International emergency relief and community development	1,873,036	-	1,873,036	7,682,714
U.S.A. emergency relief and community development	<u>1,301,152</u>	<u>-</u>	<u>1,301,152</u>	<u>857,947</u>
Total Program Services	3,174,188	-	3,174,188	8,540,661
Management and general	57,706	-	57,706	59,228
Fundraising	<u>21,463</u>	<u>-</u>	<u>21,463</u>	<u>43,019</u>
Total Expenses	3,253,357	-	3,253,357	8,642,908
Loss on Pledges Receivable	<u>-</u>	<u>37,329</u>	<u>37,329</u>	<u>42,786</u>
Change in Net Assets	13,518	(7,163)	6,355	(564,566)
Net Assets at Beginning of Period	<u>452,016</u>	<u>102,928</u>	<u>554,944</u>	<u>1,119,510</u>
Net Assets at End of Period	<u>\$ 465,534</u>	<u>\$ 95,765</u>	<u>\$ 561,299</u>	<u>\$ 554,944</u>

*See accompanying notes*

## NAZARENE COMPASSIONATE MINISTRIES, INC.

### STATEMENT OF FUNCTIONAL EXPENSES

Year Ended September 30, 2016

(With comparative totals for the year ended September 30, 2015)

	2016						2015 Total
	Program Services			Management and General	Fundraising	Total	
	International	U.S.A.	Sub-Total				
Donated materials distribution	\$ 1,023,157	\$ 771,628	\$ 1,794,785	\$ -	\$ -	\$ 1,794,785	\$ 7,219,271
Relief and community development	519,477	354,751	874,228	-	-	874,228	815,314
Donated facilities and services	17,237	7,664	24,901	4,556	907	30,364	36,837
Salaries and payroll taxes	171,371	109,741	281,112	28,797	10,945	320,854	343,534
Consultants	162	2,059	2,221	54	4,139	6,414	9,012
Employee benefits	58,216	20,020	78,236	11,862	2,361	92,459	83,503
Meetings and conferences	2,376	3,956	6,332	193	633	7,158	15,946
Rent	7,770	2,807	10,577	2,608	519	13,704	13,704
Supplies	1,359	216	1,575	141	28	1,744	2,435
Travel	39,175	18,979	58,154	1,529	304	59,987	47,573
Telephone	2,719	1,300	4,019	798	159	4,976	4,919
Professional fees	17,409	4,553	21,962	4,232	842	27,036	22,985
Publications and printing	2,695	-	2,695	-	-	2,695	883
Insurance	3,133	1,131	4,264	1,052	209	5,525	3,627
Depreciation	1,063	383	1,446	357	71	1,874	1,708
Postage	606	115	721	107	21	849	219
Maintenance	422	234	656	131	26	813	6,253
Board expenses	2,533	915	3,448	850	169	4,467	11,096
Bank service charges	1,978	636	2,614	379	118	3,111	3,339
Miscellaneous	178	64	242	60	12	314	750
 Total Expenses Before Loss	 \$ 1,873,036	 \$ 1,301,152	 \$ 3,174,188	 \$ 57,706	 \$ 21,463	 \$ 3,253,357	 \$ 8,642,908

*See accompanying notes*

## NAZARENE COMPASSIONATE MINISTRIES, INC.

### STATEMENT OF CASH FLOWS

Year Ended September 30, 2016

(With comparative totals for the year ended September 30, 2015)

	2016	2015
Cash Flows from Operating Activities:		
Change in net assets	\$ 6,355	\$ (564,566)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	1,874	1,708
Donated property and equipment	315	-
Loss on pledges receivable	37,329	42,786
Unrealized gain on beneficial interest in foundation	(44)	(245)
(Increase) decrease in:		
Accounts and grants receivable	101,184	(146,874)
Pledges receivable	(12,112)	(40,043)
Inventory	(88,752)	475,915
Prepaid expenses	(122)	3,050
(Decrease) increase in:		
Accounts payable and accrued liabilities	(22,796)	18,829
Grant advances	(11,692)	(13,287)
Pass-thru contributions	(5,926)	41,750
Net Cash Provided (Used) by Operating Activities	5,613	(180,977)
Cash Flows from Investing Activities:		
Disbursement from beneficial interest in foundation	-	34,110
Purchase of property and equipment	(1,580)	-
Net Cash (Used) Provided by Investing Activities	(1,580)	34,110
Net Increase (Decrease) in Cash	4,033	(146,867)
Cash at Beginning of Period	78,603	225,470
Cash at End of Period	\$ 82,636	\$ 78,603

*See accompanying notes*



# NAZARENE COMPASSIONATE MINISTRIES, INC.

## NOTES TO FINANCIAL STATEMENTS

September 30, 2016

### 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 and grant 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.

**Pledges receivable** - Unconditional promises to give 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 uncollectible pledges. The Organization estimates the allowance based on its historical experience of the relationship between actual collections 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, which requires the Organization 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, 2016 and 2015.

# NAZARENE COMPASSIONATE MINISTRIES, INC.

## NOTES TO FINANCIAL STATEMENTS

September 30, 2016

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

**Cash** – 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 Information** – The financial statements include certain prior year summarized comparative information in total, but not by net asset category. 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 September 30, 2015, 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 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 follows FASB ASC 958-720 *Services Received from the Personnel of an Affiliate* 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 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 *Income Taxes*, 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, 2016 and, accordingly, no liability has been accrued.

# NAZARENE COMPASSIONATE MINISTRIES, INC.

## NOTES TO FINANCIAL STATEMENTS

September 30, 2016

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

**Inventory** - Inventory consists of crisis care kits which include toiletries and other small sundry items, and school pal packs which include school supplies. 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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**Contributions and grants** - 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.

The federal grants received are reimbursement grants. The revenue is recognized when the related expenses are incurred.

**Subsequent events** – Management has evaluated events and transactions that have occurred since September 30, 2016 and reflected their effects, if any, in these financial statements through March 10, 2017, 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.

# NAZARENE COMPASSIONATE MINISTRIES, INC.

## NOTES TO FINANCIAL STATEMENTS

September 30, 2016

### 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, 2016:

	<u>Level 3</u>	<u>Total</u>
Beneficial interest in foundation	\$ <u>4,727</u>	\$ <u>4,727</u>
Total	\$ <u>4,727</u>	\$ <u>4,727</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 September 30, 2015:

	<u>Level 3</u>	<u>Total</u>
Beneficial interest in foundation	\$ <u>4,683</u>	\$ <u>4,683</u>
Total	\$ <u>4,683</u>	\$ <u>4,683</u>

# NAZARENE COMPASSIONATE MINISTRIES, INC.

## NOTES TO FINANCIAL STATEMENTS

September 30, 2016

### 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 at September 30, 2016:

September 30, 2015	\$	4,683
Distribution		-
Unrealized gain		44
September 30, 2016		<u>\$ 4,727</u>

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) include beneficial interest in foundation at September 30, 2015:

September 30, 2014	\$	38,548
Distribution		(34,110)
Unrealized gain		245
September 30, 2015		<u>\$ 4,683</u>

Total gains or losses for the year ended September 30, 2016 and 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 net asset 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, 2016 and 2015 due to their short-term nature.

### 3. GRANTS RECEIVABLE

Grants receivable consisted of the following at September 30:

	<u>2016</u>	<u>2015</u>
U.S. Department of Justice	\$ 9,843	\$ 59,122
U.S. Dept. of Health and Human Services (pass-through from Columbia University)	33,844	-
Private organizations	<u>-</u>	<u>5,000</u>
Grants Receivable	<u>\$ 43,687</u>	<u>\$ 64,122</u>

# NAZARENE COMPASSIONATE MINISTRIES, INC.

## NOTES TO FINANCIAL STATEMENTS

September 30, 2016

### 4. PLEDGES RECEIVABLE

	2016	2015
Unconditional pledges expected to be collected in:		
Less than one year	\$ 132,505	\$ 166,073
Less allowance for uncollectible pledges	(59,477)	(67,828)
Pledges Receivable, net	\$ 73,028	\$ 98,245

### 5. PROPERTY AND EQUIPMENT

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

Furniture and equipment:		
U.S.A.	\$ 8,876	\$ 9,595
	8,876	9,595
Less accumulated depreciation	(6,312)	(6,422)
Property and Equipment, net	\$ 2,564	\$ 3,173

Depreciation expense amounts to \$1,874 and \$1,708 for the years ended September 30, 2016 and 2015, respectively.

### 6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consists of the following:

Time restrictions – pledges receivable	\$ 73,028	\$ 98,245
Time restrictions – beneficial interest in foundation	4,727	4,683
International projects	18,010	-
Total Temporarily Restricted Net Assets	\$ 95,765	\$ 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	\$ 89,818	\$ 67,447
Time restrictions – beneficial interest in foundation	-	34,110
International projects	72,619	48,208
Net Assets Released from Restrictions	\$ 162,437	\$ 149,765

# NAZARENE COMPASSIONATE MINISTRIES, INC.

## NOTES TO FINANCIAL STATEMENTS

September 30, 2016

### 7. 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 \$15,958 and \$18,442 for the year ended September 30, 2016 and 2015, respectively.

### 8. 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 2016, approximately 26% of total support and revenue and 63% of the total monetary contributions and grants revenue were received from grants from the United States Government. 80% of the accounts receivable balance is related to grants or pass-thru grants from the United States Government.

During 2015, approximately 10% of total support and revenue and 60% of the total monetary contributions and grants revenue 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.

### 9. 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 2016, the Organization received funding from the Church for shipping donated products to relief areas in the amount of \$73,975, for a capacity development newsletter project in the amount of \$50,000, and \$138,794 for other projects and cost reimbursements. Included in accounts and grants receivable is \$10,999 due from the Church.

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.

# NAZARENE COMPASSIONATE MINISTRIES, INC.

## NOTES TO FINANCIAL STATEMENTS

September 30, 2016

### 9. RELATED PARTIES (continued)

**Administration** - The Church provides certain non-compensatory administrative services to the Organization. The value of the administrative salaries was \$23,938 and \$24,151 for 2016 and 2015, respectively. This was included in gifts-in-kind: facilities and services on the accompanying statement of activities.

**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 2016 and 2015 were \$13,704.