

MISSION TO CHILDREN, INC.

FINANCIAL STATEMENTS

Years Ended June 30, 2008 and 2007

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INDEPENDENT AUDITOR'S REPORT

GRACE S.
NICHOLAOU

CERTIFIED PUBLIC
ACCOUNTANT

To the Board of Directors
Mission to Children, Inc.
Escondido, California

I have audited the accompanying statements of financial position of Mission To Children, Inc. (a nonprofit corporation) as of June 30, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. My responsibility is to express an opinion on these financial statements based on my audits.

MEMBER OF
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ACCOUNTANTS

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CALIFORNIA SOCIETY OF
CERTIFIED PUBLIC
ACCOUNTANTS

I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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. I believe that my audits provide a reasonable basis for my opinion.

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In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mission To Children, Inc. as of June 30, 2008 and 2007, 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.

My audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of functional expenses on page 5 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Huntington Beach, CA
January 15, 2009

MISSION TO CHILDREN, INC.

**Statements of Financial Position
June 30, 2008 and 2007**

	2008			2007		
	<u>Expendable</u>	<u>Non- Expendable</u>	<u>Total</u>	<u>Expendable</u>	<u>Non- Expendable</u>	<u>Total</u>
<u>ASSETS</u>						
Current assets:						
Cash and cash equivalents	\$ 833,353	\$ —	\$ 833,353	\$ 730,804	\$ —	\$ 730,804
Receivables:						
From affiliated organizations	41,104	—	41,104	46,616	—	46,616
Receivables- other	—	663	663	21,881	—	21,881
Prepaid expenses	<u>4,450</u>	<u>—</u>	<u>4,450</u>	<u>7,167</u>	<u>—</u>	<u>7,167</u>
Total current assets	878,907	663	879,570	806,468	—	806,468
Noncurrent investments (Note 3)	176,572	81,394	257,966	167,948	117,564	285,512
Deposits	4,829	—	4,829	4,829	—	4,829
Furniture and equipment—net (Note 4)	26,597	—	26,597	28,535	—	28,535
Assets for sale	<u>—</u>	<u>—</u>	<u>—</u>	<u>680</u>	<u>—</u>	<u>680</u>
Total Assets	<u>\$1,086,905</u>	<u>\$ 82,057</u>	<u>\$1,168,962</u>	<u>\$1,008,460</u>	<u>\$ 117,564</u>	<u>\$1,126,024</u>
<u>LIABILITIES AND NET ASSETS</u>						
Current liabilities:						
Accounts payable	\$ 24,222	303	\$ 24,525	\$ 21,372	\$ 23,505	\$ 44,877
Accrued expenses	17,232	222	17,454	20,519	181	20,700
Current portion of annuities payable	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>61</u>	<u>61</u>
Total current liabilities	41,454	525	41,979	41,891	23,747	65,638
Annuities payable—net of current payable (Note 5)	—	—	—	—	538	538
Trust liabilities (Note 6)	<u>—</u>	<u>80,129</u>	<u>80,129</u>	<u>—</u>	<u>67,404</u>	<u>67,404</u>
Total Liabilities	<u>41,454</u>	<u>80,654</u>	<u>122,108</u>	<u>41,891</u>	<u>91,689</u>	<u>133,580</u>
Net assets:						
Temporarily restricted by donors for:						
Non-expendable irrevocable trusts	—	1,403	1,403	—	25,875	25,875
Expendable specific ministry support	<u>88,345</u>	<u>—</u>	<u>88,345</u>	<u>57,486</u>	<u>—</u>	<u>57,486</u>
Total temporarily restricted	88,345	1,403	89,748	57,486	25,875	83,361
Unrestricted:						
Undesignated	<u>957,106</u>	<u>—</u>	<u>957,106</u>	<u>909,083</u>	<u>—</u>	<u>909,083</u>
Total Net Assets	<u>1,045,451</u>	<u>1,403</u>	<u>1,046,854</u>	<u>966,569</u>	<u>25,875</u>	<u>992,444</u>
Total Liabilities and Net Assets	<u>\$1,086,905</u>	<u>\$ 82,057</u>	<u>\$1,168,962</u>	<u>\$1,008,460</u>	<u>\$ 117,564</u>	<u>\$1,126,024</u>

MISSION TO CHILDREN, INC.

**Statements of Activities
For the years ended June 30, 2008 and 2007**

	2008				2007			
	Unrestricted	Temporarily Restricted		Total	Unrestricted	Temporarily Restricted		Total
		Expendable	Non-Expendable			Expendable	Non-Expendable	
Support and revenue:								
Public support:								
Contributions	\$ 525,301	\$ 30,859	\$ -	\$ 556,160	\$ 510,142	\$ 9,038	\$ -	\$ 519,180
Estates and trusts	7,238	-	-	7,238	41,434	-	-	41,434
Interest and dividend income	11,884	-	-	11,884	12,419	-	-	12,419
Reimbursements	2,419	-	-	2,419	1,775	-	-	1,775
Realized gains (losses)	-	-	-	-	(15)	-	-	(15)
Gain/loss on conversion	(1,672)	-	-	(1,672)	(4,869)	-	-	(4,869)
Loss on disposition of assets	(1,940)	-	-	(1,940)	(360)	-	-	(360)
Change in value of annuities and trusts	-	-	(24,472)	(24,472)	-	-	(19,388)	(19,388)
Total support and revenue	<u>543,230</u>	<u>30,859</u>	<u>(24,472)</u>	<u>549,617</u>	<u>560,526</u>	<u>9,038</u>	<u>(19,388)</u>	<u>550,176</u>
Expenses:								
Program services:								
International ministries	329,291	-	-	329,291	319,135	-	-	319,135
Publications	56,543	-	-	56,543	64,780	-	-	64,780
Total program services	<u>385,834</u>	<u>-</u>	<u>-</u>	<u>385,834</u>	<u>383,915</u>	<u>-</u>	<u>-</u>	<u>383,915</u>
Supporting activities:								
General and administrative	96,391	-	-	96,391	94,061	-	-	94,061
Fundraising	12,982	-	-	12,982	11,983	-	-	11,983
Total supporting activities	<u>109,373</u>	<u>-</u>	<u>-</u>	<u>109,373</u>	<u>106,044</u>	<u>-</u>	<u>-</u>	<u>106,044</u>
Total expenses	<u>495,207</u>	<u>-</u>	<u>-</u>	<u>495,207</u>	<u>489,959</u>	<u>-</u>	<u>-</u>	<u>489,959</u>
Change in net assets	48,023	30,859	(24,472)	54,410	70,567	9,038	(19,388)	60,217
Net assets, beginning of year	<u>909,083</u>	<u>57,486</u>	<u>25,875</u>	<u>992,444</u>	<u>838,516</u>	<u>48,448</u>	<u>45,263</u>	<u>932,227</u>
Net assets, end of year	<u>\$ 957,106</u>	<u>\$ 88,345</u>	<u>\$ 1,403</u>	<u>\$1,046,854</u>	<u>\$ 909,083</u>	<u>\$ 57,486</u>	<u>\$ 25,875</u>	<u>\$ 992,444</u>

MISSION TO CHILDREN, INC.

**Statements of Cash Flows
For the years ended June 30, 2008 and 2007**

	2008			2007		
	Expendable	Non-Expendable	Total	Expendable	Non-Expendable	Total
Cash flows from operating activities:						
Change in net assets:	\$ 78,882	\$ (24,472)	\$ 54,410	\$ 79,605	\$ (19,388)	\$ 60,217
Adjustments to reconcile change in net assets to net cash provided/(used) by operating activities:						
Non-cash contributions (capitalized)	(6,000)	—	(6,000)	(2,400)	—	(2,400)
Depreciation	8,265	—	8,265	8,253	—	8,253
Net change in receivables, deposits, payables, and accrued expenses	29,673	—	29,673	(67,135)	—	(67,135)
Realized (gain)/loss on investments	—	—	—	15	—	15
Loss on disposition of assets	1,940	—	1,940	360	—	360
Change in value of annuities and trusts	—	24,472	24,472	—	19,388	19,388
Net cash provided/(used) from operating activities	<u>112,760</u>	<u>—</u>	<u>112,760</u>	<u>18,698</u>	<u>—</u>	<u>18,698</u>
Cash flows from investing activities:						
Purchase of investments	(8,624)	—	(8,624)	(13,420)	—	(13,420)
Proceeds from sale/maturities of investments	—	—	—	4,787	—	4,787
Acquisition of equipment	<u>(1,587)</u>	<u>—</u>	<u>(1,587)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net cash provided/(used) by investing activities	<u>(10,211)</u>	<u>—</u>	<u>(10,211)</u>	<u>(8,633)</u>	<u>—</u>	<u>(8,633)</u>
Net increase (decrease) in cash	102,549	—	102,549	10,065	—	10,065
Cash, beginning of year	<u>730,804</u>	<u>—</u>	<u>730,804</u>	<u>720,739</u>	<u>—</u>	<u>720,739</u>
Cash, end of year	<u>\$ 833,353</u>	<u>\$ —</u>	<u>\$ 833,353</u>	<u>\$ 730,804</u>	<u>\$ —</u>	<u>\$ 730,804</u>

Supplemental Information:

Donated services of \$7,360 in 2008 and \$3,201 in 2007 are included in contributions and international ministries' expenses.

MISSION TO CHILDREN, INC.

**Schedules of Functional Expenses
For the years ended June 30, 2008 and 2007**

	2008				
	Program Services		Supporting Activities		Total
	International Ministries	Publications	General & Admin.	Fundraising	
Salaries and benefits	\$ 89,191	\$ 23,664	\$ 40,269	\$ 6,679	\$ 159,803
Accounting	–	–	29,930	–	29,930
Depreciation	4,793	1,075	2,149	248	8,265
Dues and subscriptions	1,759	132	154	214	2,259
Office expenses	3,720	612	4,661	142	9,135
Other expenses	1,358	80	6,100	330	7,868
Postage and shipping	1,927	12,328	2,198	1,432	17,885
Professional services	9,721	1,485	4,835	189	16,230
Rent	10,440	2,340	4,680	540	18,000
Telephone	2,135	435	870	100	3,540
Travel	9,174	164	191	191	9,720
Utilities	789	177	354	41	1,361
International	192,286	–	–	–	192,286
Offers expenses	–	152	–	–	152
Publication expenses-other	–	13,899	–	1,544	15,443
Special Events	1,998	–	–	1,332	3,330
Total Expenses 2008	\$ 329,291	\$ 56,543	\$ 96,391	\$ 12,982	\$ 495,207

	2007				
	Program Services		Supporting Activities		Total
	International Ministries	Publications	General & Admin.	Fundraising	
Salaries and benefits	\$ 94,717	\$ 24,016	\$ 41,815	\$ 6,187	\$ 166,735
Accounting	–	–	28,194	–	28,194
Depreciation	4,787	1,073	2,146	247	8,253
Dues and subscriptions	1,465	110	128	128	1,831
Office supplies	2,076	625	931	108	3,740
Other expenses	1,943	93	8,107	425	10,568
Postage and shipping	2,080	12,605	1,745	1,438	17,868
Professional services	3,201	1,395	4,726	368	9,690
Rent	10,440	2,340	4,680	540	18,000
Telephone	2,907	610	1,221	141	4,879
Travel	6,729	72	83	83	6,967
Utilities	635	142	285	33	1,095
International/children ministries	182,036	–	–	–	182,036
Offers expenses	–	1,137	–	–	1,137
Publication expenses	–	20,562	–	2,285	22,847
Training materials	6,119	–	–	–	6,119
Total Expenses 2007	\$ 319,135	\$ 64,780	\$ 94,061	\$ 11,983	\$ 489,959

MISSION TO CHILDREN, INC.

Notes to Financial Statements June 30, 2008 and 2007

Note 1 — Nature of Organization:

Mission To Children, Inc. was created in 1959. It later became incorporated in the State of Nebraska. The State of Nebraska incorporation was dissolved, and in 1971 Mission To Children, Inc. (a nonprofit organization) incorporated in the State of California. All contributions are donated on a voluntary basis. There are no material concentrations of support from any geographical area.

Mission To Children exists to care for, and cultivate Christlike character in children—especially those in risk.

Mission To Children sends money to organizations in Bolivia, China, Costa Rica, El Salvador, Haiti, India, Iraq, Iran, Jordan, Lithuania, Philippines, Romania, South Africa, and Sri Lanka to provide for children. Contribution income is primarily received from individuals throughout the United States.

In June 2004 Mission To Children (MTC) recorded the name Character Solutions International as a registered Fictitious Business Name. Character Solutions International (CSI) is the name of the MTC division that is actively involved in the development of character education materials and seminars on an international basis. The MTC Board of Directors and management view this CSI initiative as another method of meeting the needs of children worldwide. MTC has also been instrumental in the development of partnering organizations interested in expanding character education in their countries. This pattern is expected to continue. The activities of CSI are included in these financial statements.

The corporation is exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code and comparable state law, and contributions to it are tax deductible within the limitation prescribed by the Code.

Note 2 — Summary of Significant Accounting Policies:

Accounting Method —

The financial statements of Mission To Children have been prepared on the accrual basis. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from these estimates. The significant accounting policies followed are described below:

Principles of Combination —

The results of operations and financial position of the Canadian affiliate are not included in these financial statements because the organizations are not under common control. The two organizations do on a year-to-year basis, agree to participate together in most program services.

Classes of Net Assets —

The financial statements report amounts separately by class of net assets. Unrestricted amounts are those currently available under the direction of the board for use in the organization's ministries. Temporarily restricted amounts are those not currently available for use in the Organization's ministries until commitments regarding their use have been fulfilled or lifetime beneficiary interests have ceased. All contributions are considered available for unrestricted use unless specifically restricted by the donor or subject to other legal restrictions.

Cash and Cash Equivalents —

Cash consists of cash in checking accounts, including an interest bearing checking account and a money market account. Because investment cash of trusts and annuities is not available for use in operations, it is included with investments on the statement of financial position.

The organization maintains its cash in bank deposit accounts which exceed federally insured limits.

MISSION TO CHILDREN, INC.

Notes to Financial Statements June 30, 2008 and 2007

Note 2 — Summary of Significant Accounting Policies (continued):

Investments —

Investments in equity securities with readily determinable fair values are reported at fair value with gains and losses included in the statement of activities. There are also investments in a Series C Note which is an unsecured subordinated promissory note. Non-expendable investments for trusts and annuities are in a mutual fund-balanced stock and bond portfolio.

Furniture, Equipment, and Depreciation —

Expenditures for furniture and equipment in excess of \$1,000 are capitalized at cost. Maintenance and repairs are charged to expense as incurred, major improvements are capitalized. Donated assets to be used in the ministry are capitalized at their fair market value at the date of the gift. Depreciation expense is provided on the straight-line method over the estimated useful lives of the assets (5-10 years).

Annuities and Trust Liabilities —

The liabilities for annuities and trusts is based upon actuarially determined present values considering the income beneficiaries and applicable discount rates based on federal tables. An actuarial adjustment is recognized in the statements of activities for changes in the value.

Public Support, Revenue, Reclassifications, and Expenses —

Contribution income is recorded when cash is received, professional services are provided, or when ownership of donated assets is transferred. Other items of revenue and support are recorded as earned. Donor restricted contributions to be used during the year are recorded in the unrestricted class of net assets. Bequests are recorded as income at the time the organization has established right to the bequest and the proceeds are measurable. Donated items are recorded at their estimated fair value at the date of the gift. Expenses of the organization are recorded when incurred in accordance with the accrual basis of accounting. During the year ended June 30, 2008 and 2007, one international ministry was paid \$63,082 and \$81,487, respectively.

Functional Allocation of Expenses —

The costs of providing the various program services and supporting activities of the organization have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program services and supporting activities.

Note 3 — Noncurrent Investments:

Investments consisted of the following at June 30, 2008 and 2007.

	2008		2007	
	Cost	Fair Market Value	Cost	Fair Market Value
<u>Operating funds</u>				
Series C100 promissory note	\$ 176,571	\$ 176,571	\$ 167,948	\$ 167,948
<u>Trusts and annuities</u>				
<u>Annuity Trust Securities</u>				
Mutual fund—balanced stock and bond portfolio	\$ 55,646	\$ 65,514	\$ 72,360	\$ 97,282
Investment cash	1,728	1,728	1,129	1,129
	57,374	67,242	73,489	98,411
<u>Revocable Trust Securities</u>				
Mutual fund—stock and bond balanced portfolio	12,614	14,152	14,323	19,153
	\$ 69,988	\$ 81,394	\$ 87,812	\$ 117,564

Because investment cash of trusts and annuities is not available for use in operations, it is included with investments on the statement of financial position.

MISSION TO CHILDREN, INC.

**Notes to Financial Statements
June 30, 2008 and 2007**

Note 4 — Furniture, Equipment, and Depreciation:

Assets consist of the following at June 30, 2008 and 2007:

	2008	2007
Furniture and equipment	\$ 48,811	\$ 44,756
Less: accumulated depreciation	<u>(22,214)</u>	<u>(16,221)</u>
	<u>\$ 26,597</u>	<u>\$ 28,535</u>

Depreciation for the years ended June 30, 2008 and 2007 in the amounts of \$8,265 and \$8,253 respectively, has been allocated to program services and supporting activities in the statement of activities.

Note 5 — Annuities Payable:

The organization has established a gift annuity plan whereby donors may contribute assets to the organization in exchange for the right to receive a fixed dollar annual return during their lifetimes. A portion of the transfer is considered to be a charitable contribution for income tax purposes.

The difference between the amount provided for the gift annuity and the liability for future payments, determined on an actuarial basis, is recognized as unrestricted contributions income at the date of the gift unless the gift portion is restricted. Income earned on annuity investments and distributions paid are credited and charged, respectively, against unrestricted revenue unless the annuity agreement stipulates to the disposition of any remaining actuarial value.

The annuity liability is revalued annually based upon actuarially computed present values. Resulting actuarial gain or loss is recorded in the statement of activities.

Note 6 — Trust Liabilities:

As trustee, the organization administers revocable (grantor) trusts that provide for a beneficial interest to the organization at the grantor's death. Because the trusts are revocable at the discretion of the grantor, the principal amounts provided are recorded as liabilities. All trust income, deductions, and credits are reportable by the grantor for tax purposes. At the grantor's death, the remaining trust assets will be recorded as contributions income.

As trustee, the organization administers irrevocable trusts, and charitable remainder annuity trusts. These trusts provide for the payment of lifetime distributions to the grantor or other designated beneficiaries. At the death of the lifetime beneficiaries, the trusts provide for the distribution of assets to designated charitable remaindermen.

The portion of the trusts attributable to the future interest of the organization is recorded on the statement of activities as temporarily restricted contributions in the period received. The trust liabilities include the present value of the life interest payable to the trust recipient.

Trust liabilities at June 30, 2008 and 2007 include:

	2008	2007
Revocable trusts	\$ 18,512	\$ 20,512
Irrevocable trusts	<u>61,617</u>	<u>46,892</u>
	<u>\$ 80,129</u>	<u>\$ 67,404</u>

Irrevocable trust obligations are actuarially determined based on the present value of future payments due income beneficiaries using discount rates determined at the time each trust was established, and federal mortality tables for the life expectancy.

Note 7 — Retirement Program:

The organization has established a 403(b) tax-deferred retirement program for employees. All contributions are paid by the employee as tax deferred income. The organization does not contribute to this plan.

MISSION TO CHILDREN, INC.

Notes to Financial Statements June 30, 2008 and 2007

Note 8 — Donated Services:

Contributions include donated skilled services provided by volunteers in educational programs. Skilled services were valued using equivalent teaching compensation amounts for comparable services available for the type and location of the service. Donated services for the years ended June 30, 2008 and 2007 in the amounts of \$7,360 and \$3,201 respectively, has been recorded in the statements of activities.

Note 9 — Operating Leases:

In July 2005 the organization entered into an office lease. This lease is for sixty months, with one renewal option of three years. The following summarizes the future minimum payment required under this operating lease.

<u>Years ending June 30.</u>	
2009	\$ 36,000
2010	36,000
Renewal period:	
2011	36,000
2012	36,000
2013	36,000

The Canadian affiliate reimburses Mission To Children 50% of the cost of the lease. In the years ended June 30, 2008 and 2007, \$18,000 was expensed each year.

Note 10 — Subsequent Event:

Through this subsidiary, Character Solutions International (CSI), MTC began a three-year India project in July 2008. Working with an established network of ministry leaders, CSI/India intends to train one million adults and youth in the methods and materials of CSI. The purposes are (a) to build relational bridges with non-Christians while teaching character in schools, etc., and (b) to help new believers in churches and other settings cultivate Christlike character. The estimated cost is 2.5 million dollars, 20% paid by Indian trainees, 40% provided through MTC/ Canada and 40% provided through MTC/USA.