

CHILDREN OF THE NATIONS

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

DECEMBER 31, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Children of the Nations

We have audited the accompanying financial statements of Children of the Nations (a nonprofit organization), which comprise the statement of financial position as of December 31, 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. The prior year summarized comparative information has been derived from the Organization's December 31, 2016 financial statements and, in an opinion dated November 15, 2017 that expressed an unqualified opinion on those 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.

Auditor's 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 auditor's 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 Children of the Nations as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in a material respects, with the audited financial statements from which it has been derived.

Clarke Whitney, CPA, Inc.

Clarke Whitney, CPA, Inc.
Bremerton, Washington
August 20, 2018

CHILDREN OF THE NATIONS
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017
WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2016

Assets	<u>2017</u>	<u>2016</u>
Current assets		
Cash and cash equivalents	\$ 2,271,350	\$ 2,109,509
Pledges receivable (net of allowance for doubtful accounts 2017 \$531,369 and 2016 \$702,920)	2,431,590	2,392,282
Inventory	263,520	105,065
Prepaid expenses	<u>16,018</u>	<u>5,377</u>
Total current assets	4,982,478	4,612,233
Property and equipment		
Land	75,000	75,000
Buildings	473,881	473,881
Equipment	40,292	53,953
Vehicles	<u>31,388</u>	<u>47,208</u>
	620,561	650,042
Less accumulated depreciation	<u>(197,226)</u>	<u>(200,240)</u>
Net property and equipment	<u>423,335</u>	<u>449,802</u>
Total assets	<u>\$ 5,405,813</u>	<u>\$ 5,062,035</u>
Liabilities and Net Assets		
	<u>2017</u>	<u>2016</u>
Current liabilities		
Accounts payable	\$ 55,068	\$ 81,411
Accrued payroll and payroll taxes	<u>53,991</u>	<u>51,061</u>
Total current liabilities	109,059	132,472
Lease liability	<u>9,473</u>	<u>13,230</u>
Total liabilities	118,532	145,702
Net assets		
Unrestricted	3,448,171	3,078,527
Temporarily restricted	1,814,110	1,812,806
Permanently restricted	<u>25,000</u>	<u>25,000</u>
Total net assets	<u>5,287,281</u>	<u>4,916,333</u>
Total liabilities and net assets	<u>\$ 5,405,813</u>	<u>\$ 5,062,035</u>

See the accompanying notes to the financial statements and independent auditor's report.

CHILDREN OF THE NATIONS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total	2016 Total
Contributions and other revenues					
Contributions					
General support	\$ 3,130,267	\$ 1,507,121	\$ -	\$ 4,637,388	\$ 5,016,885
Dominican Republic support	-	1,242,774	-	1,242,774	857,054
In-kind equipment and supplies	-	539,411	-	539,411	747,300
Malawi support	-	971,267	-	971,267	849,440
Sierra Leone support	-	489,546	-	489,546	522,392
Contributed skilled services	-	638,215	-	638,215	690,945
Uganda support	-	620,356	-	620,356	483,600
Interest	579	-	-	579	612
Reclassifications					
Satisfaction of purpose restrictions	6,007,386	(6,007,386)	-	-	-
Total contributions and other revenues	<u>9,138,232</u>	<u>1,304</u>	<u>-</u>	<u>9,139,536</u>	<u>9,168,228</u>
Expenses					
Program services					
International	3,191,571	-	-	3,191,571	3,722,963
Dominican Republic	1,493,820	-	-	1,493,820	1,635,666
Malawi	1,160,824	-	-	1,160,824	1,519,242
Sierra Leone	966,985	-	-	966,985	978,406
Uganda	697,704	-	-	697,704	705,363
Supporting services					
Management and general	551,144	-	-	551,144	560,830
Fundraising	706,540	-	-	706,540	624,585
Total expenses	<u>8,768,588</u>	<u>-</u>	<u>-</u>	<u>8,768,588</u>	<u>9,747,055</u>
Change in net assets	369,644	1,304	-	370,948	(578,827)
Net assets at beginning of year	<u>3,078,527</u>	<u>1,812,806</u>	<u>25,000</u>	<u>4,916,333</u>	<u>5,495,160</u>
Net assets at end of year	<u>\$ 3,448,171</u>	<u>\$ 1,814,110</u>	<u>\$ 25,000</u>	<u>\$ 5,287,281</u>	<u>\$ 4,916,333</u>

See the accompanying notes to the financial statements and independent auditor's report.

CHILDREN OF THE NATIONS
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Program Services</u>					<u>Supporting Services</u>			<u>2017</u> <u>Total</u>	<u>2016</u> <u>Total</u>	
	<u>International</u>	<u>Dominican</u> <u>Republic</u>	<u>Malawi</u>	<u>Sierra</u> <u>Leone</u>	<u>Uganda</u>	<u>Total</u>	<u>Management</u> <u>and General</u>	<u>Fundraising</u>			<u>Total</u>
Salaries, taxes & benefits	\$ 1,641,657	\$ -	\$ -	\$ -	\$ -	\$ 1,641,657	\$ 351,026	\$ 286,855	\$ 637,881	\$ 2,279,538	\$ 2,216,769
Administrative	-	257,846	246,526	99,406	161,372	765,150	-	-	-	765,150	870,390
Children's homes	-	-	152,557	67,592	55,323	275,472	-	-	-	275,472	237,392
Clinic	-	34,609	-	-	-	34,609	-	-	-	34,609	32,600
Communications	14,323	-	-	-	-	14,323	7,162	9,075	16,237	30,560	46,061
Contributed skilled services	135,111	300,500	37,600	114,010	9,930	597,151	41,064	-	41,064	638,215	690,945
Depreciation	-	-	-	-	-	-	25,180	-	25,180	25,180	29,590
Education	8,787	53,656	257,828	29,882	167,374	517,527	-	-	-	517,527	689,425
Evangelism	118,216	22,630	22,854	13,162	18,438	195,300	-	-	-	195,300	71,663
Farm	-	-	3,448	-	-	3,448	-	-	-	3,448	2,247
In-kind equipment and supplies	2,544	83,372	101,314	217,469	19,655	424,354	16,071	-	16,071	440,425	614,496
Interest	-	-	-	-	-	-	807	-	807	807	1,060
Other expenses	577,268	82,947	64,826	32,674	41,405	799,120	26,625	282,074	308,699	1,107,819	1,525,619
Other projects	94,267	271,142	88,048	154,935	107,349	715,741	-	-	-	715,741	599,747
Printing and publications	-	-	-	-	-	-	-	87,168	87,168	87,168	5,442
Professional fees	-	-	-	-	-	-	13,557	-	13,557	13,557	20,787
Program facilities	75,866	-	-	-	-	75,866	14,733	-	14,733	90,599	157,070
Supplies	-	-	-	-	-	-	43,671	10,888	54,559	54,559	63,914
Travel and conferences	107,779	-	-	-	-	107,779	11,248	30,480	41,728	149,507	221,393
Vehicles	-	-	-	-	-	-	-	-	-	-	7,480
Venture teams	357,293	232,810	83,140	23,129	100,641	797,013	-	-	-	797,013	810,646
Villages	58,460	154,308	102,683	214,726	16,217	546,394	-	-	-	546,394	832,319
Total expenses	\$ 3,191,571	\$ 1,493,820	\$ 1,160,824	\$ 966,985	\$ 697,704	\$ 7,510,904	\$ 551,144	\$ 706,540	\$ 1,257,684	\$ 8,768,588	\$ 9,747,055

See the accompanying notes to the financial statements and independent auditor's report.

CHILDREN OF THE NATIONS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Change in net assets	\$ 370,948	\$ (578,827)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	25,180	29,590
Loss on disposal of equipment	-	14,221
(Increase) decrease in assets:		
Pledges receivable	(39,308)	43,612
Inventory	(158,455)	(7,669)
Prepaid expenses	(10,641)	2,689
Increase (decrease) in:		
Accounts payable	(26,343)	18,287
Accrued payroll and payroll taxes	<u>2,930</u>	<u>26,261</u>
Net cash provided (used) by operating activities	164,312	(451,836)
Cash flows from investing activities		
Investment in property and equipment	(5,431)	-
Proceeds on sale of equipment	<u>6,717</u>	<u>-</u>
Net cash provided by investing activities	1,286	-
Cash flows from financing activities		
Payment on lease liability	<u>(3,757)</u>	<u>(3,503)</u>
Net cash used by financing activities	<u>(3,757)</u>	<u>(3,503)</u>
Net change in cash	161,841	(455,339)
Cash, beginning of year	<u>2,109,509</u>	<u>2,564,848</u>
Cash, end of year	<u>\$ 2,271,350</u>	<u>\$ 2,109,509</u>
Supplemental information:		
Cash paid for interest	\$ 807	\$ 1,060

See the accompanying notes to the financial statements and independent auditor's report.

**CHILDREN OF THE NATIONS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Operations

Children of the Nations (the Organization) is incorporated as a non-profit corporation. Its mission statement is to provide holistic Christ-centered care for orphaned and destitute children, enabling them to create positive and lasting change in their nations. The locations of operations include the headquarters in Silverdale, Washington and offices in Seattle, California, Colorado, Connecticut, Florida, Georgia, Illinois, Massachusetts, Nebraska, Ohio, Oklahoma, Oregon, and Texas.

The organization directly supports, through financial and organizational resources, foreign aid non-governmental organizations (NGOs) in the Dominican Republic, Malawi, Sierra Leone and Uganda. These organizations are separate legal entities from Children of the Nations (USA) with separate audited financial statements and are registered in their respective countries. The organization has applied for NGO status in Haiti but is still waiting for approval from the country.

Basis of Accounting

The Organization has adopted a policy of preparing its financial statements in accordance with generally accepted accounting principles. 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 in its Accounting Standards Codification (ASC) 958.205, "Financial Statements of Not-for-Profit Organizations". Under ASC 958.205, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted net assets.

Unrestricted net assets include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operations of the Organization and include both internally designated and undesignated resources.

Temporarily restricted net assets include revenue and contributions subject to donor-imposed restrictions that will be met by the actions of the Organization and/or the passage of time. When a restriction is satisfied or expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as "Satisfaction of purpose restrictions".

CHILDREN OF THE NATIONS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation - Continued

Permanently restricted net assets include contributions and other inflows of assets whose use by the organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the organization.

Comparative Financial Statements

The amounts shown for the year ended December 31, 2016 in the accompanying financial statements are included to provide a basis for comparison with 2017 and present summarized totals only. Accordingly, the 2016 totals are not intended to present all information necessary for a fair presentation in conformity with accounting principles generally accepted in the United States of America. Such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with maturity of one year or less to be cash equivalents. These financial instruments are valued at fair market value due to their short-term maturity and low risk nature.

Inventory

The Organization receives donations of food, equipment and supplies, which are recognized in the financial statements as in-kind contributions in accordance with ASC 958, "Accounting for Contributions Received and Contributions Made". Additionally, as required, donated inventory consisting of food, equipment and supplies are valued in the financial statements at their estimated value, which was \$263,520 at December 31, 2017.

Food inventory is valued based on an estimate of the number of pounds and an estimated price per pound. Inventory consisting of equipment and supplies is based on an estimated value as determined by management. Purchased inventory is valued at cost.

CHILDREN OF THE NATIONS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment are stated at cost if purchased and fair market value if donated. Vehicles are stated at fair market value if retained by the Organization or subsequent sale price if immediately sold. Property and equipment are depreciated using the straight-line method over the following estimated useful lives:

Buildings	39 years
Equipment	3 to 7 years
Vehicles	5 years

Assets constructed or purchased for foreign aid NGOs are not reported as assets of Children of the Nations (USA). Rather, they are listed as expenses of the Organization to support the foreign aid NGOs.

Contributions

The Organization accounts for contributions in accordance with the recommendations of the Financial Accounting Standards Board in its ASC 958.605, "Accounting for Contributions Received and Contributions Made". In accordance with ASC 958.605, contributions received are recorded as unrestricted or temporarily restricted depending on the existence and/or nature of any donor restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions.

Donated services are recognized as contributions in accordance with ASC 958.605, if the services create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Volunteers provided general office and administrative support throughout the year that were not recognized as contributions in the financial statements since the recognition criteria under ASC 958 were not met. The Organization tracks the professional services provided by medical teams, counselors, teachers, construction contractors, lawyers and accountants. The total of these donated services for 2017 was \$638,215.

Functional Allocation of Expenses

The costs of providing the services and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated to the program and supporting services benefited.

CHILDREN OF THE NATIONS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Federal Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and has been classified by the Internal Revenue Service as a not for profit organization and is not classified as a “private foundation” within the meaning of Section 509(a) of the Internal Revenue Code.

Management evaluated the Organization’s tax positions and concluded that the Organization had taken no uncertain tax positions that require adjustment to the financial statements. The Organization’s income tax returns are generally subject to review and examination by federal tax authorities for the previous three years.

NOTE 2 - CONCENTRATION OF CREDIT RISK

The Organization maintains significant cash balances at financial institutions. The Federal Deposit Insurance Corporation (FDIC) has provided coverage up to \$250,000 per depositor in 2017. As a result, the Organization has a concentration of credit risk in the amount of \$1,696,397 as of December 31, 2017.

NOTE 3 - PLEDGES RECEIVABLE

Pledges receivable consist of all pledges payable made by individuals or groups to contribute a certain amount of money for child sponsorship to the Organization. The Organization’s policy is to record as pledges all recurring sponsorship commitments that will occur during the following year. An allowance for doubtful account in relation to pledges receivable is calculated based on the collection of pledges over a three year period and resulted in an allowance for doubtful account balance of \$531,369 as of December 31, 2017. The total amount of bad debts associated to pledges receivable was also \$531,369 for the year ended December 31, 2017.

NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2017 temporarily restricted net assets consisted of the following:

International	\$ 797,157
Dominican Republic	387,558
Malawi	112,659
Sierra Leone	268,563
Uganda	248,173
	<u>\$ 1,814,110</u>

**CHILDREN OF THE NATIONS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5 - PERMANENTLY RESTRICTED NET ASSETS

At December 31, 2017 permanently restricted net assets consisted of an endowment fund with a balance of \$25,000.

NOTE 6 - PROPERTY AND EQUIPMENT, NET

Management has determined that the only assets owned and controlled by the Organization are those used by the Organization's United States operations to support the foreign aid NGOs. Any assets purchased or developed on behalf of any foreign aid NGO, residing overseas, are treated as expenses of the Organization to fulfill its mission and purpose. Assets residing overseas are listed as fixed assets on the foreign aid NGO's audited financial statements.

NOTE 7 - CAPITAL LEASES

The Organization entered into a capital lease for copy machines with Marlin Leasing Corporation on December 17, 2014 for a term of 63 months. This capital lease was capitalized with a combined cost of \$20,000. The amount of expenses incurred under this lease for the year ended December 31, 2017 was \$4,146 and \$807 for interest. The interest rate on this capital lease was assessed at 7.00%, based on the company's expected interest rate. The copiers are depreciated over the lease terms. Depreciation of the copiers for the year ended December 31, 2017 is as follows:

	<u>2017</u>
Equipment	\$ 20,000
Less: accumulated depreciation	<u>(11,840)</u>
	<u><u>\$ 8,160</u></u>

Minimum future lease payments under this capital leases as of December 31, 2017 are as follows:

Year Ended December 31,	
2018	\$ 8,415
2019	8,415
2020	<u>2,104</u>
Total minimum lease payments	18,934
Less: amounts representing interest	(794)
Less: amounts representing operating fees	<u>(8,667)</u>
Present value of net minimum lease	<u><u>\$ 9,473</u></u>

CHILDREN OF THE NATIONS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 8 - SUBSEQUENT EVENTS

The Organization has performed an evaluation of subsequent events through August 20, 2018, which is the date the financial statements were available to be issued, and has determined that there are no subsequent events that require disclosure.