

NAZARENE COMPASSIONATE MINISTRIES, INC.

FINANCIAL STATEMENTS

**Year Ended September 30, 2022
with
Independent Auditors' Report**

NAZARENE COMPASSIONATE MINISTRIES, INC.

FINANCIAL STATEMENTS

September 30, 2022

CONTENTS

	<u>Page</u>
Independent Auditors' Report	1 – 3
Financial Statements:	
Statement of Financial Position	4
Statement of Activities	5
Statement of Functional Expenses	6
Statement of Cash Flows.....	7
Notes to Financial Statements.....	8 – 18



Keller & Owens, LLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Nazarene Compassionate Ministries, Inc.

Opinion

We have audited the accompanying financial statements of **Nazarene Compassionate Ministries, Inc.**, which comprise the statement of financial position as of September 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of **Nazarene Compassionate Ministries, Inc.** as of September 30, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of **Nazarene Compassionate Ministries, Inc.** and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2022, the entity adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2020-07, Not-for-Profit Entities (Topic 958) – *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about **Nazarene Compassionate Ministries, Inc.**'s ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

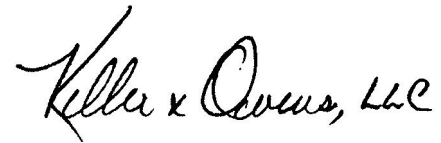
In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 **Nazarene Compassionate Ministries, Inc.**'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about **Nazarene Compassionate Ministries, Inc.**'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited **Nazarene Compassionate Ministries, Inc.**'s September 30, 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 28, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2021 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
January 19, 2023

NAZARENE COMPASSIONATE MINISTRIES, INC.

STATEMENT OF FINANCIAL POSITION

September 30, 2022

(With comparative totals as of September 30, 2021)

ASSETS

	<u>2022</u>	<u>2021</u>
Current Assets:		
Cash	\$ 24,712	\$ 104,910
Contributions receivable	17,603	20,486
Accounts receivable - affiliate	114,258	12,332
Inventory	<u>344,463</u>	<u>311,268</u>
Total Current Assets	501,036	448,996
Property and Equipment, net	-	1,270
Beneficial Interest in Foundation	<u>3,906</u>	<u>5,788</u>
Total Assets	<u>\$ 504,942</u>	<u>\$ 456,054</u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable and accrued liabilities	\$ 16,146	\$ 54,361
Refundable advances	<u>10,265</u>	<u>4,787</u>
Total Current Liabilities	26,411	59,148
Net Assets:		
Without donor restrictions	457,022	370,632
With donor restrictions	<u>21,509</u>	<u>26,274</u>
Total Net Assets	<u>478,531</u>	<u>396,906</u>
Total Liabilities and Net Assets	<u>\$ 504,942</u>	<u>\$ 456,054</u>

See accompanying notes

NAZARENE COMPASSIONATE MINISTRIES, INC.

STATEMENT OF ACTIVITIES

Year Ended September 30, 2022

(With comparative totals for the year ended September 30, 2021)

	2022		Total	2021 Total
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions		
Support and Revenue:				
Contributions and grants	\$ 799,841	\$ 30,653	\$ 830,494	\$ 1,059,303
Contributed nonfinancial assets:				
Materials and goods	1,516,578	-	1,516,578	790,173
Facilities and services	34,867	-	34,867	31,158
Investment return, net	-	(1,882)	(1,882)	1,025
Net assets released from restrictions	20,626	(20,626)	-	-
Total Support and Revenue	2,371,912	8,145	2,380,057	1,881,659
Expenses:				
Program services:				
International emergency relief and community development	2,141,565	-	2,141,565	1,244,391
U.S.A. emergency relief and community development	102,791	-	102,791	425,728
Total Program Services	2,244,356	-	2,244,356	1,670,119
Supporting services:				
Management and general	40,037	-	40,037	68,684
Fundraising	1,129	-	1,129	3,800
Total Supporting Services	41,166	-	41,166	72,484
Total Expenses	2,285,522	-	2,285,522	1,742,603
Loss on Contributions Receivable	-	12,910	12,910	34,324
Change in Net Assets	86,390	(4,765)	81,625	104,732
Net Assets at Beginning of Year	370,632	26,274	396,906	292,174
Net Assets at End of Year	\$ 457,022	\$ 21,509	\$ 478,531	\$ 396,906

See accompanying notes

NAZARENE COMPASSIONATE MINISTRIES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended September 30, 2022

(With comparative totals for the year ended September 30, 2021)

	2022							2021 Total
	Program Services			Supporting Services			Total	
	Emergency Relief and Community Development		Sub-Total	Management and General		Fundraising		
	International	U.S.A.		and General	Fundraising			
Donated materials distribution	\$ 1,480,023	\$ 3,360	\$ 1,483,383	\$ -	\$ -	\$ 1,483,383	\$ 645,617	
Relief and community development	120,069	63,259	183,328	-	-	183,328	459,786	
Salaries and payroll taxes	257,128	19,438	276,566	21,514	-	298,080	327,934	
Employee benefits	71,649	2,191	73,840	2,425	-	76,265	104,750	
Consultants	104,328	-	104,328	-	-	104,328	103,678	
Donated facilities and services	24,209	5,059	29,268	5,599	-	34,867	31,158	
Professional fees	12,926	3,611	16,537	3,998	1,129	21,664	21,725	
Travel	48,094	609	48,703	674	-	49,377	5,810	
Rent	8,627	2,410	11,037	2,668	-	13,705	13,704	
Meetings and conferences	1,689	447	2,136	495	-	2,631	9,433	
Insurance	4,929	1,342	6,271	1,485	-	7,756	6,589	
Telephone	4,517	361	4,878	400	-	5,278	4,871	
Supplies	1,302	205	1,507	227	-	1,734	1,735	
Publications and printing	63	-	63	-	-	63	3,099	
Bank service charges	870	243	1,113	269	-	1,382	1,478	
Board expenses	558	156	714	173	-	887	-	
Depreciation	481	81	562	89	-	651	1,029	
Postage	87	15	102	16	-	118	168	
Miscellaneous	16	4	20	5	-	25	39	
	<u>\$ 2,141,565</u>	<u>\$ 102,791</u>	<u>\$ 2,244,356</u>	<u>\$ 40,037</u>	<u>\$ 1,129</u>	<u>\$ 2,285,522</u>	<u>\$ 1,742,603</u>	
Total Expenses								

See accompanying notes

NAZARENE COMPASSIONATE MINISTRIES, INC.

STATEMENT OF CASH FLOWS

Year Ended September 30, 2022

(With comparative totals for the year ended September 30, 2021)

	2022	2021
Cash Flows from Operating Activities:		
Change in net assets	\$ 81,625	\$ 104,732
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	651	1,029
Loss on contributions receivable	12,910	34,324
Unrealized gain on beneficial interest in foundation	1,882	(1,025)
(Increase) decrease in:		
Accounts receivable	(101,926)	1,266
Contributions receivable	(10,027)	(12,409)
Inventory	(33,195)	(144,556)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(38,215)	44,622
Refundable advances	5,478	4,787
Net Cash (Used) Provided by Operating Activities	(80,817)	32,770
Cash Flows from Investing Activities:		
Proceeds from sales	619	-
Net Cash Provided by Investing Activities	619	-
Net (Decrease) Increase in Cash	(80,198)	32,770
Cash at Beginning of Year	104,910	72,140
Cash at End of Year	\$ 24,712	\$ 104,910

See accompanying notes

NAZARENE COMPASSIONATE MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2022

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 Receivable – Accounts receivable are stated at net realizable value and consist of amounts due from an affiliate. 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 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.

Basis of Accounting and Presentation – The Organization prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

In order to observe restrictions which donors place on grants and other gifts, as well as designations made by the Board of Directors, all assets, liabilities, and support and revenue are accounted for in the following net asset classifications:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization’s management and the board of directors.

Net assets with donor restrictions – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

NAZARENE COMPASSIONATE MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2022

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.

Change in Accounting Principle – During the year ended September 30, 2022, the Organization adopted the provisions of Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2020-07, Not-for Profit Entities (Topic 958) – Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets. This ASU improves generally accepted accounting principles (GAAP) by increasing the transparency of contributed nonfinancial assets for not-for-profit (NFP) entities through enhancements to presentation and disclosure. The amendments in this Update address certain stakeholders’ concerns about the lack of transparency about the measurement of contributed nonfinancial assets recognized by NFPs, as well as the amount of those contributions used in a NFP’s programs and other activities. The amendments in this update should be applied on a retrospective basis.

Comparative Financial Information – The financial statements are presented with certain prior year summarized comparative information. 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, 2021, from which the summarized information was derived.

Contributed Nonfinancial Assets – 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 estimates the rental payments to be the market price based on other commercial real estate rental listing. 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 Accounting Standards Codification (“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 contributed nonfinancial assets: facilities and services.

NAZARENE COMPASSIONATE MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2022

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

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.

Functional Expenses – The Organization allocates expense on a functional basis among the various programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated by management's estimate of resources devoted to the program or support service, requiring allocation on a reasonable basis that is consistently applied. Donated materials distribution, and relief and community development are directly allocated to their natural expenditure classification. The remaining expenses are allocated on the basis of estimates of time and effort as determined by the labor distribution reports.

The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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.

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, 2022, and, accordingly, no liability has been accrued.

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 lower of cost or fair value at date usability is determined.

NAZARENE COMPASSIONATE MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2022

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

Promises to Give – Unconditional promises to give are generally expected to be collected within one year and are recorded at net realizable value. Pledges receivable are stated at 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.

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 a 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	3 – 10 years
-------------------------	--------------

Gifts of land, buildings, equipment, and other long-lived assets are also reported as net assets without restrictions, 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 net assets with donor restrictions as net assets without donor restrictions are reported when the long-lived assets are placed in service.

Revenue Recognition – The Organization recognizes contributions when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. Government grant revenues are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses. The Organization adopted the simultaneous release option for donor-restricted conditional grants that are recognized and used within the same reporting period; therefore, these amounts are reported as without donor restriction.

Subsequent Events – Management has evaluated events and transactions that have occurred since September 30, 2022, and reflected their effects, if any, in these financial statements through January 19, 2023 the date the financial statements were available to be issued.

NAZARENE COMPASSIONATE MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2022

2. LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the date of the statement of financial position, comprise the following:

	<u>2022</u>	<u>2021</u>
Financial assets at period end:		
Cash	\$ 24,712	\$ 104,910
Accounts receivable – affiliate	114,258	12,332
Contributions receivable, net	<u>17,603</u>	<u>20,486</u>
Total financial assets	156,573	137,728
Amounts not available to be used within one year:		
Donor-restricted for long-term purposes	<u>(17,603)</u>	<u>(20,486)</u>
Total financial assets not available to be used within one year	<u>(17,603)</u>	<u>(20,486)</u>
Financial Assets Available to Meet General Expenditures within One Year	<u>\$ 138,970</u>	<u>\$ 117,242</u>

The Organization receives significant contributions and promises to give restricted by donors, and considers contributions restricted for programs which are ongoing, major, and central to its operations to be available to meet cash needs for general expenditures. The Organization manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

In addition to financial assets available to meet general expenditures over the next 12 months, the Organization operates with a balanced operating budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted sources.

3. 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:

NAZARENE COMPASSIONATE MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2022

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

- 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, 2022:

	<u>Level 3</u>	<u>Total</u>
Beneficial interest at the foundation	\$ 3,906	\$ 3,906
Total	<u>\$ 3,906</u>	<u>\$ 3,906</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, 2021:

	<u>Level 3</u>	<u>Total</u>
Beneficial interest at the foundation	\$ 5,788	\$ 5,788
Total	<u>\$ 5,788</u>	<u>\$ 5,788</u>

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) include beneficial interest at the foundation at September 30, 2022:

September 30, 2021	\$ 5,788
Unrealized loss	<u>(1,882)</u>
September 30, 2022	<u>\$ 3,906</u>

NAZARENE COMPASSIONATE MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2022

3. 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 at the foundation at September 30, 2021:

September 30, 2020	\$	4,763
Unrealized gain		<u>1,025</u>
September 30, 2021		<u><u>\$ 5,788</u></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 at the foundation is not immediately redeemable in the near future.

4. PROMISES TO GIVE

Unconditional promises to give consisted of the following at September 30:

	<u>2022</u>	<u>2021</u>
Unconditional promises to give expected to be collected in: less than one year	\$ 43,138	\$ 49,358
Less allowance for uncollectible promises to give	<u>(25,535)</u>	<u>(28,872)</u>
Promises to Give, net	<u><u>\$ 17,603</u></u>	<u><u>\$ 20,486</u></u>

Conditional promises to give consisted of the following at September 30:

Collected and unspent (refundable advances)	\$ 10,265	\$ 4,787
Amounts yet to be collected	<u>-</u>	<u>12,492</u>
Total Conditional Promises to Give	<u><u>\$ 10,265</u></u>	<u><u>\$ 17,279</u></u>

NAZARENE COMPASSIONATE MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2022

5. PROPERTY AND EQUIPMENT

Property and equipment is described in Note 1 and includes the following at September 30:

	<u>2022</u>	<u>2021</u>
Furniture and equipment	\$ 7,760	\$ 9,155
Less accumulated depreciation	<u>(7,760)</u>	<u>(7,885)</u>
Property and Equipment, net	<u>\$ -</u>	<u>\$ 1,270</u>

Depreciation expense amounted to \$651 and \$1,029 for the years ended September 30, 2022 and 2021, respectively.

6. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following:

Time restrictions – pledges receivable	\$ 17,603	\$ 20,486
Time restrictions – beneficial interest in foundation	<u>3,906</u>	<u>5,788</u>
Total Net Assets with Restrictions	<u>\$ 21,509</u>	<u>\$ 26,274</u>

The sources of net assets released from net assets with donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of events specified by the donors were as follows for the years ended September 30:

Time restrictions – pledges receivable	<u>\$ 20,626</u>	<u>\$ 26,555</u>
Net Assets Released from Restrictions	<u>\$ 20,626</u>	<u>\$ 26,555</u>

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 \$10,614 and \$13,716 for the year ended September 30, 2022 and 2021, respectively.

NAZARENE COMPASSIONATE MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2022

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. The Organization routinely assesses the financial strength of its receivables and, as a consequence, believes its credit risk exposure is limited.

During 2022 the Organization did not receive any government funds. During 2021, approximately 9% of total support and revenue and 16% of the total monetary contributions and grants revenue were received from grants from the United States Government. None of the contributions receivable balance is related to grants or pass-thru grants from the United States Government.

9. RELATED PARTY TRANSACTIONS

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 2022, the Organization received funding from the Church for shipping donated products to relief areas in the amount of \$108,180, warehouse expenses in the amount of \$4,500, relief for Nepal in the amount of \$77,218, Afghanistan Refugee costs in the amount of \$5,787, a program grant in the amount of \$430,000, and HSA Employer costs totaling \$1,099. Included in accounts receivable – affiliate is \$114,258 due from the Church. In 2022, 75% of the monetary contributions and grants and 26% of the total support and revenue were received from the Church.

In 2021, the Organization received funding from the Church for shipping donated products to relief areas in the amount of \$58,094, relief funds for Nepal in the amount of \$93,128, and a program grant in the amount of \$490,000. Included in accounts receivable – affiliate is \$12,332 due from the Church. In 2021, 61% of the monetary contributions and grants and 34% of the total support and revenue were received from the Church.

Administration – The Church provided certain non-compensatory administrative services to the Organization. The value of the administrative salaries was \$27,432 and \$26,460 for 2022 and 2021, 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 2022 and 2021 were \$13,704.

NAZARENE COMPASSIONATE MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2022

9. RELATED PARTY TRANSACTIONS (continued)

Accounts Payable – \$781 in accounts payable is due to the Church at September 30, 2022. At September 30, 2021, \$40,880 was due to the Church for the Haiti Earthquake Relief project.

10. NEW ACCOUNTING PRONOUNCEMENTS

ASU 2016-02, Leases

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The amendments in this ASU are to be applied using a modified retrospective approach. Subsequent ASUs have allowed for an option for organizations to initially adopt the standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of net assets in the period of adoption.

In June 2020, the FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, which deferred the effective date for certain entities to fiscal years beginning after December 15, 2021. Early application continues to be allowed.

ASU 2016-13, Financial Instruments – Credit Losses

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This standard requires application of the current expected credit loss (“CECL”) methodology for the measurement of credit losses on financial assets measured at amortized cost. The CECL methodology replaces the previous incurred loss methodology. It also modifies the accounting for available-for-sale debt securities, which must be individually assessed for credit losses when fair value is less than the amortized cost basis. This standard is effective for annual reporting periods beginning after December 15, 2020. The standard is applied on a modified retrospective approach.

In November 2019, the FASB issued ASU No. 2019-10, *Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*, which deferred the effective date of the new CECL standard. The new standard is effective for fiscal years beginning after December 15, 2022.

The Organization is evaluating the effect that these standards will have on its financial statements and related disclosures.

NAZARENE COMPASSIONATE MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2022

11. SUBSEQUENT EVENTS

On October 1, 2022, the Organization entered into two one-year consulting contracts of which the underlying contractors are elders of the Church, a related party. The first contract consists of twelve monthly payments of \$1,126. The second contract consists of twelve monthly payments of \$7,014. The Organization is expected to pay \$13,510 and \$84,168 on these contracts during the year ended September 30, 2022, respectively. Both contracts can be terminated with sixty days written notice by either party, and are renewable up to an additional thirty-six months.