

CHILDREN OF THE NATIONS

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS

DECEMBER 31, 2010 & 2009

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Children of the Nations

We have audited the accompanying statements of financial position of Children of the Nations (a nonprofit organization) as of December 31, 2010 and 2009 and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted an audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2010 and 2009, 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.

Christopher N Gintz, CPA, PS

CHRISTOPHER N GINTZ, CPA, PS
July 15, 2011

CHILDREN OF THE NATIONS
STATEMENTS OF FINANCIAL POSITION

ASSETS

	December 31,	
	2010	2009
CURRENT ASSETS		
Cash and cash equivalents (Note 2)	\$ 732,221	\$ 602,645
Pledges receivable (Note 3)	692,525	515,631
Inventory (Note 1)	44,040	50,531
TOTAL CURRENT ASSETS	1,468,786	1,168,807
 PROPERTY AND EQUIPMENT (Notes 1 and 7)		
Land	75,000	75,000
Buildings	380,634	368,567
Equipment	56,008	50,059
Vehicles	16,445	16,445
	528,087	510,071
Less accumulated depreciation	(101,726)	(78,497)
NET PROPERTY AND EQUIPMENT	426,361	431,574
 TOTAL ASSETS	 \$ 1,895,147	 \$ 1,600,381

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

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

	December 31,	
	2010	2009
CURRENT LIABILITIES		
Accounts payable	\$ 41,445	\$ 12,355
Accrued payroll and payroll taxes	62,567	65,676
Current portion of long-term debt (Note 4)	14,645	263,919
TOTAL CURRENT LIABILITIES	118,657	341,950
LONG-TERM LIABILITIES		
Notes payable, net of current portion (Note 4)	531,473	100,000
NET ASSETS		
Unrestricted	466,746	335,048
Temporarily restricted (Note 5)	778,271	823,383
TOTAL NET ASSETS	1,245,017	1,158,431
TOTAL LIABILITIES AND NET ASSETS	\$ 1,895,147	\$ 1,600,381

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

CHILDREN OF THE NATIONS
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2010

	Unrestricted	Temporarily Restricted	Total
CONTRIBUTIONS AND OTHER REVENUES			
Contributions			
General support	\$ 708,730	\$ 1,268,623	\$ 1,977,353
Malawi support		981,109	981,109
Dominican Republic support		1,208,587	1,208,587
Sierra Leone support		507,608	507,608
Contributed skilled services		316,197	316,197
In-kind equipment and supplies		321,091	321,091
Uganda support		356,232	356,232
Feeding support		263,851	263,851
Interest	16		16
Reclassifications			
Satisfaction of purpose restrictions	5,268,410	(5,268,410)	-
TOTAL CONTRIBUTIONS AND OTHER REVENUES	5,977,156	(45,112)	5,932,044
EXPENSES			
Program services			
International support	1,547,572		1,547,572
Dominican Republic	1,460,586		1,460,586
Malawi	1,057,158		1,057,158
Sierra Leone	637,369		637,369
Uganda	379,516		379,516
Supporting services			
Management and general	426,501		426,501
Fundraising	336,756		336,756
TOTAL EXPENSES	5,845,458	-	5,845,458
CHANGE IN NET ASSETS	131,698	(45,112)	86,586
NET ASSETS AT BEGINNING OF YEAR	335,048	823,383	1,158,431
NET ASSETS AT END OF YEAR	\$ 466,746	\$ 778,271	\$ 1,245,017

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

CHILDREN OF THE NATIONS
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2009

	Unrestricted	Temporarily Restricted	Total
CONTRIBUTIONS AND OTHER REVENUES			
Contributions			
General support	\$ 729,594	\$ 982,990	\$ 1,712,584
Malawi support		983,355	983,355
Dominican Republic support		901,217	901,217
Sierra Leone support		508,766	508,766
Contributed skilled services		494,912	494,912
In-kind equipment and supplies		293,644	293,644
Uganda support		277,340	277,340
Feeding support		219,685	219,685
Interest	3,480		3,480
Reclassifications			
Satisfaction of purpose restrictions	4,856,078	(4,856,078)	-
TOTAL CONTRIBUTIONS AND OTHER REVENUES	5,589,152	(194,169)	5,394,983
EXPENSES			
Program services			
International support	1,425,188		1,425,188
Dominican Republic	1,132,610		1,132,610
Malawi	1,093,679		1,093,679
Sierra Leone	760,818		760,818
Uganda	268,652		268,652
Supporting services			
Management and general	373,817		373,817
Fundraising	290,966		290,966
TOTAL EXPENSES	5,345,730	-	5,345,730
CHANGE IN NET ASSETS	243,422	(194,169)	49,253
NET ASSETS AT BEGINNING OF YEAR	91,626	1,017,552	1,109,178
NET ASSETS AT END OF YEAR	\$ 335,048	\$ 823,383	\$ 1,158,431

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

CHILDREN OF THE NATIONS

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2010

	PROGRAM SERVICES					SUPPORTING SERVICES				
	International Support	Dominican Republic	Malawi	Sierra Leone	Uganda	Total	Management and General	Fundraising	Total	Total
Salaries, taxes & benefits	\$ 1,005,018	\$ -	\$ -	\$ -	\$ -	\$ 1,005,018	\$ 172,757	\$ 116,777	\$ 289,534	\$ 1,294,552
International projects										
Administrative	29,419	162,474	217,350	142,438	58,604	610,285	-	-	-	610,285
Children's fund			223,510	82,202	68,829	374,541	-	-	-	374,541
Clinic		36,759				36,759	-	-	-	36,759
Communications	9,918					9,918	12,038		12,038	21,956
Contributed skilled services	52,640	146,334	40,100	20,540	1,400	261,014	33,226	-	33,226	294,240
Depreciation	9,610					9,610	13,619		13,619	23,229
Evangelism		12,329	12,698	10,252		35,279			-	35,279
Farm			297	10,757		11,054			-	11,054
Feeding	144,925					144,925			-	144,925
Fundraising						-		219,979	219,979	219,979
Interns		24,530	59,423	54,380	14,027	152,360			-	152,360
Other expenses	59,156					59,156	86,603		86,603	145,759
Other projects	31,170	309,319	167,121	85,499	132,444	725,553			-	725,553
Professional fees	-					-	17,286		17,286	17,286
Program facilities	102,525					102,525	30,335	-	30,335	132,860
Skills center		33,283		5,296		38,579			-	38,579
Supplies		-				-	47,498		47,498	47,498
Travel and conferences	65,677					65,677	13,139		13,139	78,816
Universities		20,699	9,763	1,067		31,529			-	31,529
Vehicles		36,946	29,043	71,880	13,425	151,294			-	151,294
Venture teams	37,514	412,466	146,865	77,881	90,787	765,513			-	765,513
Village		265,447	150,988	75,177		491,612			-	491,612
TOTAL EXPENSES	\$ 1,547,572	\$ 1,460,586	\$ 1,057,158	\$ 637,369	\$ 379,516	\$ 5,082,201	\$ 426,501	\$ 336,756	\$ 763,257	\$ 5,845,458

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

CHILDREN OF THE NATIONS

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2009

	PROGRAM SERVICES					SUPPORTING SERVICES				
	International Support	Dominican Republic	Malawi	Sierra Leone	Uganda	Total	Management and General	Fundraising	Total	Total
Salaries, taxes & benefits	\$ 977,770	\$ -	\$ -	\$ -	\$ -	\$ 977,770	\$ 142,640	\$ 25	\$ 142,665	\$ 1,120,435
International projects										
Administrative	12,109	159,774	228,992	150,039	56,341	607,255	-	-	-	607,255
Children's fund			222,855	147,563	35,875	406,293	-	-	-	406,293
Clinic		16,000				16,000				16,000
Communications	9,277					9,277	11,897		11,897	21,174
Contributed skilled services	72,212	242,269	60,045	55,195	2,984	432,705	41,677	2,530	44,207	476,912
Depreciation	9,610					9,610	10,162		10,162	19,772
Evangelism		11,526	9,599	12,779		33,904			-	33,904
Farm			800	13,730		14,530			-	14,530
Feeding	143,423					143,423			-	143,423
Fundraising						-		283,493	283,493	283,493
Interns		22,038	54,754	31,279	24,042	132,113			-	132,113
Other expenses	28,831					28,831	51,032		51,032	79,863
Other projects	1,624	45,073	168,294	132,825	61,584	409,400			-	409,400
Professional fees	-					-	34,752		34,752	34,752
Program facilities	100,366					100,366	29,426	4,918	34,344	134,710
Skills center		34,684		5,576		40,260			-	40,260
Supplies		1,244				1,244	38,382		38,382	39,626
Travel and conferences	58,056					58,056	14,049		14,049	72,105
Universities		28,343	389	552		29,284			-	29,284
Vehicles		142	14,697	51,645		66,484			-	66,484
Venture teams	11,710	309,363	194,491	122,975	87,826	726,365			-	726,365
Village		262,154	138,763	36,660		437,577			-	437,577
TOTAL EXPENSES	\$ 1,424,988	\$ 1,132,610	\$ 1,093,679	\$ 760,818	\$ 268,652	\$ 4,680,747	\$ 374,017	\$ 290,966	\$ 664,983	\$ 5,345,730

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

CHILDREN OF THE NATIONS
STATEMENTS OF CASH FLOWS

	December 31,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 86,586	\$ 49,253
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	23,229	19,772
(Increase) decrease in assets:		
Pledges receivable	(176,894)	(56,072)
Inventory	6,491	13,889
Increase (decrease) in liabilities:		
Accounts payable	29,090	(88,285)
Accrued payroll and payroll taxes	(3,109)	17,206
Accrued interest	-	(6,116)
NET CASH (USED IN) / PROVIDED BY OPERATING ACTIVITIES	<u>(34,607)</u>	<u>(50,353)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in property and equipment	<u>(18,016)</u>	<u>(30,661)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of principal on note payable	<u>182,199</u>	<u>(9,827)</u>
NET CHANGE IN CASH	129,576	(90,841)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>602,645</u>	<u>693,486</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 732,221</u></u>	<u><u>\$ 602,645</u></u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest expense	<u><u>\$ 24,333</u></u>	<u><u>\$ 25,096</u></u>

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

**CHILDREN OF THE NATIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

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 strategy is to mobilize a movement of people making possible the mission. The locations of operations include the headquarters in Silverdale, Washington and offices in Seattle, California, Oregon, Oklahoma and Florida.

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 is considering NGO status in Haiti and Liberia at some point in the future.

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. The Organization currently does not have any permanently restricted net assets; therefore, only unrestricted and temporarily restricted net assets are shown in the financial statements.

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 FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

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 \$44,040 at December 31, 2010 and \$50,531 at December 31, 2009.

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, 2010 AND 2009**

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, lawyers and accountants. The total of these donated services for 2010 was \$316,197 and \$494,912 for 2009.

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.

Income Tax Status

The Organization qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and therefore, pays Federal income tax only on trade or business activities unrelated to the Organization's exempt purpose. During the years ended December 31, 2010 and 2009 there was no unrelated business income.

**CHILDREN OF THE NATIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

NOTE 2

CONCENTRATION OF CREDIT RISK

The Organization maintains significant cash balances at financial institutions in non-interest bearing accounts. Due to the recent financial events, the FDIC has provided unlimited coverage to all non-interest bearing accounts for the next two years. As a result, the Organization does not currently have concentration of credit risk as it has experienced in prior years.

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 to the Organization during a specified period of time. All pledges receivable are considered to be collectible and receivable within one year.

**CHILDREN OF THE NATIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

NOTE 4

NOTES PAYABLE

	December 31,	
	2010	2009
<p>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, 2010 and 2009 totaled \$21,333 and \$15,357, respectively.</p>	\$	471,118
	\$	263,919
<p>On November 8, 2006 Greg and Sue DeSautel loaned the Organization \$100,000 with an interest rate of 3.0% to help fund the purchase of a Mission House in the Dominican Republic. The intent is for the Organization to repay this note over five years as the Organization is able. A gift to forgive \$25,000 of the debt was given in December, 2010. \$3,000 in interest was paid in December 2010. Interest was accrued at \$0 and \$0 for 2010 and 2009, respectively.</p>		75,000
		100,000
Less current portion		363,919
		(263,919)
	\$	531,473
	\$	100,000

**CHILDREN OF THE NATIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

NOTE 4

NOTES PAYABLE (continued)

Future principal payments are as follows:

2011	\$ 14,645
2012	15,379
2013	16,150
2014	16,959
2015	<u>407,985</u>
Total	<u><u>\$ 471,118</u></u>

NOTE 5

TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2010 temporarily restricted net assets consisted of the following:

International support services	\$ 304,885
Dominican Republic	288,522
Malawi	175,133
Uganda	57,239
Sierra Leone	<u>(47,508)</u>
	<u><u>\$ 778,271</u></u>

**CHILDREN OF THE NATIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

NOTE 6

NET ASSETS RELEASED FROM RESTRICTIONS

The following is a summary of net assets that were released from donor restrictions during 2010 by incurring expenses that satisfied the donor-specified restrictions:

International support services	\$ 1,489,832
Dominican Republic	1,192,897
Malawi	990,808
Sierra Leone	579,469
Uganda	378,116
In-kind equipment and supplies	321,091
Contributed skilled services	316,197
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	\$ 5,268,410
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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.