

CHILDREN OF THE NATIONS

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

DECEMBER 31, 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Children of the Nations

Opinion

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, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2021, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Children of the Nations and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Children of the Nations' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Children of the Nations' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Children of the Nations' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited Children of the Nations' 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 21, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, 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
July 19, 2022

CHILDREN OF THE NATIONS
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2021
WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2020

	<u>2021</u>	<u>2020</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 3,173,949	\$ 1,633,779
Pledges receivable (net of allowance for doubtful accounts 2021 \$(407,271) and 2020 \$(683,751))	1,805,660	1,795,358
Inventory	77,283	136,352
Prepaid expenses	<u>4,583</u>	<u>22,703</u>
Total current assets	5,061,475	3,588,192
Property and equipment, net	<u>418,306</u>	<u>380,441</u>
Total assets	<u><u>\$ 5,479,781</u></u>	<u><u>\$ 3,968,633</u></u>
Liabilities and net assets		
Current liabilities		
Accounts payable	\$ 108,795	\$ 71,179
Accrued payroll and payroll taxes	60,992	53,914
Current portion on lease liability	<u>4,737</u>	<u>-</u>
Total current liabilities	174,524	125,093
Lease liability	<u>18,402</u>	<u>-</u>
Total liabilities	192,926	125,093
Net assets		
Without donor restrictions	2,504,595	2,463,237
With donor restrictions	<u>2,782,260</u>	<u>1,380,303</u>
Total net assets	<u>5,286,855</u>	<u>3,843,540</u>
Total liabilities and net assets	<u><u>\$ 5,479,781</u></u>	<u><u>\$ 3,968,633</u></u>

The accompanying notes are an integral part of these financial statements

CHILDREN OF THE NATIONS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2021
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2020

	Without Donor Restrictions	With Donor Restrictions	2021 Total	2020 Total
Contributions and other revenues				
Contributions				
General support	\$ 3,703,869	\$ 1,959,486	\$ 5,663,355	\$ 4,872,908
Dominican Republic support	-	577,033	577,033	689,426
In-kind equipment and supplies	-	524,828	524,828	456,142
Malawi support	-	817,846	817,846	866,670
Sierra Leone support	-	835,313	835,314	440,355
Contributed skilled services	-	148,082	148,082	404,338
Uganda support	-	517,220	517,220	487,269
Interest	4,195	-	4,195	11,443
Reclassifications				
Satisfaction of purpose restrictions	<u>3,977,851</u>	<u>(3,977,851)</u>	<u>-</u>	<u>-</u>
Total contributions and other revenues	7,685,915	1,401,957	9,087,872	8,228,551
Expenses				
Program services				
International	2,756,886	-	2,756,886	3,075,398
Dominican Republic	1,069,831	-	1,069,831	1,650,064
Malawi	1,389,471	-	1,389,471	1,196,100
Sierra Leone	796,412	-	796,412	810,246
Uganda	791,161	-	791,161	785,157
Supporting services				
Management and general	516,158	-	516,158	482,951
Fundraising	<u>703,273</u>	<u>-</u>	<u>703,273</u>	<u>673,141</u>
Total expenses	<u>8,023,192</u>	<u>-</u>	<u>8,023,192</u>	<u>8,673,057</u>
Change in net assets before other income	(337,277)	1,401,957	1,064,680	(444,506)
Other income - PPP loan	<u>378,635</u>	<u>-</u>	<u>378,635</u>	<u>316,580</u>
Change in net assets	41,358	1,401,957	1,443,315	(127,926)
Net assets at beginning of year	<u>2,463,237</u>	<u>1,380,303</u>	<u>3,843,540</u>	<u>3,971,466</u>
Net assets at end of year	<u>\$ 2,504,595</u>	<u>\$ 2,782,260</u>	<u>\$ 5,286,855</u>	<u>\$ 3,843,540</u>

The accompanying notes are an integral part of these financial statements

CHILDREN OF THE NATIONS
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2020

	<u>Program Services</u>						<u>Supporting Services</u>				
	<u>International</u>	<u>Dominican Republic</u>	<u>Malawi</u>	<u>Sierra Leone</u>	<u>Uganda</u>	<u>Total</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>	<u>2021 Total</u>	<u>2020 Total</u>
Salaries, taxes & benefits	\$ 1,682,213	\$ -	\$ -	\$ -	\$ -	\$ 1,682,213	\$ 342,761	\$ 264,407	\$ 607,168	\$ 2,289,381	\$ 2,218,110
Clinic	-	130	-	-	-	130	-	-	-	130	6,231
Communications	13,571	-	-	-	-	13,571	6,786	20,250	27,036	40,607	45,416
Contributed skilled services	74,040	-	-	29,355	-	103,395	27,887	-	27,887	131,282	404,338
Depreciation	-	-	-	-	-	-	27,187	-	27,187	27,187	18,791
Grants	164,857	914,678	1,139,985	529,541	638,469	3,387,530	-	-	-	3,387,530	3,287,429
In-kind equipment and supplies	9,529	75,003	118,026	211,222	1,007	414,787	7,294	-	7,294	422,081	390,415
Interest	-	-	-	-	-	-	1,628	-	1,628	1,628	13
Other expenses	751,767	-	-	-	-	751,767	38,312	314,441	352,753	1,104,520	1,086,388
Other projects	376	70,174	131,460	26,294	151,685	379,989	-	-	-	379,989	789,605
Printing and publications	4,911	-	-	-	-	4,911	5,439	62,088	67,527	72,438	69,543
Professional fees	-	-	-	-	-	-	19,732	-	19,732	19,732	18,460
Program facilities	45,001	-	-	-	-	45,001	15,327	-	15,327	60,328	56,399
Supplies	-	-	-	-	-	-	20,607	22,255	42,862	42,862	44,811
Travel and conferences	14,026	-	-	-	-	14,026	3,198	19,832	23,030	37,056	31,785
Venture teams	(3,405)	9,846	-	-	-	6,441	-	-	-	6,441	205,323
Total expenses	<u>\$ 2,756,886</u>	<u>\$ 1,069,831</u>	<u>\$ 1,389,471</u>	<u>\$ 796,412</u>	<u>\$ 791,161</u>	<u>\$ 6,803,761</u>	<u>\$ 516,158</u>	<u>\$ 703,273</u>	<u>\$ 1,219,431</u>	<u>\$ 8,023,192</u>	<u>\$ 8,673,057</u>

The accompanying notes are an integral part of these financial statements

CHILDREN OF THE NATIONS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Change in net assets	\$ 1,443,315	\$ (127,926)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	27,187	18,791
Gain on sale of equipment	-	(500)
Capitalized in-kind donation	(16,800)	-
(Increase) decrease in assets:		
Pledges receivable	(10,302)	126,108
Inventory	59,069	2,283
Prepaid expenses	18,120	2,646
Increase (decrease) in:		
Accounts payable	37,616	(7,878)
Accrued payroll and payroll taxes	<u>7,077</u>	<u>(9,473)</u>
Net cash provided (used) by operating activities	1,565,282	4,051
Cash flows from investing activities		
Investment in property and equipment	(48,251)	(11,520)
Proceeds on sale of equipment	<u>-</u>	<u>500</u>
Net cash used by investing activities	(48,251)	(11,020)
Cash flows from financing activities		
Proceeds from lease liability	27,200	-
Payment on lease liability	<u>(4,061)</u>	<u>(1,126)</u>
Net cash provided (used) by financing activities	<u>23,139</u>	<u>(1,126)</u>
Net change in cash	1,540,170	(8,095)
Cash, beginning of year	<u>1,633,779</u>	<u>1,641,874</u>
Cash, end of year	<u><u>\$ 3,173,949</u></u>	<u><u>\$ 1,633,779</u></u>
Supplemental information:		
Cash paid for interest	\$ 1,628	\$ 13

The accompanying notes are an integral part of these financial statements

CHILDREN OF THE NATIONS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021

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, New Mexico, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, Tennessee 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, 2021

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

Comparative Financial Statements

The amounts shown for the year ended December 31, 2020 in the accompanying financial statements are included to provide a basis for comparison with 2021 and present summarized totals only. Accordingly, the 2020 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, 2020, 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 \$77,283 at December 31, 2021.

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, 2021

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 2021 was \$148,082.

CHILDREN OF THE NATIONS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021

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 2021. As a result, the Organization has a concentration of credit risk in the amount of \$2,923,424 as of December 31, 2021.

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 \$407,271 as of December 31, 2021. The total amount of bad debts associated to pledges receivable was also \$407,271 for the year ended December 31, 2021.

CHILDREN OF THE NATIONS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 4 - 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, 2021 property and equipment consisted of the following:

	<u>2021</u>
Non-depreciable assets	
Land	\$ 75,000
Depreciable assets	
Buildings	456,193
Land improvements	54,659
Equipment	91,299
Vehicles	<u>13,622</u>
Total property and equipment	690,773
Less accumulated depreciation	<u>(272,467)</u>
Total property and equipment, net	<u><u>\$ 418,306</u></u>

NOTE 5 - CAPITAL LEASES

The Organization entered into a capital lease for copy machines with Marlin Leasing Corporation on February 28, 2021 for a term of 63 months. This capital lease was capitalized with a combined cost of \$27,200. The amount of expenses incurred under this lease for the year ended December 31, 2021 was \$605 for maintenance and \$1,628 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, 2021 is as follows:

	<u>2021</u>
Equipment	\$ 27,200
Less: accumulated depreciation	<u>(5,440)</u>
	<u><u>\$ 21,760</u></u>

Minimum future lease payments under this capital leases as of December 31, 2021 are as follows:

CHILDREN OF THE NATIONS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 5 - CAPITAL LEASES (CONTINUED)

Year Ended December 31,

2022	\$ 6,867
2023	6,867
2024	6,867
2025	6,867
2026	<u>2,284</u>
Total minimum lease payments	29,752
Less: amounts representing interest	(3,753)
Less: amounts representing operating fees	<u>(2,860)</u>
Present value of net minimum lease	<u>\$ 23,139</u>

NOTE 6 - 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, 2021 consist of the following:

	<u>2021</u>
Without donor restrictions	\$ 2,504,595
With donor restrictions:	
International	1,785,569
Dominican Republic	252,890
Malawi	133,418
Sierra Leone	557,739
Uganda	<u>52,644</u>
Total with donor restrictions	<u>2,782,260</u>
Total net assets	<u>\$ 5,286,855</u>

**CHILDREN OF THE NATIONS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 7 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

	<u>2021</u>
Financial assets, at year end	\$ 5,061,475
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>(2,782,260)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,279,215</u>

NOTE 8 - SUBSEQUENT EVENTS

The Organization has performed an evaluation of subsequent events through July 19, 2022, which is the date the financial statements were available to be issued, and has determined that there are no other subsequent events that require disclosure.