

NAZARENE COMPASSIONATE MINISTRIES, INC.

FINANCIAL STATEMENTS

**Year Ended September 30, 2017
with
Independent Auditors' Report**

NAZARENE COMPASSIONATE MINISTRIES, INC.

FINANCIAL STATEMENTS

September 30, 2017

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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, 2017, 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.

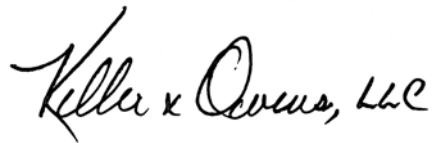
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2017, 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 the **Nazarene Compassionate Ministries, Inc.**'s 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 10, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2016, 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
February 6, 2018

NAZARENE COMPASSIONATE MINISTRIES, INC.

STATEMENT OF FINANCIAL POSITION

September 30, 2017

(With comparative totals as of September 30, 2016)

ASSETS

	<u>2017</u>	<u>2016</u>
Current Assets:		
Cash	\$ 41,733	\$ 82,636
Prepaid expenses	-	122
Grants receivable	110,758	43,687
Accounts receivable - affiliate	8,806	10,999
Pledges receivable, net	60,245	73,028
Inventory	266,106	395,509
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Total Current Assets	487,648	605,981
Property and Equipment, net	2,098	2,564
Beneficial Interest in foundation	5,057	4,727
	<hr/>	<hr/>
Total Assets	<u>\$ 494,803</u>	<u>\$ 613,272</u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable and accrued liabilities	\$ 110,717	\$ 12,920
Grant advances	-	3,229
Pass-thru contributions	-	35,824
	<hr/>	<hr/>
Total Current Liabilities	110,717	51,973
Net Assets:		
Unrestricted	318,784	465,534
Temporarily restricted	65,302	95,765
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Total Net Assets	384,086	561,299
	<hr/>	<hr/>
Total Liabilities and Net Assets	<u>\$ 494,803</u>	<u>\$ 613,272</u>

See accompanying notes

NAZARENE COMPASSIONATE MINISTRIES, INC.

STATEMENT OF ACTIVITIES

Year Ended September 30, 2017

(With comparative totals for the year ended September 30, 2016)

	2017			2016
	Unrestricted	Temporarily Restricted	Total	Total
Support and Revenue:				
Contributions and grants	\$ 1,019,147	\$ 266,210	\$ 1,285,357	\$ 1,382,899
Gifts-in-kind:				
Materials and goods	2,096,450	-	2,096,450	1,883,743
Facilities and services	27,646	-	27,646	30,364
Other income	1,443	-	1,443	35
Net assets released from restrictions	<u>254,987</u>	<u>(254,987)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	3,399,673	11,223	3,410,896	3,297,041
Expenses:				
Program services:				
International emergency relief and community development	2,062,717	-	2,062,717	1,873,036
U.S.A. emergency relief and community development	<u>1,394,377</u>	<u>-</u>	<u>1,394,377</u>	<u>1,301,152</u>
Total Program Services	3,457,094	-	3,457,094	3,174,188
Management and general	77,070	-	77,070	57,706
Fundraising	<u>12,259</u>	<u>-</u>	<u>12,259</u>	<u>21,463</u>
Total Expenses	3,546,423	-	3,546,423	3,253,357
Loss on Pledges Receivable	<u>-</u>	<u>41,686</u>	<u>41,686</u>	<u>37,329</u>
Change in Net Assets	(146,750)	(30,463)	(177,213)	6,355
Net Assets at Beginning of Period	<u>465,534</u>	<u>95,765</u>	<u>561,299</u>	<u>554,944</u>
Net Assets at End of Period	<u>\$ 318,784</u>	<u>\$ 65,302</u>	<u>\$ 384,086</u>	<u>\$ 561,299</u>

See accompanying notes

NAZARENE COMPASSIONATE MINISTRIES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended September 30, 2017

(With comparative totals for the year ended September 30, 2016)

	2017						2016 Total
	Program Services			Management and General	Fundraising	Total	
	International	U.S.A.	Sub-Total				
Donated materials distribution	\$ 1,336,689	\$ 889,164	\$ 2,225,853	\$ -	\$ -	\$ 2,225,853	\$ 1,794,785
Relief and community development	395,345	328,803	724,148	-	-	724,148	874,228
Donated facilities and services	14,704	7,566	22,270	5,046	330	27,646	30,364
Salaries and payroll taxes	175,857	93,079	268,936	43,440	2,811	315,187	320,854
Consultants	175	885	1,060	75	4,004	5,139	6,414
Employee benefits	48,086	26,272	74,358	11,802	758	86,918	92,459
Meetings and conferences	3,897	1,157	5,054	462	625	6,141	7,158
Rent	7,078	3,364	10,442	3,061	200	13,703	13,704
Supplies	1,793	1,246	3,039	253	17	3,309	1,744
Travel	29,670	30,798	60,468	2,612	171	63,251	59,987
Telephone	3,514	1,212	4,726	775	51	5,552	4,976
Professional fees	28,944	5,768	34,712	5,249	3,013	42,974	27,036
Publications and printing	6,910	3	6,913	2	-	6,915	2,695
Insurance	1,788	850	2,638	773	50	3,461	5,525
Depreciation	961	457	1,418	416	27	1,861	1,874
Postage	259	435	694	85	6	785	849
Maintenance	330	157	487	143	9	639	813
Board expenses	5,680	2,700	8,380	2,456	160	10,996	4,467
Bank service charges	1,037	461	1,498	420	27	1,945	3,111
Miscellaneous	-	-	-	-	-	-	314
Total Expenses Before Loss	<u>\$ 2,062,717</u>	<u>\$ 1,394,377</u>	<u>\$ 3,457,094</u>	<u>\$ 77,070</u>	<u>\$ 12,259</u>	<u>\$ 3,546,423</u>	<u>\$ 3,253,357</u>

See accompanying notes

NAZARENE COMPASSIONATE MINISTRIES, INC.

STATEMENT OF CASH FLOWS

Year Ended September 30, 2017

(With comparative totals for the year ended September 30, 2016)

	2017	2016
Cash Flows from Operating Activities:		
Change in net assets	\$ (177,213)	\$ 6,355
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	1,861	1,874
Donated property and equipment	-	315
Loss on pledges receivable	41,686	37,329
Unrealized gain on beneficial interest in foundation	(330)	(44)
(Increase) decrease in:		
Accounts and grants receivable	(64,878)	101,184
Pledges receivable	(28,903)	(12,112)
Inventory	129,403	(88,752)
Prepaid expenses	122	(122)
(Decrease) increase in:		
Accounts payable and accrued liabilities	97,797	(22,796)
Grant advances	(3,229)	(11,692)
Pass-thru contributions	(35,824)	(5,926)
Net Cash (Used) Provided by Operating Activities	(39,508)	5,613
Cash Flows from Investing Activities:		
Purchase of property and equipment	(1,395)	(1,580)
Net Cash Used by Investing Activities	(1,395)	(1,580)
Net (Decrease) Increase in Cash	(40,903)	4,033
Cash at Beginning of Period	82,636	78,603
Cash at End of Period	\$ 41,733	\$ 82,636

See accompanying notes

NAZARENE COMPASSIONATE MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

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 grants 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, 2017 and 2016.

NAZARENE COMPASSIONATE MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

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, 2016, 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, 2017 and, accordingly, no liability has been accrued.

NAZARENE COMPASSIONATE MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

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, 2017 and reflected their effects, if any, in these financial statements through February 6, 2018 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, 2017

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, 2017:

	<u>Level 3</u>	<u>Total</u>
Beneficial interest in foundation	\$ <u>5,057</u>	\$ <u>5,057</u>
Total	\$ <u>5,057</u>	\$ <u>5,057</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, 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>

NAZARENE COMPASSIONATE MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

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, 2017:

September 30, 2016	\$ 4,727
Unrealized gain	<u>330</u>
September 30, 2017	<u>\$ 5,057</u>

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
Unrealized gain	<u>44</u>
September 30, 2016	<u>\$ 4,727</u>

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. Beneficial interest in foundation is not immediately redeemable in the near future.

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, 2017 and 2016 due to their short-term nature.

3. GRANTS RECEIVABLE

Grants receivable consisted of the following at September 30:

	<u>2017</u>	<u>2016</u>
U.S. Department of Justice	\$ 61,600	\$ 9,843
U.S. Dept. of Health and Human Services (pass-through from Columbia University)	<u>49,158</u>	<u>33,844</u>
Grants Receivable	<u>\$ 110,758</u>	<u>\$ 43,687</u>

NAZARENE COMPASSIONATE MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

4. PLEDGES RECEIVABLE

	2017	2016
Unconditional pledges expected to be collected in:		
Less than one year	\$ 117,203	\$ 132,505
Less allowance for uncollectible pledges	(56,958)	(59,477)
Pledges Receivable, net	\$ 60,245	\$ 73,028

5. PROPERTY AND EQUIPMENT

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

Furniture and equipment:		
U.S.A.	\$ 8,927	\$ 8,876
	8,927	8,876
Less accumulated depreciation	(6,829)	(6,312)
Property and Equipment, net	\$ 2,098	\$ 2,564

Depreciation expense amounts to \$1,861 and \$1,874 for the years ended September 30, 2017 and 2016, respectively.

6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consists of the following:

Time restrictions – pledges receivable	\$ 60,245	\$ 73,028
Time restrictions – beneficial interest in foundation	5,057	4,727
International projects	-	18,010
Total Temporarily Restricted Net Assets	\$ 65,302	\$ 95,765

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	\$ 155,220	\$ 89,818
International projects	99,767	72,619
Net Assets Released from Restrictions	\$ 254,987	\$ 162,437

NAZARENE COMPASSIONATE MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

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 \$21,422 and \$15,958 for the year ended September 30, 2017 and 2016, 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 2017, approximately 26% of total support and revenue and 70% of the total monetary contributions and grants revenue were received from grants from the United States Government. 93% of the accounts receivable balance is related to grants or pass-thru grants from the United States Government.

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.

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 2017, the Organization received funding from the Church for shipping donated products to relief areas in the amount of \$123,443, for a capacity development newsletter project in the amount of \$50,000, and \$115,406 for other projects and cost reimbursements. Included in accounts and grants receivable is \$8,806 due from the Church.

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.

NAZARENE COMPASSIONATE MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

9. RELATED PARTIES (continued)

Administration - The Church provides certain non-compensatory administrative services to the Organization. The value of the administrative salaries was \$22,590 and \$23,938 for 2017 and 2016, 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 2017 and 2016 were \$13,703 and \$13,704, respectively.



Keller & Owens, LLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Nazarene Compassionate Ministries, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of **Nazarene Compassionate Ministries, Inc.** (a nonprofit organization), which comprise the statement of financial position as of September 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated FEBRUARY 6, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered **Nazarene Compassionate Ministries, Inc.**'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **Nazarene Compassionate Ministries, Inc.**'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

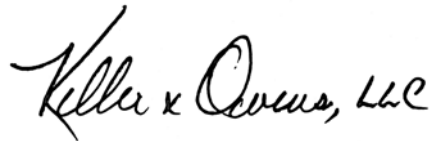
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Nazarene Compassionate Ministries, Inc.**'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Keller & Owens, LLC".

Overland Park, Kansas
February 6, 2018

NAZARENE COMPASSIONATE MINISTRIES, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended September 30, 2017

Part III - Financial Statement Findings

There are no financial statement or federal award findings in the current year.

NAZARENE COMPASSIONATE MINISTRIES, INC.

AUDITORS' COMMENTS ON AUDIT
RESOLUTION MATTERS RELATING TO THE FEDERAL PROGRAMS
Year Ended September 30, 2017

Part IV - Prior Year Findings

There were no financial statement or federal award findings in the prior year.