

CHILDREN OF THE NATIONS

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS

DECEMBER 31, 2015 & 2014

Gintz Warner, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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GINTZ WARNER PLLC

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Children of the Nations

Report on the Financial Statements

We have audited the accompanying statements of financial position of Children of the Nations (a nonprofit organization) as of December 31, 2015 and 2014 and the related statements of activities, functional expenses and cash flows for the years 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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.

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, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Gintz Warner, PLLC

Gintz Warner, PLLC
August 1, 2016

CHILDREN OF THE NATIONS
STATEMENTS OF FINANCIAL POSITION

ASSETS

	December 31,	
	2015	2014
CURRENT ASSETS		
Cash (Note 2)	\$ 2,564,844	\$ 2,045,005
Pledges receivable (Note 3)	615,339	816,894
Inventory (Note 1)	97,396	54,227
Prepaid expense	8,065	-
	3,285,644	2,916,126
PROPERTY AND EQUIPMENT (Notes 1 and 6)		
Land	75,000	75,000
Buildings	486,117	486,117
Equipment	52,672	46,495
Vehicles	41,208	47,208
	654,997	654,820
Less accumulated depreciation	(177,383)	(155,492)
	477,614	499,328
TOTAL ASSETS	\$ 3,763,258	\$ 3,415,454

See Independent Auditor's Report and Notes to Financial Statements.

CHILDREN OF THE NATIONS
STATEMENTS OF FINANCIAL POSITION
LIABILITIES AND NET ASSETS

	December 31,	
	2015	2014
CURRENT LIABILITIES		
Accounts payable	\$ 63,124	\$ 81,599
Accrued payroll and payroll taxes	24,800	31,025
	87,924	112,624
NET ASSETS		
Unrestricted	2,716,737	1,956,531
Temporarily restricted (Note 4)	933,597	1,321,299
Permanently restricted	25,000	25,000
	3,675,334	3,302,830
TOTAL LIABILITIES AND NET ASSETS	\$ 3,763,258	\$ 3,415,454

See Independent Auditor's Report and Notes to Financial Statements.

CHILDREN OF THE NATIONS
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
CONTRIBUTIONS AND OTHER REVENUES				
Contributions				
General support	\$ 2,954,800	\$ 1,533,930	\$ -	\$ 4,488,730
Dominican Republic support		982,890		982,890
In-kind equipment and supplies		924,818		924,818
Malawi support		895,059		895,059
Sierra Leone support		701,034		701,034
Contributed skilled services		657,273		657,273
Uganda support		637,733		637,733
Interest	267			267
Reclassifications				
Satisfaction of purpose restrictions	6,720,439	(6,720,439)		-
TOTAL CONTRIBUTIONS AND OTHER REVENUES	9,675,506	(387,702)	-	9,287,804
EXPENSES				
Program services				
International support	3,176,882			\$ 3,176,882
Dominican Republic	1,494,486			1,494,486
Malawi	1,213,268			1,213,268
Sierra Leone	1,119,270			1,119,270
Uganda	602,089			602,089
Supporting services				
Management and general	591,868			591,868
Fundraising	717,437			717,437
TOTAL EXPENSES	8,915,300	-	-	8,915,300
CHANGE IN NET ASSETS	760,206	(387,702)	-	372,504
NET ASSETS AT BEGINNING OF YEAR	1,956,531	1,321,299	25,000	3,302,830
NET ASSETS AT END OF YEAR	\$ 2,716,737	\$ 933,597	\$ 25,000	\$ 3,675,334

See Independent Auditor's Report and Notes to Financial Statements.

CHILDREN OF THE NATIONS
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
CONTRIBUTIONS AND OTHER REVENUES				
Contributions				
General support	\$ 1,316,668	\$ 2,797,166	\$ -	\$ 4,113,834
Sierra Leone support		962,054		962,054
Malawi support		928,617		928,617
In-kind equipment and supplies		859,850		859,850
Dominican Republic support		837,447		837,447
Contributed skilled services		569,217		569,217
Uganda support		532,625		532,625
Feeding support		19,536		19,536
Interest	419			419
Reclassifications				
Satisfaction of purpose restrictions	7,434,592	(7,434,592)		-
TOTAL CONTRIBUTIONS AND OTHER REVENUES	8,751,679	71,920	-	8,823,599
EXPENSES				
Program services				
International support	3,000,485			3,000,485
Sierra Leone	1,243,017			1,243,017
Dominican Republic	1,190,454			1,190,454
Malawi	1,123,340			1,123,340
Uganda	693,538			693,538
Supporting services				
Management and general	620,348			620,348
Fundraising	462,783			462,783
TOTAL EXPENSES	8,333,965	-	-	8,333,965
CHANGE IN NET ASSETS	417,714	71,920	-	489,634
NET ASSETS AT BEGINNING OF YEAR	1,538,817	1,249,379	25,000	2,813,196
NET ASSETS AT END OF YEAR	\$ 1,956,531	\$ 1,321,299	\$ 25,000	\$ 3,302,830

CHILDREN OF THE NATIONS

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2015

	PROGRAM SERVICES					SUPPORTING SERVICES			Total	
	International Support	Dominican Republic	Malawi	Sierra Leone	Uganda	Total	Management and General	Fundraising		Total
Salaries, taxes & benefits	\$ 1,676,939	\$ -	\$ -	\$ -	\$ -	\$ 1,676,939	\$ 324,969	\$ 369,511	\$ 694,480	\$ 2,371,419
International projects										
Administrative		239,096	294,176	153,540	140,582	827,394			-	827,394
Children's homes			92,180	77,749	50,100	220,029			-	220,029
Clinic		54,838				54,838			-	54,838
Communications	18,404					18,404	1,606	12,882	14,488	32,892
Contributed skilled services	140,650	344,830	51,580	74,380	5,320	616,760	40,513		40,513	657,273
Depreciation	10,107					10,107	18,210		18,210	28,317
Education	75,187	51,013	316,218	200,176	146,822	789,416			-	789,416
Evangelism		6,000	15,718	9,792	12,720	44,230			-	44,230
Farm				1,225		1,225			-	1,225
Interest						-			-	-
Other expenses	370,351	367,267	189,850	320,297	100	1,247,865	50,329	181,519	231,848	1,479,713
Other projects	170,656	3,229	19,136	118,082	146,418	457,521			-	457,521
Printing and publications						-		101,517	101,517	101,517
Professional fees						-	20,548		20,548	20,548
Program facilities	78,674					78,674	25,467		25,467	104,141
Supplies						-	68,095	19,622	87,717	87,717
Travel and conferences	158,971					158,971	42,131	32,386	74,517	233,488
Vehicles				43,475		43,475			-	43,475
Venture teams	476,943	217,404	172,230	8,658	89,563	964,798			-	964,798
Villages		210,809	62,180	111,896	10,464	395,349			-	395,349
TOTAL EXPENSES	\$ 3,176,882	\$ 1,494,486	\$ 1,213,268	\$ 1,119,270	\$ 602,089	\$ 7,605,995	\$ 591,868	\$ 717,437	\$ 1,309,305	\$ 8,915,300

See Independent Auditor's Report and Notes to Financial Statements.

CHILDREN OF THE NATIONS

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2014

	PROGRAM SERVICES					SUPPORTING SERVICES			Total	
	International Support	Dominican Republic	Malawi	Sierra Leone	Uganda	Total	Management and General	Fundraising		Total
Salaries, taxes & benefits	\$ 1,461,253	\$ -	\$ -	\$ -	\$ -	\$ 1,461,253	\$ 287,068	\$ 167,893	\$ 454,961	\$ 1,916,214
International projects										
Administrative		200,208	201,524	138,171	181,473	721,376			-	721,376
Children's homes			220,656	77,124	32,292	330,072			-	330,072
Clinic		32,091				32,091			-	32,091
Communications	11,046					11,046	5,523	12,292	17,815	28,861
Contributed skilled services	101,510	230,224	47,840	143,840	14,165	537,579	28,438		28,438	566,017
Depreciation	8,840					8,840	16,870		16,870	25,710
Education	22,569	49,389	121,752	186,762	100,239	480,711			-	480,711
Evangelism		6,550	12,000	7,408	9,240	35,198			-	35,198
Farm				12,275		12,275			-	12,275
Interest						-	6,351		6,351	6,351
Other expenses	438,806	213,413	118,828	304,938	100,852	1,176,837	104,755	199,159	303,914	1,480,751
Other projects	255,419	3,428	66,242	172,846	197,091	695,026			-	695,026
Printing and publications						-		61,472	61,472	61,472
Professional fees						-	29,953		29,953	29,953
Program facilities	79,611					79,611	21,753		21,753	101,364
Supplies						-	61,773	3,302	65,075	65,075
Travel and conferences	69,478					69,478	57,864	18,665	76,529	146,007
Vehicles		9,000	15,336	29,906		54,242			-	54,242
Venture teams	551,953	214,099	182,620	40,645	48,276	1,037,593			-	1,037,593
Villages		232,052	136,542	129,102	9,910	507,606			-	507,606
TOTAL EXPENSES	\$ 3,000,485	\$ 1,190,454	\$ 1,123,340	\$ 1,243,017	\$ 693,538	\$ 7,250,834	\$ 620,348	\$ 462,783	\$ 1,083,131	\$ 8,333,965

See Independent Auditor's Report and Notes to Financial Statements.

CHILDREN OF THE NATIONS
STATEMENTS OF CASH FLOWS

	December 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 372,504	\$ 489,634
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	28,317	25,710
(Increase) decrease in assets:		
Pledges receivable	201,555	(76,636)
Inventory	(43,169)	17,233
Prepaid expenses	(8,065)	-
Increase (decrease) in liabilities:		
Accounts payable	(18,475)	54,309
Accrued payroll and payroll taxes	(6,225)	15,671
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>526,442</u>	<u>525,921</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in property and equipment	(7,596)	(28,646)
Proceeds from sale of asset	993	17,500
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>(6,603)</u>	<u>(11,146)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of principal on note payable	-	(426,007)
NET CHANGE IN CASH	519,839	88,768
CASH, BEGINNING OF YEAR	<u>2,045,005</u>	<u>1,956,237</u>
CASH, END OF YEAR	<u><u>\$ 2,564,844</u></u>	<u><u>\$ 2,045,005</u></u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest expense	<u><u>\$ -</u></u>	<u><u>\$ 6,351</u></u>

See Independent Auditor's Report and Notes to Financial Statements.

**CHILDREN OF THE NATIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

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, Connecticut, Oregon, Oklahoma, Florida, Massachusetts, Ohio, Colorado and Nebraska.

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 Statement of Financial Accounting Standards (SFAS) No. 117 (ASC 958), "Financial Statements of Not-for-Profit Organizations". Under SFAS No. 117 (ASC 958), 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".

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.

**CHILDREN OF THE NATIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 1

**NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (continued)**

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.

Inventory

The Organization receives donations of food, equipment and supplies, which are recognized in the financial statements as in-kind contributions in accordance with SFAS No. 116 (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 \$97,396 at December 31, 2015 and \$54,277 at December 31, 2014.

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.

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 is 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.

**CHILDREN OF THE NATIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 1

**NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (continued)**

Contributions

The Organization accounts for contributions in accordance with the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 116 (ASC 958), "Accounting for Contributions Received and Contributions Made". In accordance with SFAS No. 116 (ASC 958), 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 SFAS No. 116, "Accounting for Contributions Received and Contributions Made", if the services (a) create or enhance non-financial 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 SFAS No. 116 (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 2015 was \$657,273 and \$569,217 for 2014.

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.

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.

**CHILDREN OF THE NATIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 2

CONCENTRATION OF CREDIT RISK

The Organization maintains significant cash balances at financial institutions. The FDIC has provided coverage up to \$250,000 per depositor in 2015 and 2014. As a result, the Organization has a concentration of credit risk in the amount of \$2,314,849 as of December 31, 2015 and \$1,795,005 as of December 31, 2014.

NOTE 3

PLEDGES RECEIVABLE

Pledges receivable consist of all pledges outstanding and 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. All pledges receivable are considered to be collectible and receivable within one year.

NOTE 4

TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2015 temporarily restricted net assets consisted of the following:

Sierra Leone	\$	458,362
Dominican Republic		320,972
Uganda		154,263
Malawi		-
International support services		-
		<hr/>
	\$	<u>933,597</u>

**CHILDREN OF THE NATIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 5

NET ASSETS RELEASED FROM RESTRICTIONS

The following is a summary of net assets that were released from donor restrictions during 2015 by incurring expenses that satisfied the donor-specified restrictions:

International support services	\$ 2,046,177
Malawi	942,185
In-kind equipment and supplies	924,818
Dominican Republic	828,725
Sierra Leone	724,592
Contributed skilled services	657,273
Uganda	596,669
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	\$ 6,720,439
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NOTE 6

LAND, BUILDINGS AND EQUIPMENT

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

SUBSEQUENT EVENTS

The Organization has performed an evaluation of subsequent events through August 1, 2016, which is the date the financial statements were available to be issued, and has determined that there are no subsequent events that require disclosure.