

# CHILDREN OF THE NATIONS

## INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS

DECEMBER 31, 2012 & 2011

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Gintz Warner, PLLC

***CERTIFIED PUBLIC ACCOUNTANTS***

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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, 2012 and 2011 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, 2012 and 2011, 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 2, 2013

**CHILDREN OF THE NATIONS**  
**STATEMENTS OF FINANCIAL POSITION**

**ASSETS**

	December 31,	
	2012	2011
<b>CURRENT ASSETS</b>		
Cash and cash equivalents (Note 2)	\$ 1,066,345	\$ 1,045,845
Pledges receivable, net of allowance (Note 3)	1,013,030	947,236
Inventory (Note 1)	126,723	120,406
<b>TOTAL CURRENT ASSETS</b>	<b>2,206,098</b>	<b>2,113,487</b>
 <b>PROPERTY AND EQUIPMENT (Notes 1 and 7)</b>		
Land	75,000	75,000
Buildings	434,370	392,870
Equipment	60,008	56,008
Vehicles	35,888	16,445
	605,266	540,323
Less accumulated depreciation	(135,611)	(118,743)
<b>NET PROPERTY AND EQUIPMENT</b>	<b>469,655</b>	<b>421,580</b>
 <b>TOTAL ASSETS</b>	<b>\$ 2,675,753</b>	<b>\$ 2,535,067</b>

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

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

	December 31,	
	2012	2011
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 33,980	\$ 23,103
Accrued payroll and payroll taxes	13,305	66,642
Current portion of long-term debt (Note 4)	16,150	15,379
<b>TOTAL CURRENT LIABILITIES</b>	<b>63,435</b>	<b>105,124</b>
<b>LONG-TERM LIABILITIES</b>		
Notes payable, net of current portion (Note 4)	425,665	478,919
<b>NET ASSETS</b>		
Unrestricted	941,443	683,981
Temporarily restricted (Note 5)	1,220,210	1,267,043
Permanently restricted (Note 8)	25,000	-
<b>TOTAL NET ASSETS</b>	<b>2,186,653</b>	<b>1,951,024</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 2,675,753</b>	<b>\$ 2,535,067</b>

*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
<b>CONTRIBUTIONS AND OTHER REVENUES</b>				
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)	-	-
<b>TOTAL CONTRIBUTIONS AND OTHER REVENUES</b>	<b>7,763,255</b>	<b>(46,833)</b>	<b>25,000</b>	<b>7,741,422</b>
<b>EXPENSES</b>				
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
<b>TOTAL EXPENSES</b>	<b>7,505,793</b>	<b>-</b>	<b>-</b>	<b>7,505,793</b>
<b>CHANGE IN NET ASSETS</b>	<b>257,462</b>	<b>(46,833)</b>	<b>25,000</b>	<b>235,629</b>
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<b>683,981</b>	<b>1,267,043</b>	<b>-</b>	<b>1,951,024</b>
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 941,443</b>	<b>\$ 1,220,210</b>	<b>\$ 25,000</b>	<b>\$ 2,186,653</b>

*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
<b>CONTRIBUTIONS AND OTHER REVENUES</b>			
Contributions			
General support	\$ 790,984	\$ 2,244,753	\$ 3,035,737
Malawi support		1,093,606	1,093,606
Dominican Republic support		1,035,891	1,035,891
Sierra Leone support		652,679	652,679
Contributed skilled services		527,316	527,316
In-kind equipment and supplies		476,373	476,373
Uganda support		328,455	328,455
Feeding support		231,543	231,543
Interest	14		14
Reclassifications			
Satisfaction of purpose restrictions	6,101,844	(6,101,844)	-
<b>TOTAL CONTRIBUTIONS AND OTHER REVENUES</b>	<b>6,892,842</b>	<b>488,772</b>	<b>7,381,614</b>
<b>EXPENSES</b>			
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
<b>TOTAL EXPENSES</b>	<b>6,675,607</b>	<b>-</b>	<b>6,675,607</b>
<b>CHANGE IN NET ASSETS</b>	<b>217,235</b>	<b>488,772</b>	<b>706,007</b>
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<b>466,746</b>	<b>778,271</b>	<b>1,245,017</b>
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 683,981</b>	<b>\$ 1,267,043</b>	<b>\$ 1,951,024</b>

*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				
	International Support	Dominican Republic	Malawi	Sierra Leone	Uganda	Total	Management and General	Fundraising	Total	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
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
Village		226,479	131,901	82,965	9,550	450,895			-	450,895
<b>TOTAL EXPENSES</b>	<b>\$ 2,257,503</b>	<b>\$ 1,455,677</b>	<b>\$ 1,358,301</b>	<b>\$ 880,434</b>	<b>\$ 762,268</b>	<b>\$ 6,714,183</b>	<b>\$ 431,595</b>	<b>\$ 360,015</b>	<b>\$ 791,610</b>	<b>\$ 7,505,793</b>

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
<b>TOTAL EXPENSES</b>	<b>\$ 2,010,360</b>	<b>\$ 1,441,082</b>	<b>\$ 1,320,968</b>	<b>\$ 656,759</b>	<b>\$ 494,267</b>	<b>\$ 5,923,436</b>	<b>\$ 395,584</b>	<b>\$ 356,587</b>	<b>\$ 752,171</b>	<b>\$ 6,675,607</b>

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

**CHILDREN OF THE NATIONS**  
**STATEMENTS OF CASH FLOWS**

	December 31,	
	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 235,629	\$ 706,007
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	16,868	17,017
(Increase) decrease in assets:		
Pledges receivable	(65,794)	(254,711)
Inventory	(6,317)	(76,366)
Increase (decrease) in liabilities:		
Accounts payable	10,877	(18,342)
Accrued payroll and payroll taxes	(53,337)	4,075
<b>NET CASH PROVIDED BY / (USED IN) OPERATING ACTIVITIES</b>	<b>137,926</b>	<b>377,680</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment in property and equipment	(64,943)	(12,236)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of principal on note payable	(52,483)	(51,820)
<b>NET CHANGE IN CASH</b>	20,500	313,624
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	1,045,845	732,221
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ 1,066,345	\$ 1,045,845
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Cash paid for interest expense	\$ 22,418	\$ 25,331

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

**CHILDREN OF THE NATIONS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

**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, Florida, and Massachusetts.

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, 2012 AND 2011**

**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 \$126,723 at December 31, 2012 and \$120,406 at December 31, 2011.

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, 2012 AND 2011**

**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 2012 was \$482,924 and \$527,316 for 2011.

**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, 2012 and 2011 there was no unrelated business income.

**CHILDREN OF THE NATIONS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

**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 2013. As a result, the Organization as of December 31, 2012 and 2011 does not have concentration of credit risk as it has experienced in prior years.

Beginning in 2013, deposits held in non-interest-bearing accounts will be aggregated with any interest-bearing deposits at the same bank with a combined total insured amount of up to \$250,000 per bank.

**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, 2012 AND 2011**

**NOTE 4**

**NOTES PAYABLE**

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, 2012 and 2011 totaled \$22,418 and \$23,081, respectively.

	\$	441,815	\$	456,798
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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, another gift of \$37,500 was given in December 2011 and another gift of \$37,500 was given in January 2012. \$2,250 in interest was paid in December 2011.

		-		37,500
		441,815		494,298
Less current portion		(16,150)		(15,379)
		\$ 425,665		\$ 478,919

**CHILDREN OF THE NATIONS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

**NOTE 4**

**NOTES PAYABLE (continued)**

Future principal payments are as follows:

2013	16,150
2014	16,959
2015	<u>408,706</u>
Total	<u>\$ 441,815</u>

**NOTE 5**

**TEMPORARILY RESTRICTED NET ASSETS**

At December 31, 2012 temporarily restricted net assets consisted of the following:

International support services	\$ 731,236
Dominican Republic	281,452
Sierra Leone	143,255
Uganda	<u>64,267</u>
	<u>\$ 1,220,210</u>



**CHILDREN OF THE NATIONS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

**NOTE 6**

**NET ASSETS RELEASED FROM RESTRICTIONS**

The following is a summary of net assets that were released from donor restrictions during 2012 by incurring expenses that satisfied the donor-specified restrictions:

International support services	\$	2,240,307
Malawi		1,126,880
Dominican Republic		1,075,674
In-kind equipment and supplies		726,636
Uganda		698,622
Sierra Leone		667,880
Contributed skilled services		482,924
		<hr/>
	\$	7,018,923
		<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.

**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.