

CHILDREN OF THE NATIONS

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS

DECEMBER 31, 2013 & 2012

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 statement of financial position of Children of the Nations (a nonprofit organization) as of December 31, 2013 and 2012 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.

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, 2013 and 2012, 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.

Gintz Warner, PLLC

Gintz Warner, PLLC
August 25, 2014

CHILDREN OF THE NATIONS
STATEMENTS OF FINANCIAL POSITION

ASSETS

	December 31,	
	2013	2012
CURRENT ASSETS		
Cash (Note 2)	\$ 1,956,237	\$ 1,066,345
Pledges receivable (Note 3)	740,258	1,013,030
Inventory (Note 1)	<u>71,460</u>	<u>126,723</u>
TOTAL CURRENT ASSETS	<u><u>2,767,955</u></u>	<u><u>2,206,098</u></u>
 PROPERTY AND EQUIPMENT (Notes 1 and 7)		
Land	75,000	75,000
Buildings	478,302	434,370
Equipment	44,651	60,008
Vehicles	<u>53,388</u>	<u>35,888</u>
	651,341	605,266
Less accumulated depreciation	<u>(137,449)</u>	<u>(135,611)</u>
NET PROPERTY AND EQUIPMENT	<u><u>513,892</u></u>	<u><u>469,655</u></u>
 TOTAL ASSETS	<u><u>\$ 3,281,847</u></u>	<u><u>\$ 2,675,753</u></u>

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

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

	December 31,	
	2013	2012
CURRENT LIABILITIES		
Accounts payable	\$ 27,290	\$ 33,980
Accrued payroll and payroll taxes	15,354	13,305
Current portion of long-term debt (Note 4)	16,959	16,150
TOTAL CURRENT LIABILITIES	59,603	63,435
LONG-TERM LIABILITIES		
Notes payable, net of current portion (Note 4)	409,048	425,665
NET ASSETS		
Unrestricted	1,538,817	941,443
Temporarily restricted (Note 5)	1,249,379	1,220,210
Permanently restricted (Note 8)	25,000	25,000
TOTAL NET ASSETS	2,813,196	2,186,653
TOTAL LIABILITIES AND NET ASSETS	\$ 3,281,847	\$ 2,675,753

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

CHILDREN OF THE NATIONS
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
CONTRIBUTIONS AND OTHER REVENUES				
Contributions				
General support	\$ 1,260,277	\$ 3,067,207	\$ -	\$ 4,327,484
Malawi support		902,892		902,892
Dominican Republic support		831,436		831,436
Contributed skilled services		671,730		671,730
In-kind equipment and supplies		656,372		656,372
Sierra Leone support		626,785		626,785
Uganda support		622,319		622,319
Feeding support		12,198		12,198
Interest	315			315
Reclassifications				
Satisfaction of purpose restrictions	7,361,770	(7,361,770)		-
TOTAL CONTRIBUTIONS AND OTHER REVENUES	8,622,362	29,169	-	8,651,531
EXPENSES				
Program services				
International support	3,188,187			\$ 3,188,187
Malawi	1,316,303			1,316,303
Dominican Republic	1,172,908			1,172,908
Sierra Leone	958,041			958,041
Uganda	566,382			566,382
Supporting services				
Management and general	462,787			462,787
Fundraising	360,380			360,380
TOTAL EXPENSES	8,024,988	-	-	8,024,988
CHANGE IN NET ASSETS	597,374	29,169	-	626,543
NET ASSETS AT BEGINNING OF YEAR	941,443	1,220,210	25,000	2,186,653
NET ASSETS AT END OF YEAR	\$ 1,538,817	\$ 1,249,379	\$ 25,000	\$ 2,813,196

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

CHILDREN OF THE NATIONS
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
CONTRIBUTIONS AND OTHER REVENUES				
Contributions				
General support	\$ 744,315	\$ 2,116,735	\$ 25,000	\$ 2,886,050
Malawi support		1,102,553		1,102,553
Dominican Republic support		1,035,379		1,035,379
Sierra Leone support		772,192		772,192
In-kind equipment and supplies		726,636		726,636
Uganda support		709,424		709,424
Contributed skilled services		482,924		482,924
Feeding support		26,247		26,247
Interest	17			17
Reclassifications				
Satisfaction of purpose restrictions	7,018,923	(7,018,923)		-
TOTAL CONTRIBUTIONS AND OTHER REVENUES	7,763,255	(46,833)	25,000	7,741,422
EXPENSES				
Program services				
International support	2,257,503			2,257,503
Dominican Republic	1,455,677			1,455,677
Malawi	1,358,301			1,358,301
Sierra Leone	880,434			880,434
Uganda	762,268			762,268
Supporting services				
Management and general	431,595			431,595
Fundraising	360,015			360,015
TOTAL EXPENSES	7,505,793	-	-	7,505,793
CHANGE IN NET ASSETS	257,462	(46,833)	25,000	235,629
NET ASSETS AT BEGINNING OF YEAR	683,981	1,267,043	-	1,951,024
NET ASSETS AT END OF YEAR	\$ 941,443	\$ 1,220,210	\$ 25,000	\$ 2,186,653

CHILDREN OF THE NATIONS

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2013

	PROGRAM SERVICES					SUPPORTING SERVICES				
	International Support	Dominican Republic	Malawi	Sierra Leone	Uganda	Total	Management and General	Fundraising	Total	Total
Salaries, taxes & benefits	\$ 1,295,784	\$ -	\$ -	\$ -	\$ -	\$ 1,295,784	\$ 210,205	\$ 120,925	\$ 331,130	\$ 1,626,914
International projects										
Administrative		174,942	229,217	145,363	138,935	688,457			-	688,457
Children's homes			304,615	76,081	36,419	417,115			-	417,115
Clinic		30,044				30,044			-	30,044
Communications	12,187					12,187	6,093	22,464	28,557	40,744
Contributed skilled services	91,640	206,100	113,192	172,000	30,088	613,020	35,935		35,935	648,955
Depreciation	6,258					6,258	16,031		16,031	22,289
Education	36,536	41,803	122,193	18,320	74,880	293,732			-	293,732
Evangelism	592	72	12,000	7,973	9,240	29,877			-	29,877
Farm				11,065		11,065			-	11,065
Fundraising						-			-	-
Interest						-	21,592		21,592	21,592
Other expenses	417,992	218,904	164,669	165,484	4,337	971,386	84,725	167,525	252,250	1,223,636
Other projects	294,272	51,583	50,626	123,770	130,494	650,745			-	650,745
Printing and publications						-		37,538	37,538	37,538
Professional fees						-	16,918		16,918	16,918
Program facilities	96,702					96,702	12,481		12,481	109,183
Supplies						-	40,145	6,235	46,380	46,380
Travel and conferences	67,700					67,700	18,662	5,693	24,355	92,055
Vehicles			15,603	30,852		46,455			-	46,455
Venture teams	868,524	217,439	149,575	89,816	134,429	1,459,783			-	1,459,783
Villages		232,021	154,613	117,317	7,560	511,511			-	511,511
TOTAL EXPENSES	\$ 3,188,187	\$ 1,172,908	\$ 1,316,303	\$ 958,041	\$ 566,382	\$ 7,201,821	\$ 462,787	\$ 360,380	\$ 823,167	\$ 8,024,988

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

CHILDREN OF THE NATIONS

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2012

	PROGRAM SERVICES					SUPPORTING SERVICES			Total	
	International Support	Dominican Republic	Malawi	Sierra Leone	Uganda	Total	Management and General	Fundraising		Total
Salaries, taxes & benefits	\$ 1,213,413	\$ -	\$ -	\$ -	\$ -	\$ 1,213,413	\$ 196,996	\$ 103,193	\$ 300,189	\$ 1,513,602
International projects										
Administrative		183,988	263,501	114,953	119,382	681,824			-	681,824
Children's homes			206,160	76,095	39,427	321,682				321,682
Clinic		72,317				72,317			-	72,317
Communications	12,636					12,636	6,325		6,325	18,961
Contributed skilled services	52,890	203,000	69,192	76,540	44,480	446,102	36,322		36,322	482,424
Depreciation	6,688					6,688	10,180		10,180	16,868
Education		35,513	177,786	11,606	75,609	300,514				300,514
Evangelism		260	12,000	6,352	9,240	27,852			-	27,852
Farm				11,141		11,141			-	11,141
Feeding						-			-	-
Fundraising						-		256,822	256,822	256,822
Interest						-	22,418		22,418	22,418
Interns		19,706	11,942	15,192	32,244	79,084			-	79,084
Other expenses	429,356	214,236	123,012	136,015	19,166	921,785	49,166		49,166	970,951
Other projects	301,091	15,314	48,119	97,807	148,446	610,777			-	610,777
Professional fees						-	16,336		16,336	16,336
Program facilities	117,724					117,724	23,632		23,632	141,356
Supplies						-	49,777		49,777	49,777
Travel and conferences	81,363					81,363	20,443		20,443	101,806
Vehicles			15,336	30,937	31,500	77,773			-	77,773
Venture teams	42,342	484,864	299,352	220,831	233,224	1,280,613			-	1,280,613
Villages		226,479	131,901	82,965	9,550	450,895			-	450,895
TOTAL EXPENSES	\$ 2,257,503	\$ 1,455,677	\$ 1,358,301	\$ 880,434	\$ 762,268	\$ 6,714,183	\$ 431,595	\$ 360,015	\$ 791,610	\$ 7,505,793

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

CHILDREN OF THE NATIONS
STATEMENTS OF CASH FLOWS

	December 31,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 626,543	\$ 235,629
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	22,289	16,868
(Increase) decrease in assets:		
Pledges receivable	272,772	(65,794)
Inventory	55,263	(6,317)
Increase (decrease) in liabilities:		
Accounts payable	(6,690)	10,877
Accrued payroll and payroll taxes	2,049	(53,337)
NET CASH PROVIDED BY / (USED IN) OPERATING ACTIVITIES	<u>972,226</u>	<u>137,926</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in property and equipment	<u>(66,526)</u>	<u>(64,943)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of principal on note payable	<u>(15,808)</u>	<u>(52,483)</u>
NET CHANGE IN CASH	889,892	20,500
CASH, BEGINNING OF YEAR	<u>1,066,345</u>	<u>1,045,845</u>
CASH, END OF YEAR	<u>\$ 1,956,237</u>	<u>\$ 1,066,345</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest expense	<u>\$ 21,592</u>	<u>\$ 22,418</u>

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

**CHILDREN OF THE NATIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

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 partner with nationals 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, 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, 2013 AND 2012**

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 \$71,460 at December 31, 2013 and \$126,723 at December 31, 2012.

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, 2013 AND 2012**

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 2013 was \$671,730 and \$482,924 for 2012.

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, 2013 AND 2012**

NOTE 2

CONCENTRATION OF CREDIT RISK

The Organization maintains significant cash balances at financial institutions. The FDIC has provided unlimited coverage to all non-interest bearing accounts in 2012 and coverage up to \$250,000 per depositor in 2013. As a result, the Organization, as of December 31, 2013, has a concentration of credit risk in the amount of \$1,706,237 and, as of December 31, 2012, does not have concentration of credit risk.

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.

**CHILDREN OF THE NATIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 4

NOTES PAYABLE

December 31,	
2013	2012

The Organization established a line of credit with Bank of America on March 3, 2005 in the amount of \$300,000 in order to help finance the construction of the new warehouse in Silverdale. On December 10, 2005, the line of credit was converted to a note payable with an interest rate of 5.625%. Principal and interest payments in the amount of \$2,099 began on January 10, 2006 and a balloon payment of \$255,285 was refinanced into a new note on October 18, 2010. The new note in the amount of \$473,425 was established at a rate of 4.9%. Principal and interest payments in the amount of \$3,117 began on November 25, 2010 for 60 months, with a balloon payment of \$396,258. The note is secured by the land and buildings located at the Silverdale headquarters. Interest expense for the years ended December 31, 2013 and 2012 totaled \$21,592 and \$22,418, respectively.

	\$	426,007		\$	441,815
		426,007			441,815
Less current portion		(16,959)			(16,150)
	\$	409,048		\$	425,665

Future principal payments are as follows:

2014		16,959
2015		408,706
Total	\$	425,665

**CHILDREN OF THE NATIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 5

TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2013 temporarily restricted net assets consisted of the following:

International support services	\$	575,304
Sierra Leone		194,428
Dominican Republic		177,158
Uganda		159,095
Malawi		143,394
		<hr/>
	\$	1,249,379
		<hr/> <hr/>

NOTE 6

NET ASSETS RELEASED FROM RESTRICTIONS

The following is a summary of net assets that were released from donor restrictions during 2013 by incurring expenses that satisfied the donor-specified restrictions:

International support services	\$	3,235,337
Dominican Republic		935,730
Malawi		759,497
In-kind equipment and supplies		656,372
Contributed skilled services		622,319
Sierra Leone		620,557
Uganda		531,958
		<hr/>
	\$	7,361,770
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**CHILDREN OF THE NATIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 7

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 8

PERMANENTLY RESTRICTED NET ASSETS

During 2012 a donor gave a gift of \$25,000 for the purpose of establishing an endowment intended to provide for university education in the Dominican Republic.

NOTE 9

SUBSEQUENT EVENTS

The Organization has performed an evaluation of subsequent events through August 25, 2014, which is the date the financial statements were available to be issued, and has determined that there are no subsequent events that require disclosure.