

MISSION TO CHILDREN, INC.

FINANCIAL STATEMENTS

Years Ended June 30, 2010 and 2009

TABLE OF CONTENTS

Independent Auditor’s Report	1
Statements of Financial Position.....	2
Statements of Activities	3
Statements of Cash Flows	4
Schedules of Functional Expenses	5
Notes to Financial Statements	6
Note 1 — Nature of Organization.....	6
Note 2 — Summary of Significant Accounting Policies.....	6
Note 3 — Noncurrent Investments	7
Note 4 — Furniture, Equipment, and Depreciation	8
Note 5 — Annuities Payable	8
Note 6 — Trust Liabilities.....	8
Note 7 — Retirement Program.....	9
Note 8 — Donated Services	9
Note 9 — Operating Leases	9
Note 10—Commitments	9
Note 11—Subsequent Events	9



INDEPENDENT AUDITOR'S REPORT

GRACE S. NICHOLAOU

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

CERTIFIED PUBLIC ACCOUNTANT

I have audited the accompanying statements of financial position of Mission To Children, Inc. (a nonprofit corporation) as of June 30, 2010 and 2009, 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

AMERICAN INSTITUTE 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control over financial reporting. Accordingly, I express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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.

CALIFORNIA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

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, 2010 and 2009, and the results of its activities and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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As discussed in notes 2, 3, and 11, Mission to Children, Inc. has adopted the new provisions of the following Topics of the FASB Accounting Standards Codification: Fair Value Measurements and Disclosure and Subsequent Events. The adoption of these standards had no impact on previously reported net assets.

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.

Grace S. Nicholas

Huntington Beach, CA
November 10, 2010

MISSION TO CHILDREN, INC.

**Statements of Financial Position
June 30, 2010 and 2009**

	2010			2009		
	Expendable	Non-Expendable	Total	Expendable	Non-Expendable	Total
ASSETS						
Current assets:						
Cash and cash equivalents	\$201,873	\$ —	\$201,873	\$343,403	\$ —	\$343,403
Receivables:						
From affiliated organizations	28,966	—	28,966	36,739	—	36,739
Receivables—other	—	128	128	970	971	1,941
Prepaid expenses	<u>7,154</u>	<u>—</u>	<u>7,154</u>	<u>7,081</u>	<u>—</u>	<u>7,081</u>
Total current assets	237,993	128	238,121	388,193	971	389,164
Noncurrent investments (Note 3)	447,905	58,941	506,846	438,384	59,740	498,124
Deposits	4,809	—	4,809	4,684	—	4,684
Furniture and equipment—at cost, net (Note 4)	<u>32,850</u>	<u>—</u>	<u>32,850</u>	<u>18,240</u>	<u>—</u>	<u>18,240</u>
Total Assets	<u>\$723,557</u>	<u>\$ 59,069</u>	<u>\$782,626</u>	<u>\$849,501</u>	<u>\$ 60,711</u>	<u>\$910,212</u>
LIABILITIES AND NET ASSETS						
Current liabilities:						
Accounts payable	\$ 16,249	762	\$ 17,011	\$ 19,871	\$ 374	\$ 20,245
Accrued expenses	<u>22,956</u>	<u>115</u>	<u>23,071</u>	<u>20,575</u>	<u>222</u>	<u>20,797</u>
Total current liabilities	39,205	877	40,082	40,446	596	41,042
Trust liabilities (Note 6)	<u>—</u>	<u>52,675</u>	<u>52,675</u>	<u>—</u>	<u>60,898</u>	<u>60,898</u>
Total Liabilities	<u>39,205</u>	<u>53,552</u>	<u>92,757</u>	<u>40,446</u>	<u>61,494</u>	<u>101,940</u>
Net assets:						
Temporarily restricted by donors for:						
Non-expendable irrevocable trusts	—	5,517	5,517	—	(783)	(783)
Expendable specific ministry support	<u>130,221</u>	<u>—</u>	<u>130,221</u>	<u>114,652</u>	<u>—</u>	<u>114,652</u>
Total temporarily restricted	130,221	5,517	135,738	114,652	(783)	113,869
Unrestricted:						
Undesignated	<u>554,131</u>	<u>—</u>	<u>554,131</u>	<u>694,403</u>	<u>—</u>	<u>694,403</u>
Total Net Assets	<u>684,352</u>	<u>5,517</u>	<u>689,869</u>	<u>809,055</u>	<u>(783)</u>	<u>808,272</u>
Total Liabilities and Net Assets	<u>\$723,557</u>	<u>\$ 59,069</u>	<u>\$782,626</u>	<u>\$849,501</u>	<u>\$ 60,711</u>	<u>\$ 910,212</u>

MISSION TO CHILDREN, INC.

**Statements of Activities
For the years ended June 30, 2010 and 2009**

	2010				2009			
	Unrestricted	Temporarily Restricted		Total	Unrestricted	Temporarily Restricted		Total
		Expendable	Non-Expendable			Expendable	Non-Expendable	
Support and revenue:								
Contributions	\$437,636	\$ 15,569	\$ –	\$453,205	\$415,848	\$ 26,307	\$ –	\$ 442,155
Estates and trusts	35,484	–	–	35,484	27,769	–	–	27,769
Interest and dividend income	11,008	–	–	11,008	13,735	–	–	13,735
Reimbursements	12,737	–	–	12,737	5,105	–	–	5,105
Other income	183	–	–	183	124	–	–	124
Loss on disposition of assets	–	–	–	–	(1,296)	–	–	(1,296)
Change in value of annuities and trusts	–	–	6,300	6,300	–	–	(2,186)	(2,186)
Total support and revenue	<u>497,048</u>	<u>15,569</u>	<u>6,300</u>	<u>518,917</u>	<u>461,285</u>	<u>26,307</u>	<u>(2,186)</u>	<u>485,406</u>
Expenses:								
Program services:								
International ministries	469,956	–	–	469,956	565,932	–	–	565,932
Publications	65,821	–	–	65,821	61,458	–	–	61,458
Total program services	<u>535,777</u>	<u>–</u>	<u>–</u>	<u>535,777</u>	<u>627,390</u>	<u>–</u>	<u>–</u>	<u>627,390</u>
Supporting activities:								
General and administrative	87,050	–	–	87,050	84,738	–	–	84,738
Fundraising	14,493	–	–	14,493	11,860	–	–	11,860
Total supporting activities	<u>101,543</u>	<u>–</u>	<u>–</u>	<u>101,543</u>	<u>96,598</u>	<u>–</u>	<u>–</u>	<u>96,598</u>
Total expenses	<u>637,320</u>	<u>–</u>	<u>–</u>	<u>637,320</u>	<u>723,988</u>	<u>–</u>	<u>–</u>	<u>723,988</u>
Change in net assets	(140,272)	15,569	6,300	(118,403)	(262,703)	26,307	(2,186)	(238,582)
Net assets, beginning of year	<u>694,403</u>	<u>114,652</u>	<u>(783)</u>	<u>808,272</u>	<u>957,106</u>	<u>88,345</u>	<u>1,403</u>	<u>\$1,046,854</u>
Net assets, end of year	<u>\$554,131</u>	<u>\$130,221</u>	<u>\$ 5,517</u>	<u>\$689,869</u>	<u>\$694,403</u>	<u>\$114,652</u>	<u>\$ (783)</u>	<u>\$ 808,272</u>

MISSION TO CHILDREN, INC.

**Statements of Cash Flows
For the years ended June 30, 2010 and 2009**

	2010			2009		
	Expendable	Non-Expendable	Total	Expendable	Non-Expendable	Total
Cash flows from operating activities:						
Change in net assets:	\$ (124,703)	\$ 6,300	\$ (118,403)	\$ (236,396)	\$ (2,186)	\$ (238,582)
Adjustments to reconcile change in net assets to net cash provided/(used) by operating activities:						
Depreciation	8,203	-	8,203	8,919	-	8,919
Net change in receivables, deposits, payables, and accrued expenses	7,303	-	7,303	(99)	-	(99)
Loss on disposition of assets	-	-	-	1,296	-	1,296
Change in value of annuities and trusts	-	(6,300)	(6,300)	-	2,186	2,186
Net cash provided/(used) from operating activities	<u>(109,197)</u>	<u>-</u>	<u>(109,197)</u>	<u>(226,280)</u>	<u>-</u>	<u>(226,280)</u>
Cash flows from investing activities:						
Purchase of investments	(9,521)	-	(9,521)	(261,812)	-	(261,812)
Acquisition of equipment	<u>(22,812)</u>	<u>-</u>	<u>(22,812)</u>	<u>(1,858)</u>	<u>-</u>	<u>(1,858)</u>
Net cash provided/(used) by investing activities	<u>(32,333)</u>	<u>-</u>	<u>(32,333)</u>	<u>(263,670)</u>	<u>-</u>	<u>(263,670)</u>
Net increase (decrease) in cash	(141,530)	-	(141,530)	(489,950)	-	(489,950)
Cash, beginning of year	<u>343,403</u>	<u>-</u>	<u>343,403</u>	<u>833,353</u>	<u>-</u>	<u>833,353</u>
Cash, end of year	<u>\$ 201,873</u>	<u>\$ -</u>	<u>\$ 201,873</u>	<u>\$ 343,403</u>	<u>\$ -</u>	<u>\$ 343,403</u>

Supplemental Information:

 Donated services of \$2,294 in 2010 and \$20,464 in 2009 are included in contributions and expenses.

MISSION TO CHILDREN, INC.

**Schedules of Functional Expenses
For the years ended June 30, 2010 and 2009**

	2010				
	Program Services		Supporting Activities		Total
	International Ministries	Publications	General & Admin.	Fundraising	
Salaries and benefits	\$107,570	\$ 29,509	\$ 23,021	\$ 6,925	\$167,025
Accounting	–	–	32,999	–	32,999
Advertising	–	–	5,202	–	5,202
Depreciation	5,004	1,312	1,559	328	8,203
Dues and subscriptions	1,679	126	147	147	2,099
Office expenses	2,626	530	888	131	4,175
Other expenses	1,453	194	5,632	286	7,565
Postage and shipping	2,102	10,646	2,421	1,272	16,441
Professional services	3,121	2,800	10,688	1,946	18,555
Rent	10,980	2,880	3,420	720	18,000
Telephone	2,603	636	756	159	4,154
Travel	10,792	75	91	651	11,609
Utilities	725	190	226	48	1,189
International	148,579	–	–	–	148,579
International – CSI India	172,722	–	–	–	172,722
Publication expenses – other	–	16,923	–	1,880	18,803
Total Expenses 2010	<u>\$469,956</u>	<u>\$ 65,821</u>	<u>\$ 87,050</u>	<u>\$ 14,493</u>	<u>\$637,320</u>

	2009				
	Program Services		Supporting Activities		Total
	International Ministries	Publications	General & Admin.	Fundraising	
Salaries and benefits	\$104,539	\$ 27,275	\$ 25,486	\$ 6,520	\$163,820
Accounting	–	–	28,082	–	28,082
Advertising	–	–	1,488	–	1,488
Depreciation	5,441	1,427	1,695	356	8,919
Dues and subscriptions	1,986	149	174	174	2,483
Office expenses	3,401	684	3,896	160	8,141
Other expenses	2,315	94	6,560	332	9,301
Postage and shipping	2,437	11,900	2,035	1,474	17,846
Professional services	21,578	1,548	11,082	172	34,380
Rent	10,980	2,880	3,420	720	18,000
Telephone	1,389	337	401	84	2,211
Travel	12,093	145	170	170	12,578
Utilities	798	209	249	52	1,308
International	138,531	–	–	–	138,531
International – CSI India	260,444	–	–	–	260,444
Publication expenses – other	–	14,810	–	1,646	16,456
Total Expenses 2009	<u>\$565,932</u>	<u>\$ 61,458</u>	<u>\$ 84,738</u>	<u>\$ 11,860</u>	<u>\$723,988</u>

MISSION TO CHILDREN, INC.

Notes to Financial Statements June 30, 2010 and 2009

Note 1 — Nature of Organization:

Mission To Children, Inc. (a nonprofit organization) was incorporated in 1971 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 at risk.

Mission To Children sends money to organizations in Bolivia, China, Colombia, Costa Rica, El Salvador, Haiti, India, Iraq, Kenya, Malawi, Philippines, Romania, and Zimbabwe to provide for children. Contribution income is primarily received from individuals throughout the United States.

Mission To Children (MTC) has recorded the name Character Solutions International as a registered Fictitious Business Name. Character Solutions® is also a registered servicemark with the United States Patent and Trademark Office. 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 organization has made a decision to shift its primary program emphasis from individual sponsorships to character cultivation.

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 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. These accounts may, at times, exceed federally insured limits. Mission To Children has not experienced any losses.

Investments —

Investments are in 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).

MISSION TO CHILDREN, INC.

Notes to Financial Statements June 30, 2010 and 2009

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

Estimates —

The preparation of financial statements in conformity 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.

Annuities and Trust Liabilities —

The liabilities for annuities and trusts are 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, 2010 and 2009, one international ministry was paid \$192,601 and \$280,593, 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.

Recently Issued Accounting Standards —

On July 1, 2009, Mission To Children adopted the new provisions of the Income Tax topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). These provisions clarify the accounting for uncertainty in tax positions and prescribe guidance related to the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The tax benefit from an uncertain tax position is only recognized in the statement of financial position if the tax position is more likely than not to be sustained upon an examination, based on the technical merits of the position. Interest and penalties, if any, are included in expenses in the statement of activities. As of June 30, 2010, Mission To Children had no uncertain tax positions that qualify for recognition or disclosure in the financial statements.

Note 3 — Noncurrent Investments:

Fair value of assets measured on a recurring basis at June 30, 2010 and 2009 are as follows:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	
	June 30, 2010	June 30, 2009
<u>Trusts and annuities</u>		
Annuity Trust Securities		
Mutual fund—balanced stock and bond portfolio	\$ 46,072	\$ 47,159
Investment cash	3,097	2,571
	49,169	49,730
Revocable Trust Securities		
Mutual fund—stock and bond balanced portfolio	9,772	10,010
	\$ 58,941	\$ 59,740

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, 2010 and 2009**

Note 3 — Noncurrent Investments (continued):

Periodic income and losses are reflected as increases and decreases of trust liabilities.

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Dividends	\$ 1,725	\$ 3,527
Realized (loss)	(915)	(1,949)
Unrealized gain (loss)	<u>5,592</u>	<u>(15,067)</u>
	<u>\$ 6,402</u>	<u>\$ (13,489)</u>

Inputs other than quoted prices
included within Level 1 (above) that
are observable for the asset, either
directly or indirectly (Level 2)

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
<u>Operating funds</u>		
Class A promissory note	<u>\$447,905</u>	<u>\$438,384</u>

Investment income at June 30, 2010 and 2009 consists of interest of \$9,521 and \$11,813, respectively.

Note 4 — Furniture, Equipment, and Depreciation:

Assets consist of the following at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Furniture and equipment	\$ 56,094	\$ 49,082
WIP-Network Installation	<u>14,000</u>	<u>—</u>
	70,094	49,082
Less: accumulated depreciation	<u>(37,244)</u>	<u>(30,842)</u>
Furniture and equipment-at cost, net	<u>\$ 32,850</u>	<u>\$ 18,240</u>

Depreciation for the years ended June 30, 2010 and 2009 in the amounts of \$8,203 and \$8,919 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.

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.

MISSION TO CHILDREN, INC.

Notes to Financial Statements

June 30, 2010 and 2009

Note 6 — Trust Liabilities (continued):

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, 2010 and 2009 include:

	<u>2010</u>	<u>2009</u>
Revocable trusts	\$ 9,012	\$ 15,512
Irrevocable trusts	<u>43,663</u>	<u>45,386</u>
	<u>\$ 52,675</u>	<u>\$ 60,898</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.

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, 2010 and 2009 in the amounts of \$2,294 and \$20,464 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 ended in July 2010. As of August 2010 the monthly rent decreased to \$2,695 per month. The lease is on a month to month basis effective August 2010.

The Canadian affiliate reimburses Mission To Children 50% of the cost of the lease. In the years ended June 30, 2010 and 2009, \$18,000 was expensed each year.

Note 10 — Commitments:

Through its 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 original budget was 2.5 million dollars, 20% paid by Indian trainees, 40% provided through MTC/Canada and 40% provided through MTC/USA. The amounts paid by MTC/USA to the CSI/India project in the years ended June 30, 2010 and 2009 is \$172,722 and \$260,444, respectively.

During the year ended June 30, 2010, the India funding for CSI India did not meet its original budgeted income goals. However, CSI India has reduced its expenditures to help off-set the funding shortfall. In addition, because of the monetary drop of the Indian rupee MTC has been able to reduce the amount sent to CSI India. CSI India will continue efforts to improve their funding obligations while they continue to decrease their expenditures. They are ahead of schedule in meeting training goals.

Note 11 — Subsequent Events:

The organization has evaluated subsequent events through November 10, 2010, the date which the financial statement were available to be issued.