

**MISSION TO CHILDREN, INC.**

**FINANCIAL STATEMENTS**

**Years Ended June 30, 2011 and 2010**

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**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 organization) as of June 30, 2011 and 2010, 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 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.

CALIFORNIA SOCIETY OF  
CERTIFIED PUBLIC  
ACCOUNTANTS

P.O. BOX 1567  
HUNTINGTON BEACH  
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92647-1567

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, 2011 and 2010, 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.

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My audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses on page 5 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

WWW.MBSINC.COM

Huntington Beach, CA  
December 7, 2011

**MISSION TO CHILDREN, INC.**

**Statements of Financial Position  
June 30, 2011 and 2010**

	2011			2010		
	Expendable	Non-Expendable	Total	Expendable	Non-Expendable	Total
<b><u>ASSETS</u></b>						
Current assets:						
Cash and cash equivalents	\$290,891	\$ —	\$290,891	\$201,873	\$ —	\$201,873
Receivables:						
From affiliated organizations	22,787	—	22,787	28,966	—	28,966
Receivables—other	—	—	—	—	128	128
Prepaid expenses	<u>8,575</u>	<u>—</u>	<u>8,575</u>	<u>7,154</u>	<u>—</u>	<u>7,154</u>
Total current assets	322,253	—	322,253	237,993	128	238,121
Noncurrent investments (Note 3)	205,848	62,481	268,329	447,905	58,941	506,846
Deposits	4,869	—	4,869	4,809	—	4,809
Furniture and equipment—at cost, net (Note 4)	<u>37,980</u>	<u>—</u>	<u>37,980</u>	<u>32,850</u>	<u>—</u>	<u>32,850</u>
<b>Total Assets</b>	<b><u>\$570,950</u></b>	<b><u>\$ 62,481</u></b>	<b><u>\$633,431</u></b>	<b><u>\$723,557</u></b>	<b><u>\$ 59,069</u></b>	<b><u>\$782,626</u></b>
 <b><u>LIABILITIES AND NET ASSETS</u></b>						
Current liabilities:						
Accounts payable	\$ 22,920	\$ 2,438	\$ 25,358	\$ 16,249	762	\$ 17,011
Accrued expenses	<u>27,685</u>	<u>108</u>	<u>27,793</u>	<u>22,956</u>	<u>115</u>	<u>23,071</u>
Total current liabilities	50,605	2,546	53,151	39,205	877	40,082
Trust liabilities (Note 6)	<u>—</u>	<u>54,213</u>	<u>54,213</u>	<u>—</u>	<u>52,675</u>	<u>52,675</u>
<b>Total Liabilities</b>	<b><u>50,605</u></b>	<b><u>56,759</u></b>	<b><u>107,364</u></b>	<b><u>39,205</u></b>	<b><u>53,552</u></b>	<b><u>92,757</u></b>
Net assets:						
Temporarily restricted by donors for:						
Non-expendable irrevocable trusts	—	5,722	5,722	—	5,517	5,517
Expendable specific ministry support	<u>171,414</u>	<u>—</u>	<u>171,414</u>	<u>130,221</u>	<u>—</u>	<u>130,221</u>
Total temporarily restricted	171,414	5,722	177,136	130,221	5,517	135,738
Unrestricted:						
Undesignated	<u>348,931</u>	<u>—</u>	<u>348,931</u>	<u>554,131</u>	<u>—</u>	<u>554,131</u>
<b>Total Net Assets</b>	<b><u>520,345</u></b>	<b><u>5,722</u></b>	<b><u>526,067</u></b>	<b><u>684,352</u></b>	<b><u>5,517</u></b>	<b><u>689,869</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$570,950</u></b>	<b><u>\$ 62,481</u></b>	<b><u>\$633,431</u></b>	<b><u>\$723,557</u></b>	<b><u>\$ 59,069</u></b>	<b><u>\$782,626</u></b>

**MISSION TO CHILDREN, INC.**  
**Statements of Activities**  
**For the years ended June 30, 2011 and 2010**

	2011				2010			
	Temporarily Restricted				Temporarily Restricted			
	Unrestricted	Expendable	Non-Expendable	Total	Unrestricted	Expendable	Non-Expendable	Total
Support and revenue:								
Contributions	\$359,533	\$ 41,193	\$ –	\$400,726	\$437,636	\$ 15,569	\$ –	\$453,205
Estates and trusts	41,061	–	–	41,061	35,484	–	–	35,484
Interest and dividend income	10,167	–	–	10,167	11,008	–	–	11,008
Reimbursements	9,180	–	–	9,180	12,737	–	–	12,737
Other income	–	–	–	–	183	–	–	183
Gain (loss) on disposition of assets	(97)	–	–	(97)	–	–	–	–
Change in value of annuities and trusts	–	–	205	205	–	–	6,300	6,300
Total support and revenue	<u>419,844</u>	<u>41,193</u>	<u>205</u>	<u>461,242</u>	<u>497,048</u>	<u>15,569</u>	<u>6,300</u>	<u>518,917</u>
Expenses:								
Program services:								
International ministries	469,621	–	–	469,621	469,956	–	–	469,956
Publications	51,380	–	–	51,380	65,821	–	–	65,821
Total program services	<u>521,001</u>	<u>–</u>	<u>–</u>	<u>521,001</u>	<u>535,777</u>	<u>–</u>	<u>–</u>	<u>535,777</u>
Supporting activities:								
General and administrative	82,290	–	–	82,290	87,050	–	–	87,050
Fundraising	21,753	–	–	21,753	14,493	–	–	14,493
Total supporting activities	<u>104,043</u>	<u>–</u>	<u>–</u>	<u>104,043</u>	<u>101,543</u>	<u>–</u>	<u>–</u>	<u>101,543</u>
Total expenses	<u>625,044</u>	<u>–</u>	<u>–</u>	<u>625,044</u>	<u>637,320</u>	<u>–</u>	<u>–</u>	<u>637,320</u>
Change in net assets	(205,200)	41,193	205	(163,802)	(140,272)	15,569	6,300	(118,403)
Net assets, beginning 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>
Net assets, end of year	<u>\$348,931</u>	<u>\$171,414</u>	<u>\$ 5,722</u>	<u>\$526,067</u>	<u>\$554,131</u>	<u>\$130,221</u>	<u>\$ 5,517</u>	<u>\$689,869</u>

**MISSION TO CHILDREN, INC.**

**Statements of Cash Flows  
For the years ended June 30, 2011 and 2010**

	2011			2010		
	Expendable	Non-Expendable	Total	Expendable	Non-Expendable	Total
Cash flows from operating activities:						
Change in net assets:	\$(164,007)	\$ 205	\$(163,802)	\$(124,703)	\$ 6,300	\$(118,403)
Adjustments to reconcile change in net assets to net cash provided/(used) by operating activities:						
Depreciation	10,607	-	10,607	8,203	-	8,203
Net change in receivables, deposits, payables, and accrued expenses	16,098	-	16,098	7,303	-	7,303
Loss on disposition of assets	97	-	97	-	-	-
Change in value of annuities and trusts	-	(205)	(205)	-	(6,300)	(6,300)
Net cash provided/(used) from operating activities	<u>(137,205)</u>	<u>-</u>	<u>(137,205)</u>	<u>(109,197)</u>	<u>-</u>	<u>(109,197)</u>
Cash flows from investing activities:						
Purchase of investments	(8,750)	-	(8,750)	(9,521)	-	(9,521)
Proceeds from sale/maturities of investments	250,807	-	250,807	-	-	-
Acquisition of equipment	<u>(15,834)</u>	<u>-</u>	<u>(15,834)</u>	<u>(22,812)</u>	<u>-</u>	<u>(22,812)</u>
Net cash provided/(used) by investing activities	<u>226,223</u>	<u>-</u>	<u>226,223</u>	<u>(32,333)</u>	<u>-</u>	<u>(32,333)</u>
Net increase (decrease) in cash	89,018	-	89,018	(141,530)	-	(141,530)
Cash, beginning of year	<u>201,873</u>	<u>-</u>	<u>201,873</u>	<u>343,403</u>	<u>-</u>	<u>343,403</u>
Cash, end of year	<u>\$ 290,891</u>	<u>\$ -</u>	<u>\$ 290,891</u>	<u>\$ 201,873</u>	<u>\$ -</u>	<u>\$ 201,873</u>

Supplemental Information:

Donated services of \$0 in 2011 and \$2,294 in 2010 are included in contributions and expenses.

**MISSION TO CHILDREN, INC.**

**Schedules of Functional Expenses  
For the years ended June 30, 2011 and 2010**

	2011				
	Program Services		Supporting Activities		Total
	International Ministries	Publications	General & Admin.	Fundraising	
Salaries and benefits	\$113,672	\$ 30,476	\$ 23,614	\$ 7,132	\$174,894
Accounting and legal	–	–	36,928	–	36,928
Advertising	–	–	–	8,058	8,058
Depreciation	6,470	1,697	2,016	424	10,607
Dues and subscriptions	1,135	84	98	98	1,415
Office expenses	3,287	600	1,098	238	5,223
Other expenses	3,092	515	4,808	1,062	9,477
Postage and shipping	1,965	5,974	1,468	2,807	12,214
Professional services	1,138	743	8,494	147	10,522
Rent	9,957	2,612	3,101	653	16,323
Telephone	4,844	269	319	67	5,499
Travel	13,292	92	107	115	13,606
Utilities	769	202	239	50	1,260
International	101,129	–	–	–	101,129
International – CSI India	208,871	–	–	–	208,871
Publication expenses – other	–	8,116	–	902	9,018
<b>Total Expenses 2011</b>	<b><u>\$469,621</u></b>	<b><u>\$ 51,380</u></b>	<b><u>\$ 82,290</u></b>	<b><u>\$ 21,753</u></b>	<b><u>\$625,044</u></b>

	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
<b>Total Expenses 2010</b>	<b><u>\$469,956</u></b>	<b><u>\$ 65,821</u></b>	<b><u>\$ 87,050</u></b>	<b><u>\$ 14,493</u></b>	<b><u>\$637,320</u></b>

# MISSION TO CHILDREN, INC.

## Notes to Financial Statements June 30, 2011 and 2010

### **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, Costa Rica, El Salvador, Haiti, India, Kenya, Malawi, Philippines, and Romania to provide for children. Contribution income is primarily received from individuals throughout the United States.

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 and cash equivalents 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.

# MISSION TO CHILDREN, INC.

## Notes to Financial Statements June 30, 2011 and 2010

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

#### 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).

#### 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, 2011 and 2010, one international ministry was paid \$225,333 and \$192,601, respectively. This amount will decrease by approximately \$208,000 during the next year as the three-year India project was completed on June 30, 2011. See note 10.

#### 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, 2011 and 2010, Mission To Children had no uncertain tax positions that qualify for recognition or disclosure in the financial statements.

**MISSION TO CHILDREN, INC.**

**Notes to Financial Statements  
June 30, 2011 and 2010**

**Note 3 — Noncurrent Investments:**

Fair value of assets measured on a recurring basis at June 30, 2011 and 2010 are as follows:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	
	June 30, 2011	June 30, 2010
<u>Trusts and annuities</u>		
Annuity Trust Securities		
Mutual fund—balanced stock and bond portfolio	\$ 47,885	\$ 46,072
Investment cash	4,187	3,097
	52,072	49,169
Revocable Trust Securities		
Mutual fund—stock and bond balanced portfolio	10,409	9,772
	\$ 62,481	\$ 58,941

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.

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

	June 30, 2011	June 30, 2010
Dividends	\$ 1,434	\$ 1,725
Realized (loss)	(372)	(915)
Unrealized gain (loss)	5,421	5,592
	\$ 6,483	\$ 6,402

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

	June 30, 2011	June 30, 2010
<u>Operating funds</u>		
Class A promissory note	\$205,848	\$447,905

Investment income at June 30, 2011 and 2010 consists of interest of \$8,750 and \$9,521, respectively.

**Note 4 — Furniture, Equipment, and Depreciation:**

Assets consist of the following at June 30, 2011 and 2010:

	2011	2010
Furniture and equipment	\$ 76,517	\$ 56,094
WIP-Network Installation	—	14,000
	76,517	70,094
Less: accumulated depreciation	(38,537)	(37,244)
Furniture and equipment-at cost, net	\$ 37,980	\$ 32,850

Depreciation for the years ended June 30, 2011 and 2010 in the amounts of \$10,607 and \$8,203 respectively, has been allocated to program services and supporting activities in the statement of activities.

# MISSION TO CHILDREN, INC.

## Notes to Financial Statements June 30, 2011 and 2010

### 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.

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, 2011 and 2010 include:

	<u>2011</u>	<u>2010</u>
Revocable trusts	\$ 9,012	\$ 9,012
Irrevocable trusts	<u>45,201</u>	<u>43,663</u>
	<u>\$ 54,213</u>	<u>\$ 52,675</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, 2011 and 2010 in the amounts of \$0 and \$2,294 respectively, has been recorded in the statements of activities.

## MISSION TO CHILDREN, INC.

### Notes to Financial Statements June 30, 2011 and 2010

#### **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, 2011 and 2010, \$16,323 and \$18,000 was expensed, respectively.

#### **Note 10 — Other 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, 2011 and 2010 is \$208,871 and \$172,722, respectively.

Character Solutions International (CSI) completed its three-year commitment to train more than one million children, youth, and adults in the methods materials of CSI. That goal for this project was accomplished. Now this project is being considered “Phase One” of a multiple-phase endeavor.

Phase Two is a time in which Phase One is evaluated and a strategy formed for transforming this from a project to a movement. Minimal funding is expected for Phase Two, compared to that for Phase One. For example, as of the date of this report, no funds have been distributed to India for Phase Two or budgeted for this current fiscal year.

#### **Note 11 — Subsequent Events:**

In November 2011 the organization entered into a contract with a company to provide program, organizational, marketing, web, and fundraising development services. This contract is on a month to month basis in the amount of \$3,000 per month for the first year. After the first year the monthly amount will be \$5,000. The Canadian affiliate will reimburse Mission To Children 50% of the cost of the contract.

The organization has evaluated subsequent events through December 7, 2011, the date which the financial statement were available to be issued.