

CHILDREN OF THE NATIONS

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS

DECEMBER 31, 2011 & 2010

Gintz Warner, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

9633 Levin Rd NW, Suite 204, Silverdale, WA 98383

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT

FINANCIAL STATEMENTS

Statements of Financial Position	2-3
Statements of Activities	4-5
Statements of Functional Expenses	6-7
Statements of Cash Flows	8
Notes to Financial Statements	9-15

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, 2011 and 2010 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, 2011 and 2010, 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 6, 2012

CHILDREN OF THE NATIONS
STATEMENTS OF FINANCIAL POSITION

ASSETS

	December 31,	
	2011	2010
CURRENT ASSETS		
Cash and cash equivalents (Note 2)	\$ 1,045,845	\$ 732,221
Pledges receivable, net of allowance (Note 3)	947,236	692,525
Inventory (Note 1)	120,406	44,040
TOTAL CURRENT ASSETS	2,113,487	1,468,786
 PROPERTY AND EQUIPMENT (Notes 1 and 7)		
Land	75,000	75,000
Buildings	392,870	380,634
Equipment	56,008	56,008
Vehicles	16,445	16,445
	540,323	528,087
Less accumulated depreciation	(118,743)	(101,726)
NET PROPERTY AND EQUIPMENT	421,580	426,361
 TOTAL ASSETS	\$ 2,535,067	\$ 1,895,147

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

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

	December 31,	
	2011	2010
CURRENT LIABILITIES		
Accounts payable	\$ 23,103	\$ 41,445
Accrued payroll and payroll taxes	66,642	62,567
Current portion of long-term debt (Note 4)	15,379	14,645
	105,124	118,657
LONG-TERM LIABILITIES		
Notes payable, net of current portion (Note 4)	478,919	531,473
	478,919	531,473
NET ASSETS		
Unrestricted	683,981	466,746
Temporarily restricted (Note 5)	1,267,043	778,271
	1,951,024	1,245,017
	1,951,024	1,245,017
TOTAL LIABILITIES AND NET ASSETS	\$ 2,535,067	\$ 1,895,147

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

CHILDREN OF THE NATIONS
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2011

	Unrestricted	Temporarily Restricted	Total
CONTRIBUTIONS AND OTHER REVENUES			
Contributions			
General support	\$ 790,984	\$ 2,244,753	\$ 3,035,737
Dominican Republic support		1,093,606	1,093,606
Malawi support		1,035,891	1,035,891
Sierra Leone support		652,679	652,679
Contributed skilled services		527,316	527,316
Uganda support		476,373	476,373
In-kind equipment and supplies		328,455	328,455
Feeding support		231,543	231,543
Interest	14		14
Reclassifications			
Satisfaction of purpose restrictions	6,101,844	(6,101,844)	-
TOTAL CONTRIBUTIONS AND OTHER REVENUES	6,892,842	488,772	7,381,614
EXPENSES			
Program services			
International support	2,010,360		2,010,360
Dominican Republic	1,441,082		1,441,082
Malawi	1,320,968		1,320,968
Sierra Leone	656,759		656,759
Uganda	494,267		494,267
Supporting services			
Management and general	395,584		395,584
Fundraising	356,587		356,587
TOTAL EXPENSES	6,675,607	-	6,675,607
CHANGE IN NET ASSETS	217,235	488,772	706,007
NET ASSETS AT BEGINNING OF YEAR	466,746	778,271	1,245,017
NET ASSETS AT END OF YEAR	\$ 683,981	\$ 1,267,043	\$ 1,951,024

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 FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2011

	PROGRAM SERVICES					SUPPORTING SERVICES				
	International Support	Dominican Republic	Malawi	Sierra Leone	Uganda	Total	Management and General	Fundraising	Total	Total
Salaries, taxes & benefits	\$ 1,167,714	\$ -	\$ -	\$ -	\$ -	\$ 1,167,714	\$ 162,878	\$ 118,440	\$ 281,318	\$ 1,449,032
International projects										
Administrative	19,839	177,988	243,851	123,164	99,527	664,369	-	-	-	664,369
Clinic		50,309				50,309				50,309
Communications	9,061					9,061	5,473		5,473	14,534
Contributed skilled services	52,640	300,901	80,680	58,765	10,120	503,106	24,040		24,040	527,146
Depreciation	8,149					8,149	8,868		8,868	17,017
Education		50,638	293,028	10,401		354,067			-	354,067
Evangelism		13,022	12,000	9,119		34,141			-	34,141
Farm				9,931		9,931			-	9,931
Feeding	311,805					311,805			-	311,805
Fundraising						-		238,147	238,147	238,147
Interest						-	25,331		25,331	25,331
Interns		15,366	19,618	16,881	42,194	94,059			-	94,059
Other expenses	45,115					45,115	75,606		75,606	120,721
Other projects	175,804	153,422	82,837	119,479	143,765	675,307			-	675,307
Professional fees	-					-	15,432		15,432	15,432
Program facilities	112,128					112,128	26,828		26,828	138,956
Supplies						-	42,194		42,194	42,194
Travel and conferences	76,884					76,884	8,934		8,934	85,818
Vehicles		32,900	15,336	29,032	43,551	120,819			-	120,819
Venture teams	31,221	408,109	230,960	151,915	155,110	977,315			-	977,315
Village		238,427	342,658	128,072		709,157			-	709,157
TOTAL EXPENSES	\$ 2,010,360	\$ 1,441,082	\$ 1,320,968	\$ 656,759	\$ 494,267	\$ 5,923,436	\$ 395,584	\$ 356,587	\$ 752,171	\$ 6,675,607

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
Interest						-	24,333		24,333	24,333
Interns		24,530	59,423	54,380	14,027	152,360			-	152,360
Other expenses	59,156					59,156	62,270		62,270	121,426
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
STATEMENTS OF CASH FLOWS

	December 31,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 706,007	\$ 86,586
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	17,017	23,229
(Increase) decrease in assets:		
Pledges receivable	(254,711)	(176,894)
Inventory	(76,366)	6,491
Increase (decrease) in liabilities:		
Accounts payable	(18,342)	29,090
Accrued payroll and payroll taxes	4,075	(3,109)
NET CASH PROVIDED BY / (USED IN) OPERATING ACTIVITIES	<u>377,680</u>	<u>(34,607)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in property and equipment	<u>(12,236)</u>	<u>(18,016)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of principal on note payable	<u>(51,820)</u>	<u>182,199</u>
NET CHANGE IN CASH	313,624	129,576
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>732,221</u>	<u>602,645</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,045,845</u>	<u>\$ 732,221</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest expense	<u>\$ 25,331</u>	<u>\$ 24,333</u>

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

**CHILDREN OF THE NATIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

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 possibly 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, 2011 AND 2010**

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 \$120,406 at December 31, 2011 and \$44,040 at December 31, 2010.

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, 2011 AND 2010**

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 2011 was \$527,316 and \$316,197 for 2010.

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, 2011 and 2010 there was no unrelated business income.

**CHILDREN OF THE NATIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

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 until next year. 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, 2011 AND 2010**

NOTE 4

NOTES PAYABLE

	December 31,	
	2011	2010
<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, 2011 and 2010 totaled \$23,081 and \$21,333, respectively.</p>	\$	456,798
	\$	471,118

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 and another gift of \$37,500 was given in December, 2011. \$2,250 in interest was paid in December 2011. Interest was accrued at \$0 and \$0 for 2011 and 2010, respectively.

	37,500	75,000
	494,298	546,118
Less current portion	(15,379)	(14,645)
	\$ 478,919	\$ 531,473

**CHILDREN OF THE NATIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

NOTE 4

NOTES PAYABLE (continued)

Future principal payments are as follows:

2012	\$	15,379
2013		16,150
2014		16,959
2015		<u>408,310</u>
Total	\$	<u><u>456,798</u></u>

NOTE 5

TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2011 temporarily restricted net assets consisted of the following:

International support services	\$	828,561
Dominican Republic		321,747
Malawi		24,327
Uganda		53,465
Sierra Leone		<u>38,943</u>
	\$	<u><u>1,267,043</u></u>

**CHILDREN OF THE NATIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

NOTE 6

NET ASSETS RELEASED FROM RESTRICTIONS

The following is a summary of net assets that were released from donor restrictions during 2011 by incurring expenses that satisfied the donor-specified restrictions:

International support services	\$ 1,952,620
Dominican Republic	1,060,381
Malawi	1,186,697
Sierra Leone	566,228
Uganda	480,147
In-kind equipment and supplies	328,455
Contributed skilled services	527,316
	<hr/>
	\$ 6,101,844
	<hr/> <hr/>

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.