

CHILDREN OF THE NATIONS

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

DECEMBER 31, 2016

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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, 2016, 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, 2015 financial statements and, in an opinion dated August 1, 2016 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, 2016, 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 the predecessor auditor's opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in a material respects, with the audited financial statements from which it has been derived.

Other Matter

The financial statements of Children of the nations as of December 31, 2015, and for the year then ended were audited by other auditors. Those auditors expressed an unqualified opinion on those financial statements in their report dated August 1, 2016.

In the independent auditor's report dated August 1, 2016, with respect to the December 31, 2015 financial statements, we identified a need for a prior period adjustment in order to align the financial statements of Children of the Nations with accounting principles generally accepted in the United States of America. As disclosed in Note 8 of the notes to the financial statements, Children of the Nations restated its December 31, 2015 financial statements to reflect its adjustments to the financial records in accordance with generally accepted accounting principles in the United States of America.

Clarke Whitney, CPA, Inc.

Clarke Whitney, CPA, Inc.
Bremerton, Washington
November 15, 2017

CHILDREN OF THE NATIONS
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016
WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2015

Assets	<u>2016</u>	<u>2015</u>
Current assets		
Cash and cash equivalents	\$ 2,109,509	\$ 2,564,848
Pledges receivable (net of allowance for doubtful accounts 2016 \$702,920 and 2015 \$715,735)	2,392,282	2,435,894
Inventory	105,065	97,396
Prepaid expenses	<u>5,377</u>	<u>8,065</u>
Total current assets	4,612,233	5,106,203
Property and equipment		
Land	75,000	75,000
Buildings	473,881	486,118
Equipment	53,953	72,671
Vehicles	<u>47,208</u>	<u>41,208</u>
	650,042	674,997
Less accumulated depreciation	<u>(200,240)</u>	<u>(181,383)</u>
Net property and equipment	<u>449,802</u>	<u>493,614</u>
Total assets	<u>\$ 5,062,035</u>	<u>\$ 5,599,817</u>
Liabilities and Net Assets	<u>2016</u>	<u>2015</u>
Current liabilities		
Accounts payable	\$ 81,411	\$ 63,124
Accrued payroll and payroll taxes	<u>51,061</u>	<u>24,800</u>
Total current liabilities	132,472	87,924
Lease liability	<u>13,230</u>	<u>16,733</u>
Total liabilities	145,702	104,657
Net assets		
Unrestricted	3,078,527	3,345,502
Temporarily restricted	1,812,806	2,124,658
Permanently restricted	<u>25,000</u>	<u>25,000</u>
Total net assets	<u>4,916,333</u>	<u>5,495,160</u>
Total liabilities and net assets	<u>\$ 5,062,035</u>	<u>\$ 5,599,817</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, 2016
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2016 Total</u>	<u>2015 Total</u>
Contributions and other revenues					
Contributions					
General support	\$ 2,543,356	\$ 2,473,529	\$ -	5,016,885	4,067,379
Dominican Republic support	9,187	847,867	-	857,054	982,890
In-kind equipment and supplies	-	747,300	-	747,300	924,818
Malawi support	36,415	813,025	-	849,440	895,059
Sierra Leone support	1,305	521,087	-	522,392	701,034
Contributed skilled services	-	690,945	-	690,945	657,273
Uganda support	53,484	430,116	-	483,600	637,733
Interest	612	-	-	612	267
Reclassifications					
Satisfaction of purpose restrictions	6,835,721	(6,835,721)	-	-	-
Total contributions and other revenues	<u>9,480,080</u>	<u>(311,852)</u>	<u>-</u>	<u>9,168,228</u>	<u>8,866,453</u>
Expenses					
Program services					
International	3,722,963	-	-	3,722,963	3,475,845
Dominican Republic	1,635,666	-	-	1,635,666	1,635,128
Malawi	1,519,242	-	-	1,519,242	1,327,428
Sierra Leone	978,406	-	-	978,406	1,224,626
Uganda	705,363	-	-	705,363	658,704
Supporting services					
Management and general	560,830	-	-	560,830	597,165
Fundraising	624,585	-	-	624,585	712,873
Total expenses	<u>9,747,055</u>	<u>-</u>	<u>-</u>	<u>9,747,055</u>	<u>9,631,769</u>
Change in net assets	(266,975)	(311,852)	-	(578,827)	(765,316)
Net assets at beginning of year	<u>3,345,502</u>	<u>2,124,658</u>	<u>25,000</u>	<u>5,495,160</u>	<u>6,260,476</u>
Net assets at end 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>

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, 2016
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Program Services</u>					<u>Supporting Services</u>				<u>2016</u> <u>Total</u>	<u>2015</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	\$ 1,605,514	\$ -	\$ -	\$ -	\$ -	\$ 1,605,514	\$ 323,021	\$ 288,234	\$ 611,255	\$ 2,216,769	\$ 2,371,419
Administrative	-	266,006	300,701	166,453	137,230	870,390	-	-	-	870,390	827,394
Children's homes	-	-	107,079	77,899	52,414	237,392	-	-	-	237,392	220,029
Clinic	-	32,600	-	-	-	32,600	-	-	-	32,600	54,838
Communications	17,890	-	-	-	-	17,890	8,945	19,226	28,171	46,061	32,892
Contributed skilled services	188,962	286,313	55,040	93,600	26,320	650,235	40,710	-	40,710	690,945	657,273
Depreciation	-	-	-	-	-	-	29,590	-	29,590	29,590	32,317
Education	5,100	55,674	417,208	62,731	148,712	689,425	-	-	-	689,425	789,416
Evangelism	-	24,646	18,602	10,755	17,660	71,663	-	-	-	71,663	44,230
Farm	-	-	2,247	-	-	2,247	-	-	-	2,247	1,225
In-kind equipment and supplies	-	112,971	267,525	217,446	16,554	614,496	-	-	-	614,496	924,818
Interest	-	-	-	-	-	-	1,060	-	1,060	1,060	1,297
Other expenses	999,164	80,854	77,249	47,507	43,979	1,248,753	14,258	262,608	276,866	1,525,619	1,224,296
Other projects	217,317	85,192	50,242	88,929	158,067	599,747	-	-	-	599,747	457,521
Printing and publications	-	-	-	-	-	-	-	5,442	5,442	5,442	96,953
Professional fees	-	-	-	-	-	-	20,787	-	20,787	20,787	20,548
Program facilities	112,626	-	-	-	-	112,626	44,444	-	44,444	157,070	104,141
Supplies	-	-	-	-	-	-	49,494	14,420	63,914	63,914	87,717
Travel and conferences	158,217	-	-	-	-	158,217	28,521	34,655	63,176	221,393	233,488
Vehicles	-	-	-	7,480	-	7,480	-	-	-	7,480	43,475
Venture teams	408,555	158,835	118,735	35,686	88,835	810,646	-	-	-	810,646	964,798
Villages	9,618	532,575	104,614	169,920	15,592	832,319	-	-	-	832,319	441,684
Total expenses	\$ 3,722,963	\$ 1,635,666	\$ 1,519,242	\$ 978,406	\$ 705,363	\$ 8,561,640	\$ 560,830	\$ 624,585	\$ 1,185,415	\$ 9,747,055	\$ 9,631,769

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, 2016
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Change in net assets	\$ (578,827)	\$ (765,316)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	29,590	32,317
Loss on disposal of equipment	14,221	-
(Increase) decrease in assets:		
Pledges receivable	43,612	1,338,646
Inventory	(7,669)	(43,169)
Prepaid expenses	2,689	(8,065)
Increase (decrease) in:		
Accounts payable	18,287	(18,475)
Accrued payroll and payroll taxes	<u>26,261</u>	<u>(6,225)</u>
Net cash provided (used) by operating activities	(451,836)	529,713
Cash flows from investing activities		
Investment in property and equipment	-	(27,596)
Proceeds on sale of equipment	<u>-</u>	<u>993</u>
Net cash used by investing activities	-	(26,603)
Cash flows from financing activities		
Proceeds from lease liability	-	20,000
Payment on lease liability	<u>(3,503)</u>	<u>(3,267)</u>
Net cash provided (used) by financing activities	<u>(3,503)</u>	<u>16,733</u>
Net change in cash	(455,339)	519,843
Cash, beginning of year	<u>2,564,848</u>	<u>2,045,005</u>
Cash, end of year	<u>\$ 2,109,509</u>	<u>\$ 2,564,848</u>
Supplemental information:		
Cash paid for interest	\$ 1,060	\$ 1,297

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

CHILDREN OF THE NATIONS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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 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, 2016

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, 2015 in the accompanying financial statements are included to provide a basis for comparison with 2016 and present summarized totals only. Accordingly, the 2015 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, 2015, 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 \$105,065 at December 31, 2016.

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, 2016

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 2016 was \$690,945.

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, 2016

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 2016. As a result, the Organization has a concentration of credit risk in the amount of \$1,583,100 as of December 31, 2016.

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 \$702,920 as of December 31, 2016. The total amount of bad debts associated to pledges receivable was also \$702,920 for the year ended December 31, 2016.

NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2016 temporarily restricted net assets consisted of the following:

International	\$ 821,273
Dominican Republic	270,723
Malawi	103,287
Sierra Leone	362,992
Uganda	254,531
	<u>\$ 1,812,806</u>

**CHILDREN OF THE NATIONS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 5 - PERMANENTLY RESTRICTED NET ASSETS

At December 31, 2016 temporarily 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, 2016 was \$6,846 and \$1,060 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, 2016 is as follows:

	<u>2016</u>
Equipment	\$ 20,000
Less: accumulated depreciation	<u>(8,000)</u>
	<u><u>\$ 12,000</u></u>

Minimum future lease payments under this capital leases as of December 31, 2016 are as follows:

Year Ended December 31,	
2017	\$ 8,416
2018	8,416
2019	8,416
2020	<u>2,104</u>
Total minimum lease payments	27,352
Less: amounts representing interest	(1,600)
Less: amounts representing operating fees	<u>(12,522)</u>
Present value of net minimum lease	<u><u>\$ 13,230</u></u>

**CHILDREN OF THE NATIONS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 8 - RESTATEMENT OF FINANCIAL STATEMENTS

During the course of the audit, it was determined that a change in accounting for pledges receivable, capital leases and net assets would be required to align the Organization's financial records with accounting principles generally accepted in the United States of America. Prior period adjustments would also be required to allow the comparative financial statements to be comparable between the years ended December 31, 2016 and December 31, 2015. The Organization was recognizing only uncollected pledges receivable as of year end and not capitalizing the pledges to be received in the subsequent year. The Organization did not capitalize the capital leases nor the equipment being leased. The Organization did not accurately recognize the net asset restrictions per the donor restrictions and related release of restriction for allowed expenses. These accounting treatments caused a financially significant under-reporting of pledges receivable, property and equipment, lease liabilities and temporarily restricted net assets, which would not be in compliance with the accounting principles generally accepted in the United States of America, therefore there was a prior period adjustment made to the financial statements for the year ended December 31, 2015.

This prior period adjustments have the following impact on Children of the Nations related accounts as of December 31, 2016 and is reflected in the restatement of the same year.

	December 31, 2015	December 31, 2015
	<u>Adjusted</u>	<u>Unadjusted</u>
Pledges receivable, net	\$ 2,435,894	\$ 615,339
Equipment	<u>72,671</u>	<u>52,672</u>
Total assets	<u>5,599,817</u>	<u>3,763,258</u>
Lease liabilities	<u>16,733</u>	<u>-</u>
Total liabilities	104,657	87,924
Unrestricted	3,345,502	2,716,737
Temporarily restricted	<u>2,124,658</u>	<u>933,597</u>
Total net assets	<u>5,495,160</u>	<u>3,675,334</u>
Total liabilities and net assets	<u>5,599,817</u>	<u>3,763,258</u>
General support	<u>4,067,379</u>	<u>4,488,730</u>
Total contributions and other revenues	8,866,453	9,287,804
Depreciation	32,317	28,317
Interest	1,297	-
Other expense	2,149,114	1,479,713
Printing and publications	<u>96,953</u>	<u>101,517</u>
Total expenses	<u>9,631,769</u>	<u>8,915,300</u>
Change in net assets	<u>\$ (765,316)</u>	<u>\$ 489,634</u>

CHILDREN OF THE NATIONS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 9 - SUBSEQUENT EVENTS

The Organization has performed an evaluation of subsequent events through November 15, 2017, which is the date the financial statements were available to be issued, and has determined that there are no subsequent events that require disclosure.