

CHILDREN OF THE NATIONS

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

DECEMBER 31, 2018

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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, 2018, 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 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, 2018, 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

We have previously audited Children of the Nations 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 20, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Clarke Whitney, CPA, Inc.

Clarke Whitney, CPA, Inc.
Bremerton, Washington
August 27, 2019

CHILDREN OF THE NATIONS
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018
WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2017

	<u>2018</u>	<u>2017</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 2,232,473	\$ 2,271,350
Pledges receivable (net of allowance for doubtful accounts 2018 \$(444,907) and 2017 \$(531,369))	2,264,329	2,431,590
Inventory	151,647	263,520
Prepaid expenses	<u>34,778</u>	<u>16,018</u>
Total current assets	4,683,227	4,982,478
Property and equipment, net	<u>404,097</u>	<u>423,335</u>
Total assets	<u>\$ 5,087,324</u>	<u>\$ 5,405,813</u>
Liabilities and net assets		
Current liabilities		
Accounts payable	\$ 78,704	\$ 55,068
Accrued payroll and payroll taxes	<u>59,483</u>	<u>53,991</u>
Total current liabilities	138,187	109,059
Lease liability	<u>5,445</u>	<u>9,473</u>
Total liabilities	143,632	118,532
Net assets		
Without donor restrictions	3,166,219	3,448,171
With donor restrictions	1,777,473	1,839,110
Total net assets	<u>4,943,692</u>	<u>5,287,281</u>
Total liabilities and net assets	<u>\$ 5,087,324</u>	<u>\$ 5,405,813</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, 2018
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2017

	Without Donor Restrictions	With Donor Restrictions	2018 Total	2017 Total
Contributions and other revenues				
Contributions				
General support	\$ 2,612,947	\$ 1,935,915	\$ 4,548,862	\$ 4,637,388
Dominican Republic support	-	874,150	874,150	1,242,774
In-kind equipment and supplies	-	826,284	826,284	539,411
Malawi support	-	892,218	892,218	971,267
Sierra Leone support	-	456,733	456,733	489,546
Contributed skilled services	-	648,838	648,838	638,215
Uganda support	-	562,828	562,828	620,356
Interest	657	-	657	579
Reclassifications				
Satisfaction of purpose restrictions	<u>6,258,603</u>	<u>(6,258,603)</u>	<u>-</u>	<u>-</u>
Total contributions and other revenues	8,872,207	(61,637)	8,810,570	9,139,536
Expenses				
Program services				
International	3,226,545	-	3,226,545	3,191,571
Dominican Republic	1,576,241	-	1,576,241	1,493,820
Malawi	1,448,366	-	1,448,366	1,160,824
Sierra Leone	915,068	-	915,068	966,985
Uganda	744,003	-	744,003	697,704
Supporting services				
Management and general	530,819	-	530,819	551,144
Fundraising	<u>713,117</u>	<u>-</u>	<u>713,117</u>	<u>706,540</u>
Total expenses	<u>9,154,159</u>	<u>-</u>	<u>9,154,159</u>	<u>8,768,588</u>
Change in net assets	(281,952)	(61,637)	(343,589)	370,948
Net assets at beginning of year	<u>3,448,171</u>	<u>1,839,110</u>	<u>5,287,281</u>	<u>4,916,333</u>
Net assets at end of year	<u>\$ 3,166,219</u>	<u>\$ 1,777,473</u>	<u>\$ 4,943,692</u>	<u>\$ 5,287,281</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, 2018
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Program Services</u>						<u>Supporting Services</u>			<u>2018</u> <u>Total</u>	<u>2017</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	\$ 1,642,879	\$ -	\$ -	\$ -	\$ -	\$ 1,642,879	\$ 279,282	\$ 269,981	\$ 549,263	\$ 2,192,142	\$ 2,279,538
Administrative	-	231,313	224,717	84,232	180,868	721,130	-	-	-	721,130	765,150
Children's homes	-	-	166,578	62,795	28,243	257,616	-	-	-	257,616	275,472
Clinic	-	58,494	-	-	-	58,494	-	-	-	58,494	34,609
Communications	14,771	-	-	-	-	14,771	7,386	61,715	69,101	83,872	30,560
Contributed skilled services	178,581	298,916	14,164	87,550	3,080	582,291	66,547	-	66,547	648,838	638,215
Depreciation	-	-	-	-	-	-	28,747	-	28,747	28,747	25,180
Education	520	47,738	309,086	78,428	207,405	643,177	-	-	-	643,177	517,527
Evangelism	118,488	22,607	24,180	12,999	18,067	196,341	-	-	-	196,341	195,300
Farm	-	-	-	-	-	-	-	-	-	-	3,448
In-kind equipment and supplies	20,928	195,023	276,532	166,222	73,551	732,256	13,549	-	13,549	745,805	440,425
Interest	-	-	-	-	-	-	536	-	536	536	807
Other expenses	574,252	67,792	53,922	35,208	31,688	762,862	44,448	285,545	329,993	1,092,855	1,107,819
Other projects	98,315	131,105	87,600	175,046	67,993	560,059	-	-	-	560,059	715,741
Printing and publications	-	-	-	-	-	-	3,205	46,178	49,383	49,383	87,168
Professional fees	-	-	-	-	-	-	27,934	-	27,934	27,934	13,557
Program facilities	46,220	-	-	-	-	46,220	14,446	-	14,446	60,666	90,599
Supplies	-	-	-	-	-	-	35,299	11,847	47,146	47,146	54,559
Travel and conferences	100,014	-	-	-	-	100,014	9,440	37,851	47,291	147,305	149,507
Venture teams	366,042	286,112	49,212	12,553	64,983	778,902	-	-	-	778,902	797,013
Villages	65,535	237,141	242,375	200,035	68,125	813,211	-	-	-	813,211	546,394
Total expenses	\$ 3,226,545	\$ 1,576,241	\$ 1,448,366	\$ 915,068	\$ 744,003	\$ 7,910,223	\$ 530,819	\$ 713,117	\$ 1,243,936	\$ 9,154,159	\$ 8,768,588

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, 2018
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Change in net assets	\$ (343,589)	\$ 370,948
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	28,747	25,180
Gain on sale of equipment	(2,011)	-
(Increase) decrease in assets:		
Pledges receivable	167,261	(39,308)
Inventory	111,873	(158,455)
Prepaid expenses	(18,760)	(10,641)
Increase (decrease) in:		
Accounts payable	23,636	(26,343)
Accrued payroll and payroll taxes	<u>5,492</u>	<u>2,929</u>
Net cash provided (used) by operating activities	(27,351)	164,312
Cash flows from investing activities		
Investment in property and equipment	(11,196)	(5,431)
Proceeds on sale of equipment	<u>3,698</u>	<u>6,717</u>
Net cash provided (used) by investing activities	(7,498)	1,286
Cash flows from financing activities		
Payment on lease liability	<u>(4,028)</u>	<u>(3,757)</u>
Net cash used by financing activities	<u>(4,028)</u>	<u>(3,757)</u>
Net change in cash	(38,877)	161,841
Cash, beginning of year	<u>2,271,350</u>	<u>2,109,509</u>
Cash, end of year	<u>\$ 2,232,473</u>	<u>\$ 2,271,350</u>
Supplemental information:		
Cash paid for interest	\$ 536	\$ 807

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

CHILDREN OF THE NATIONS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

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, Colorado, Connecticut, Florida, Georgia, Illinois, Massachusetts, Nebraska, Ohio, Oklahoma, Oregon, and Texas.

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

The Organization follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification (ASC) 958 *Not-for-Profit Entities*. Under ASC 958, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: with donor restrictions, and without donor restrictions.

With Donor Restrictions: Net assets that result from contributions whose use by the Organization is restricted by donor imposed stipulations that may expire with the passage of time or can be fulfilled or otherwise removed by actions of the Organization.

Without Donor Restrictions: Net assets that are not restricted by donor stipulation.

CHILDREN OF THE NATIONS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Comparative Financial Statements

The amounts shown for the year ended December 31, 2017 in the accompanying financial statements are included to provide a basis for comparison with 2018 and present summarized totals only. Accordingly, the 2017 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, 2017, 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 \$151,647 at December 31, 2018.

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, 2018**

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
Land improvements	15 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 958.605.15, contributions received are recorded as net assets with donor restriction or without donor restriction depending on the existence, nature and fulfillment of any donor stipulations that limit the use of the donated assets. Contributions that are restricted by the donor are reported as increases in net assets without donor restriction if the restrictions are fulfilled or expire in the fiscal year in which such contributions are recognized. Other restricted contributions are reported as increases in net assets with donor restriction and are reclassified to net assets without donor restriction upon fulfillment or expiration of the donor restriction in a later fiscal year.

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 2018 was \$648,838.

**CHILDREN OF THE NATIONS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 2018. As a result, the Organization has a concentration of credit risk in the amount of \$1,826,655 as of December 31, 2018.

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 \$444,907 as of December 31, 2018. The total amount of bad debts associated to pledges receivable was also \$444,907 for the year ended December 31, 2018.

**CHILDREN OF THE NATIONS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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. At December 31, 2018 property and equipment consisted of the following:

	<u>2018</u>
Non-depreciable assets	
Land	\$ 75,000
Depreciable assets	
Buildings	447,218
Land improvements	37,859
Equipment	40,292
Vehicles	<u>13,623</u>
Total property and equipment	613,992
Less accumulated depreciation	<u>(209,895)</u>
Total property and equipment, net	<u><u>\$ 404,097</u></u>

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, 2018 was \$3,893 and \$536 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, 2018 is as follows:

	<u>2018</u>
Equipment	\$ 20,000
Less: accumulated depreciation	<u>(15,840)</u>
	<u><u>\$ 4,160</u></u>

Minimum future lease payments under this capital leases as of December 31, 2018 are as follows:

**CHILDREN OF THE NATIONS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 7 - CAPITAL LEASES (CONTINUED)

Year Ended December 31,

2019	\$ 8,415
2020	<u>2,102</u>
Total minimum lease payments	10,517
Less: amounts representing interest	(257)
Less: amounts representing operating fees	<u>(4,815)</u>
Present value of net minimum lease	<u><u>\$ 5,445</u></u>

NOTE 8 - RESTRICTIONS ON NET ASSETS

Donor restrictions are recorded as released from restriction when expenditures are incurred that advance the restricted purpose. Restrictions on net assets at December 31, 2018 consist of the following:

	<u>2018</u>
Without donor restrictions	\$ 3,166,219
With donor restrictions:	
International	831,232
Dominican Republic	287,015
Malawi	221,132
Sierra Leone	213,071
Uganda	200,023
Endowment	<u>25,000</u>
Total with donor restrictions	<u>1,777,473</u>
Total net assets	<u><u>\$ 4,943,692</u></u>

NOTE 9 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

	<u>2018</u>
Financial assets, at year end	\$ 4,683,227
Less those available for general expenditures within one year due to:	
Contractual of donor-imposed restrictions	
Subject to appropriation and satisfaction of donor restrictions	<u>(1,777,473)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 2,905,754</u></u>

**CHILDREN OF THE NATIONS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 10 - NEW ACCOUNTING PRONOUNCEMENT

On August 18, 2016, the FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities. The Organization has adjusted the presentation of its financial statements accordingly, applying the changes retrospectively to the comparative period presented. The new standards change the following aspects of the Organization's financial statements:

- The restricted net assets class has been renamed net assets with donor restrictions.
- The unrestricted net assets class has been renamed net assets without donor restrictions.
- The financial statements include a new disclosure about liquidity and availability of resources (Note 9).

The changes have the following effect on net assets at December 31, 2017:

<u>Net Asset Classes</u>	<u>As Originally Presented</u>	<u>After Adoption of ASU 2016-14</u>
Unrestricted net assets	\$ 3,448,171	\$ -
Temporarily restricted net assets	1,814,110	-
Permanently restricted net assets	25,000	-
Without donor restrictions	-	3,448,171
With donor restrictions	-	<u>1,839,110</u>
Total net assets	<u>\$ 5,287,281</u>	<u>\$ 5,287,281</u>

NOTE 11 - SUBSEQUENT EVENTS

The Organization has performed an evaluation of subsequent events through August 27, 2019, which is the date the financial statements were available to be issued, and has determined that there are no subsequent events that require disclosure.