CHILDFUND INTERNATIONAL, USA

Consolidated Financial Statements

June 30, 2009 and 2008

(With Independent Auditors' Report Thereon)

CHILDFUND INTERNATIONAL, USA

Table of Contents

KPMG LLP
Suite 2000
1021 East Cary Street
Richmond, VA 23219-4023

Independent Auditors' Report

The Board of Directors
ChildFund International, USA:

We have audited the accompanying consolidated statement of financial position of ChildFund International, USA (ChildFund) as of June 30, 2009, and the related statements of activities, cash flows, and functional expenses for the year then ended. These financial statements are the responsibility of ChildFund's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from ChildFund's 2008 consolidated financial statements and were audited by other auditors whose report dated October 3, 2008 expressed an unqualified opinion on those consolidated financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 ChildFund's internal control over financial reporting. Accordingly, we 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ChildFund International, USA as of June 30, 2009, and the changes in their net assets, their cash flows and their functional expenses for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 16 to the consolidated financial statements, ChildFund adopted the recognition and disclosure provisions of Financial Accounting Standards Board Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for all Endowment Funds*, as of July 1, 2008.

KPMG LLP

October 23, 2009

CHILDFUND INTERNATIONAL, USA

Consolidated Statement of Financial Position

June 30, 2009
(with comparative financial information as of June 30, 2008)

Assets		**2009**	**2008**
Cash and cash equivalents (note 3)	$	23,383,045	11,234,398
Investments (notes 4 and 5)		28,034,554	35,046,331
Grants receivable		3,021,975	4,071,665
Receivable from affiliates (note 11)		2,343,504	2,562,973
Accounts receivable and other assets		3,480,152	2,649,381
Property, plant and equipment, net (note 6)		13,825,862	14,609,458
Total assets	$	74,089,092	70,174,206
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses (note 5)	$	16,458,161	17,620,175
Accrued benefit liability (note 7)		7,152,790	3,364,980
Total liabilities		23,610,951	20,985,155
Net assets:			
Unrestricted (note 16)		13,862,323	14,218,514
Temporarily restricted (notes 9 and 16)		28,486,156	27,028,138
Permanently restricted (notes 10 and 16)		8,129,662	7,942,399
Total net assets		50,478,141	49,189,051
Commitments and contingencies (note 15)			
Total liabilities and net assets	$	74,089,092	70,174,206

See accompanying notes to consolidated financial statements.

CHILDFUND INTERNATIONAL, USA

Consolidated Statement of Activities

Year ended June 30, 2009
(with summarized financial information for the year ended June 30, 2008)

	Unrestricted	Temporarily restricted	Permanently restricted	Total 2009	Total 2008
Public support (note 12):					
Sponsorships (note 11):					
U.S. sponsors	$ —	99,070,961	—	99,070,961	100,737,010
International sponsors	—	47,756,762	—	47,756,762	52,411,951
Special gifts from sponsors for children	—	17,714,919	—	17,714,919	19,170,847
Total sponsorships	—	164,542,642	—	164,542,642	172,319,808
Contributions:					
General contributions	12,286,495	7,596,271	187,263	20,070,029	24,971,364
Major gifts and bequests	3,984,493	577,626	—	4,562,119	3,167,119
Gifts in kind	77,914	—	—	77,914	80,022
Total contributions	16,348,902	8,173,897	187,263	24,710,062	28,218,505
Grants:					
Grants and contracts	27,000,516	—	—	27,000,516	27,021,698
Total public support	43,349,418	172,716,539	187,263	216,253,220	227,560,011
Revenue:					
Investment and currency transactions (note 4)	49,328	50,612	—	99,940	253,685
Service fees and other (note 11)	1,685,555	—	—	1,685,555	1,995,593
Total revenue	1,734,883	50,612	—	1,785,495	2,249,278
Net assets released from restrictions:					
Satisfaction of program and time restrictions	171,312,242	(171,312,242)	—	—	—
Total public support and revenue	216,396,543	1,454,909	187,263	218,038,715	229,809,289
Expenses (notes 7 and 8):					
Program:					
Basic education	51,241,712	—	—	51,241,712	53,069,318
Health and sanitation	41,134,530	—	—	41,134,530	48,674,687
Nutrition	15,192,590	—	—	15,192,590	18,042,085
Early childhood development	27,610,282	—	—	27,610,282	27,480,339
Micro enterprise	19,022,820	—	—	19,022,820	20,619,523
Emergencies	11,919,192	—	—	11,919,192	17,541,433
Total program	166,121,126	—	—	166,121,126	185,427,385
Supporting services:					
Fund raising	21,888,780	—	—	21,888,780	21,979,683
Management and general	17,268,244	—	—	17,268,244	15,905,100
Total supporting services	39,157,024	—	—	39,157,024	37,884,783
Total expenses from operations	205,278,150	—	—	205,278,150	223,312,168
Change in net assets from operations	11,118,393	1,454,909	187,263	12,760,565	6,497,121
Nonoperating gains (losses):					
Realized (loss) gain on investments (note 4)	(628,023)	(5,707)	—	(633,730)	1,267,494
Unrealized loss on investments (note 4)	(6,514,304)	8,816	—	(6,505,488)	(1,364,082)
Change in accrued benefit liability other than net periodic costs (benefits) (note 7)	(4,332,257)	—	—	(4,332,257)	(2,920,284)
Total nonoperating gains (losses)	(11,474,584)	3,109	—	(11,471,475)	(3,016,872)
Change in net assets	(356,191)	1,458,018	187,263	1,289,090	3,480,249
Net assets at beginning of year	14,218,514	27,028,138	7,942,399	49,189,051	45,708,802
Net assets at end of year	$ 13,862,323	28,486,156	8,129,662	50,478,141	49,189,051

See accompanying notes to consolidated financial statements.

CHILDFUND INTERNATIONAL, USA

Consolidated Statement of Cash Flows

Year ended June 30, 2009
(with comparative financial information for the year ended June 30, 2008)

		2009	2008
Cash flows from operating activities:			
Change in net assets	$	1,289,090	3,480,249
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation		2,256,304	2,817,297
Realized loss (gain) on investments		633,730	(1,267,494)
Unrealized loss on investments		6,505,488	1,364,082
Gain on sale of property, plant and equipment		(11,224)	(106,664)
Contributions restricted for long-term investment		(187,263)	(141,470)
Change in accrued benefit liability other than net periodic costs (benefits)		4,332,257	2,920,284
Changes in operating assets and liabilities:			
Grants receivable		1,049,690	(1,357,015)
Receivable from affiliates		219,469	(614,405)
Accounts receivable and other assets		(830,771)	696,936
Accounts payable and accrued expenses		(1,162,014)	7,291
Accrued benefit liability		(544,447)	(718,972)
Net cash provided by operating activities		13,550,309	7,080,119
Cash flows from investing activities:			
Purchases of property, plant and equipment		(1,701,900)	(2,141,816)
Proceeds from sales of property, plant and equipment		240,416	169,407
Proceeds from sales of investments		5,362,248	10,166,091
Purchases of investments		(5,489,689)	(6,350,142)
Net cash (used in) provided by investing activities		(1,588,925)	1,843,540
Cash flows from financing activities:			
Payment of debt and line of credit		64,210,000	(59,994,000)
Proceeds from borrowings of debt and line of credit		(64,210,000)	54,488,000
Contributions restricted for long-term investment		187,263	141,470
Net cash provided by (used in) financing activities		187,263	(5,364,530)
Net increase in cash and cash equivalents		12,148,647	3,559,129
Cash and cash equivalents at beginning of year		11,234,398	7,675,269
Cash and cash equivalents at end of year	$	23,383,045	11,234,398
Supplemental cash flow information:			
Interest paid	$	25,756	91,078

See accompanying notes to consolidated financial statements.

CHILDFUND INTERNATIONAL, USA

Consolidated Statement of Functional Expenses

Year ended June 30, 2009
(with summarized financial information for the year ended June 30, 2008)

	Program services							Supporting services			Program and supporting services	
	Basic education	Health and sanitation	Nutrition	Early childhood development	Micro enterprise	Emergencies	Total program services	Fund raising	Management and general	Total supporting services	2009	2008
Subsidies for children	$ 35,489,887	20,570,401	10,540,244	20,847,338	11,385,865	3,256,746	102,090,481	—	—	—	102,090,481	115,649,848
Program grants	5,573,708	12,393,595	1,634,649	1,278,726	3,858,461	6,294,942	31,034,081	—	—	—	31,034,081	35,480,962
Supplies	205,346	164,842	60,883	110,645	76,232	47,765	665,713	68,360	521,620	589,980	1,255,693	1,445,049
Occupancy	473,039	379,734	140,251	254,884	175,610	110,032	1,533,550	59,153	400,664	459,817	1,993,367	1,906,546
Professional services	129,952	104,320	38,529	70,022	48,243	30,228	421,294	290,041	500,411	790,452	1,211,746	1,058,102
Contract services	423,462	339,937	125,552	228,172	157,205	98,500	1,372,828	1,867,911	1,218,426	3,086,337	4,459,165	4,263,901
Travel	585,386	469,922	173,560	315,420	217,317	136,165	1,897,770	199,459	452,115	651,574	2,549,344	3,005,434
Conferences and meetings	215,142	172,706	63,787	115,924	79,869	50,044	697,472	150,511	267,547	418,058	1,115,530	806,830
Automobile and truck expense	184,228	147,890	54,622	99,267	68,392	42,853	597,252	9,760	—	9,760	607,012	733,946
Advertising and public education	26,744	21,469	7,929	14,410	9,928	6,221	86,701	15,314,611	449,956	15,764,567	15,851,268	15,980,751
Equipment purchases and rentals	182,956	146,870	54,244	98,581	67,920	42,557	593,128	50,957	422,029	472,986	1,066,114	1,107,525
Telephone and cables	252,365	202,587	74,823	135,982	93,687	58,702	818,146	84,044	142,991	227,034	1,045,180	1,046,084
Postage and freight	79,381	63,724	23,536	42,772	29,469	18,465	257,347	72,205	1,052,367	1,124,571	1,381,918	1,713,945
Staff training	165,006	132,459	48,922	88,909	61,256	38,381	534,933	10,466	44,596	55,062	589,995	472,821
Miscellaneous expenses	155,396	124,745	46,073	83,731	57,689	36,146	503,780	199,930	2,035,335	2,235,266	2,739,046	3,506,086
Total expenses before personnel costs and other expenses	44,141,998	35,435,201	13,087,604	23,784,783	16,387,143	10,267,747	143,104,476	18,377,407	7,508,056	25,885,463	168,989,939	188,177,830
Personnel costs	6,635,704	5,326,843	1,967,412	3,575,479	2,463,419	1,543,513	21,512,370	3,442,949	9,050,832	12,493,781	34,006,151	32,225,962
Depreciation and interest	464,010	372,486	137,574	250,020	172,258	107,932	1,504,280	68,424	709,356	777,780	2,282,060	2,908,376
Total expenses from operations	$ 51,241,712	41,134,530	15,192,590	27,610,282	19,022,820	11,919,192	166,121,126	21,888,780	17,268,244	39,157,024	205,278,150	223,312,168

See accompanying notes to consolidated financial statements.

(1) Organization

ChildFund International, USA (ChildFund), formerly known as Christian Children's Fund, Inc. was established in 1938 and has developed into an international, nonsectarian, not-for-profit child development organization. ChildFund assists more than 15,200,000 children and family members in 31 countries worldwide. This figure includes more than 650,000 enrolled children in ChildFund's programs. Of these children more than 500,000 are sponsored children who are supported through monthly contributions.

Most of the sponsorships – more than 350,000 – are supported by U.S. donors; the remainder are supported by international donors who sponsor children through members of ChildFund Alliance in Australia, Canada, Denmark, France, Germany, Ireland, Japan, Korea, New Zealand, Sweden, and Taiwan. ChildFund is a member of ChildFund Alliance, a global network of 12 child development organizations.

ChildFund International USA is incorporated and headquartered in the Commonwealth of Virginia.

(2) Summary of Significant Accounting Policies

ChildFund's accounting policies are summarized as follows:

(a) Basis of Accounting

The accompanying consolidated financial statements have been prepared using the accrual method of accounting in accordance with U.S. generally accepted accounting principles.

Balances and transactions are presented according to the existence or absence of donor-imposed restrictions. This has been accomplished by recording transactions into the following classes of net assets:

Unrestricted net assets – Net assets resulting from public support and revenue not subject to donor-imposed restrictions.

Temporarily restricted net assets – Net assets resulting from public support and revenue whose use by ChildFund is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of ChildFund pursuant to those donor-imposed stipulations.

Permanently restricted net assets – Net assets that generally represent contributions and other inflows of assets whose use by ChildFund is permanently limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of ChildFund.

Public support and revenue are reported as increases in unrestricted net assets unless the use of the related assets is limited by donor-imposed restrictions. Sponsorship revenue is classified as temporarily restricted. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from temporarily restricted net assets to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless donors or state law restrict their use.

(b) Principles of Consolidation

The accompanying consolidated financial statements include the accounts and operations of ChildFund, the country offices, and fund raising offices. In compliance with local laws, certain of these country offices, country program offices, and fund raising offices are separate legal entities. ChildFund does not consolidate the project offices as they are separate legal entities and ChildFund does not control them through financial or voting interest. All significant transactions between the organizations, including all inter-organization balances, have been eliminated in consolidation.

(c) Use of Estimates

The preparation of financial statements, in conformity with U.S. generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(d) Investments

Investments, in readily marketable equity securities and all debt securities are recorded at fair value, which are based on quoted market prices, where available. Due to variations in trading volumes and the lack of quoted market prices for some fixed maturities, the fair value of fixed maturities is normally derived through recent reported trades for identical or similar securities, making adjustments through the reporting date based upon available market observable data. If there are no recent reported trades, the fair value of fixed maturities may be derived through the use of matrix pricing or model processes, where the future cash flow expectations are developed based upon performance and discounted at an estimated market rate.

For investments in common collective trust funds, funds of funds and real estate funds, fair value is based on net asset value reported by underlying investment managers and reviewed by ChildFund after considering various sources of information. These values are further substantiated by doing internal reviews on the current market values of the securities within these alternative investments. As discussed in note 2n, the net asset value is utilized as a practical expedient for fair value. The estimates of fair values, because of the inherent uncertainty of valuation of these estimates, may differ from the values that would have been used had a ready market existed.

Except for investments where donors specifically provide otherwise, investments are maintained in a pooled account. Additions to investments are assigned units of participation in the pooled account based upon their fair value on the date they enter the pooled account and the most recently determined unit fair value for the existing units of participation. Withdrawals are based upon the most recently determined fair value of the respective units of participation that include both realized and unrealized net gains and losses. The market value of the units of participation is calculated monthly.

Investments are exposed to several risks, such as interest rate, currency, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in ChildFund's consolidated financial statements.

Investment transactions are recorded on a trade date basis. Dividends are recorded on the ex dividend date and interest is recognized on the accrual basis. Realized gains and losses are determined by specific identification. Realized and unrealized gains and losses are recorded in the nonoperating revenues section of the consolidated statements of activities. Fees paid to custodian and investment managers are recorded on the accrual basis and are netted against investment and currency transactions on the consolidated statements of activities.

(e) Financial Instruments, Fair Value and Credit Risk

Financial instruments, which potentially subject ChildFund to concentrations of credit risk, consist principally of cash and investments. ChildFund in vests its cash and investments with high-quality credit financial institutions and limits the amount of credit exposure to any one financial institution. ChildFund cash balances include aggregate bank balances on deposit both inside the U.S. and with international banks outside the U.S. These balances can exceed FDIC limits or in the case of international accounts not be covered under the FDIC. ChildFund has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents. In some cases, ChildFund has opened segregated cash accounts to meet restrictions placed on those funds by the donor. In general, these are grant funded accounts.

Investments are valued as discussed in note 2(d). The accrued benefit liability is valued using certain actuarial assumptions as discussed in note 7. The carrying value of cash and cash equivalents, grants receivable, receivable from affiliates, accounts receivable and other assets, and accounts payable and accrued expenses approximate fair value because of the short maturity of these instruments.

Credit risk with respect to investments is generally limited because by ChildFund's policy the investments are kept within limits designed to prevent risks caused by concentration.

(f) Accounts Receivable and Other Assets

Accounts receivable and other assets consist of general receivables, advances and prepaid expenses.

(g) Property, Plant and Equipment

Land is carried at cost or fair value at the date of donation in the case of gifts. Buildings and equipment are carried at cost or fair value at the date of donation in the case of gifts, less accumulated depreciation. Depreciation of buildings and equipment is recorded on a straight-line basis over the estimated useful lives of the assets (5 to 40 years for buildings and improvements and 3 to 10 years for equipment). Upon retirement and disposition, the cost and accumulated depreciation of buildings and equipment are removed from the accounts with any gain or loss reflected in the consolidated statement of activities. Maintenance and repair costs are expensed as incurred.

(h) Revenue Recognition

Revenue is recognized during the period it is earned. Donated or contributed land, buildings and equipment, investments, services and gifts-in-kind are recorded at fair market value when received. Government grant revenue is recognized as earned, which is generally when costs are incurred. Sponsorship revenues are unconditional transfers of cash recognized during the period received. Since these contributions are made without any promise to give in future periods, there are no sponsorships receivable recorded in the consolidated statements of financial position.

(i) Expenses

Expenses are recognized during the period in which they are incurred. Expenses paid in advance primarily include insurance, postage and software maintenance and are deferred to the applicable period. The cost of providing various programs and supporting services have been summarized on a functional basis in the consolidated statements of activities.

(j) Definition of Operations

Nonoperating revenues include realized and unrealized gains and losses on investments and changes in accrued benefit liability other than net periodic costs.

(k) Foreign Currency Translation

All cash balances in foreign banks have been translated at foreign exchange rates in effect as of June 30, 2009 and 2008. No other assets or liabilities of ChildFund are subject to foreign currency translation. All foreign office revenue and expense amounts are converted at the rate of exchange in effect at approximately the date of the transaction.

(l) Summarized Comparative Information

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with ChildFund's consolidated financial statements for the year ended June 30, 2008, from which the summarized information was derived.

(m) Reclassifications

Certain prior year classifications have been made to the 2008 financial statements in order to conform with the 2009 presentation.

(n) New Accounting Pronouncements

Effective July 1, 2008, ChildFund adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, for fair value measurements of financial assets and financial liabilities. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 also expands disclosures about fair value measurements (note 4).

In connection with the adoption of SFAS No. 157, ChildFund elected to early adopt the measurement provisions of Accounting Standards Update No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)* to certain investments in funds that do not have readily determinable fair values, including common collective trust funds, funds of funds, and real estate funds. This guidance amends SFAS No. 157 and allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value per share or its equivalent.

In August 2008, the FASB issued FASB Staff Position (FSP) No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. FSP No. 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subjected to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). A key component of FSP No. 117-1 is a requirement to classify the portion of investment return from donor-restricted endowment funds that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. ChildFund adopted FSP No. 117-1 as of July 1, 2008 and the adoption did not result in a reclassification from unrestricted net assets to temporarily restricted net assets within the 2009 consolidated statement of activities. The disclosure requirements of FSP No. 117-1 are set forth in note 16.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*. SFAS No. 165 is effective for financial periods ended after June 15, 2009. SFAS No. 165 requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date of the financial statements were issued or were available to be issued. ChildFund has evaluated subsequent events for potential recognition and /or disclosure in the June 30, 2009 financial statements through October 23, 2009, the date the financial statements were available to be issued.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 allows ChildFund an irrevocable option to report most financial assets and liabilities at fair value on an instrument-by-instrument basis, with changes in fair value

reported in the statement of activities. SFAS No. 159 was effective July 1, 2008 and did not impact ChildFund's consolidated financial statements.

In June 2006, the FASB issued Financial Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*. On December 30, 2008, the FASB issued FASB Staff Position 48-3 (FSP 48-3), Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises, deferring the application of FIN 48 to fiscal years beginning after December 15, 2008, to give the FASB additional time to develop guidance on the application of FIN 48 by pass-through entities and not-for-profit organizations. ChildFund has elected to defer application of FIN 48 in accordance with FSP 48-3. ChildFund does not believe that implementation of FIN 48 will impact its consolidated financial statements as there are no uncertain tax positions.

(3) Cash and Cash Equivalents

ChildFund considers all short-term deposits with an original maturity of three months or less to be cash equivalents, except for those which are held by ChildFund investment managers as part of their long-term investment strategy. The carrying amounts reported in the accompanying consolidated statements of financial position for these financial instruments approximate their fair values. Cash in excess of current operating and program requirements was invested throughout the year on a short-term basis in various money market instruments. Cash equivalents were approximately $11,100,000 and $2,000,000 as of June 30, 2009 and 2008, respectively.

(4) Investments and Investment Return

Investments, at fair value, as of June 30, 2009 and 2008 are summarized as follows:

		2009	2008
Cash and cash equivalents	$	107,976	255,462
Corporate and other obligations		4,053,598	3,835,201
U.S. equity securities		1,905,099	1,734,631
Global equity securities		4,228,131	6,318,003
Mutual funds		8,445,152	12,173,049
U.S. government and agency bonds		2,086,542	1,950,874
Real estate funds		1,482,412	1,677,125
Funds of funds		5,725,644	7,101,986
Total	$	28,034,554	35,046,331

Investment return is summarized for the years ended June 30, 2009 and 2008, as follows:

		2009	2008
Interest and dividends	$	608,953	316,368
Currency transaction losses, net		(458,441)	(16,236)
Investment expense		(50,572)	(46,447)
Total investment and currency transactions		99,940	253,685
Realized gain (loss) on investments		(633,730)	1,267,494
Unrealized loss on investments		(6,505,488)	(1,364,082)
Total investment return	$	(7,039,278)	157,097

SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that ChildFund has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following table presents ChildFund's fair value hierarchy for assets measured at fair value as of June 30, 2009:

	Level 1	Level 2	Level 3	Total
Cash equivalents	$ 11,127,281	—	—	11,127,281
Investments:				
Cash and cash equivalents	107,976	—	—	107,976
Corporate and other obligations	—	4,053,598	—	4,053,598
U.S. equity securities	1,905,099	—	—	1,905,099
Global equity securities	—	4,228,131	—	4,228,131
Mutual funds	8,445,152	—	—	8,445,152
U.S. government and agency bonds	2,086,542	—	—	2,086,542
Real estate funds	—	—	1,482,412	1,482,412
Funds of funds	—	—	5,725,644	5,725,644
Total	$ 23,672,050	8,281,729	7,208,056	39,161,835

The following table summarizes changes in Level 3 assets measured at fair value on a recurring basis:

Assets:	
Beginning balance as of July 1, 2008	$ 8,779,111
Total net losses included in:	
Change in net assets	(1,644,565)
Purchases	73,510
Ending balance as of June 30, 2009	$ 7,208,056
Net unrealized losses included in change in net assets for the period relating to Level 3 investments held at June 30, 2009	$ (1,644,565)

The following table summarizes the participation in ChildFund's investment pool and ownership of the investments as of June 30, 2009 and 2008:

	2009	2008
Unrestricted net assets	$ 610,905	2,973,554
Temporarily restricted net assets	19,293,987	24,130,378
Permanently restricted net assets	8,129,662	7,942,399
Total	$ 28,034,554	35,046,331

(5) Charitable Gift Annuities

Total investments include amounts invested for ChildFund's charitable gift annuity program. These amounts are held in three segregated investment accounts. One for annuities issued to residents of California, one for annuities issued to residents of Wisconsin, and another for annuities issued to residents of other states in which ChildFund is authorized to issue gift annuities. All segregated accounts are stated at fair value.

Under the charitable gift annuity agreements, the donor contributes assets to ChildFund. In return for the contribution, ChildFund pays an annuity to the donor, and/or another annuitant selected by the donor, for the remainder of the annuitant's life, subject in some instances to a deferred beginning date. The payout is a fixed amount based on a percentage of the original gift, as defined by the agreement. The fair value of the assets received under the annuity agreement is held in the applicable segregated investment account and invested in assets intended to comply with any investment restrictions imposed by California or the other states in which ChildFund is authorized to issue gift annuities. Contribution income is recognized at the date the agreement is established, net of the liability recorded for the present value of the estimated future payments to be made to the respective donors.

These segregated investments as of June 30, 2009 and 2008 totaled $2,466,398 and $2,878,274, respectively. The liability associated with these charitable gift annuities is recorded at the present value of the gift based on the IRS mortality tables and IRS interest rates as of the date of agreement which range from 2.4% to 7.6%. The liability amounts are included in accounts payable and accrued expenses on the consolidated statements of financial position as of June 30, 2009 and 2008 and total $1,655,008 and $1,580,437, respectively.

(6) Property, Plant and Equipment

Property, plant, and equipment at June 30, 2009 and 2008 are summarized as follows:

		2009	2008
Land	$	1,180,378	1,180,378
Buildings and improvements		15,574,638	14,996,444
Furniture, fixtures and equipment		15,878,216	16,986,014
Construction in progress		931,831	411,631
		33,565,063	33,574,467
Accumulated depreciation		(19,739,201)	(18,965,009)
Total	$	13,825,862	14,609,458

(7) Benefit Plans

ChildFund has a noncontributory defined benefit pension plan (the Pension Plan) and a defined contribution plan (403(b) Plan). Effective June 30, 2006, ChildFund elected to freeze the Pension Plan.

(a) Pension Plan

The following table summarizes the Pension Plan benefit obligations, for the years ended June 30, 2009 and 2008:

		2009	2008
Accumulated benefit obligation	$	21,497,446	21,097,663
Benefit obligations	$	(21,497,446)	(21,097,663)
Fair value of plan assets		14,344,656	17,732,683
Funded status		(7,152,790)	(3,364,980)
Accrued benefit liability	$	7,152,790	3,364,980

The Pension Plan utilizes a measurement date of June 30. The amount of benefit payments from the Pension Plan for the years ended June 30, 2009 and 2008 were $1,127,390 and $1,115,899 respectively.

Expected future benefit payments of the Pension Plan as of June 30, 2009 are as follows:

2010	$	1,292,769
2011		1,288,347
2012		1,309,599
2013		1,344,939
2014		1,478,680
2015 – 2019		7,946,775

Employer contributions made by ChildFund to the Pension Plan were $567,481 and $707,210 during the years ended June 30, 2009 and 2008, respectively. The estimated contribution for the year ending June 30, 2010 is $667,000. At June 30, 2009 and 2008, the unrecognized net actuarial loss was $9,466,564 and $5,134,307, respectively. Amortization of the unrecognized net actuarial loss for the year ending June 30, 2010 will be $455,726.

		2009	2008
Net periodic pension cost (benefit):			
Interest cost	$	1,295,676	1,272,875
Expected return on plan assets		(1,433,984)	(1,398,369)
Recognized net actuarial loss		161,342	113,732
Net periodic pension cost (benefit)	$	23,034	(11,762)

Pension costs are determined using the unit credit actuarial cost method. The plan is funded on a current basis as deemed necessary by management and the Pension Plan's consulting actuaries. The Pension Plan is subject to the applicable provisions of the Employment Retirement Income Security Act of 1974, as amended.

The asset allocation for the Pension Plan at June 30, 2009 and 2008 and the target allocation for fiscal year 2010 by asset category are as follows:

	Target allocation	Percentage of plan assets at year end	
	2010	2009	2008
Equity securities	70.0%	70.1%	70.4%
Fixed income securities	30.0	29.9	29.6
Total	100.0%	100.0%	100.0%

ChildFund's policy is to provide for growth of capital with a moderate level of volatility by investing assets per the target allocations stated above. The assets will be reallocated periodically to meet the above target allocations.

The expected long-term rate of return for the Pension Plan's total assets is based on the expected return of each of the above categories, weighted based on the median of the target allocation for each class. Equity securities are expected to return 9.2% to 10.0% over the long-term, while cash and fixed income is expected to return between 5.25% and 5.75%.

Benefit obligations and net periodic pension cost (benefit) were determined using the following weighted average assumptions:

	2009	2008
Discount rate	6.25%	6.25%
Expected return on plan assets	7.50	7.50
Rate of compensation increase	N/A	N/A

(b) 403(b) Plan

All employees are eligible to participate in the 403(b) Plan. ChildFund contributes 6% to 12% of employees' base pay to the 403(b) Plan each payroll period based on their period of service with ChildFund. In addition, ChildFund will match up to 3% of the employees' individual contributions. The actual rate will be approved annually by the ChildFund Board of Directors. Total expense recognized for the years ended June 30, 2009 and 2008 related to the 403(b) Plan was $1,179,176 and $1,159,101, respectively.

(8) Revolving Line of Credit

At June 30, 2009 and 2008, ChildFund had a $10,000,000 collateralized revolving line of credit. For the years ended June 30, 2009 and 2008, interest expense was based on LIBOR + 100 basis points and LIBOR + 60 basis points, respectively. The line of credit payable is due and payable in consecutive monthly payments of accrued interest and continuing on the last day of each month thereafter until fully paid. This line of credit is collateralized by ChildFund's corporate headquarters building located in Richmond, Virginia. At June 30, 2009 and 2008, no amounts were outstanding on the line of credit.

Total interest expense on the revolving line of credit was $25,756 and $91,078 for the years ended June 30, 2009 and 2008, respectively.

(9) Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2009 and 2008 were available for the following purposes:

		2009	2008
Subsidies and gifts for children	$	22,490,403	22,682,184
Appeal funded programs		4,635,501	3,564,414
Local programs and other		1,360,252	781,540
Total	$	28,486,156	27,028,138

(10) Permanently Restricted Net Assets

Permanently restricted net assets were $8,129,662 and $7,942,399 at June 30, 2009 and 2008, respectively. The principal of these net assets must be invested in perpetuity; however, the income is expendable to support subsidies for children and other restricted program activities.

(11) International Sponsors

Support from international sponsors is generated by autonomous organizations and consolidated operations.

(a) Autonomous Organizations

Supporting ChildFund are ChildFund Australia, BORNEfonden (Denmark), Un Enfant Par La Main (France), ChildFund Kinderhilfswerk (Germany), ChildFund Ireland, ChildFund Japan, ChildFund Korea, Barnfonden (Sweden), Taiwan Fund for Children and Families, and ChildFund New Zealand. These autonomous organizations are incorporated in their respective countries for the purpose of initiating and overseeing programs that are distinct and unique to their mission. Because ChildFund does not control these organizations, their related assets, liabilities, net assets, revenues and expenses are not reflected in the accompanying consolidated financial statements.

The sponsorships and special gifts for children received from these organizations are included in the consolidated statements of activities for the years ended June 30, 2009 and 2008 and are summarized by country in the accompanying table. As of June 30, 2009 and 2008, ChildFund has sponsorship receivables from these autonomous organizations totaling $2,343,504 and $2,562,973, respectively. These receivables are the result of the timing of collection of funds as compared to deposit by the international offices. ChildFund recognized service fee revenue from these autonomous organizations in the consolidated statements of activities for the years ended June 30, 2009 and 2008 of $1,271,403 and $1,289,997, respectively.

(b) Consolidated Operations

ChildFund works with national fund raising offices in Brazil, Mexico, Thailand and other countries that provide sponsorship revenue. These offices are organizations or segments of organizations that are independently registered in conformity with the laws of their respective countries.

The sponsorships and special gifts for children received internationally from the autonomous organizations and consolidated operations are included in the consolidated statements of activities for the years ended June 30, 2009 and 2008, and are summarized in the accompanying table.

	Sponsorships	Special gifts for children	Total 2009	Total 2008
Autonomous organizations:				
Australia	$ 12,558,103	882,286	13,440,389	15,919,678
Denmark	3,940,040	435,368	4,375,408	4,791,012
France	1,670,134	141,059	1,811,193	2,065,152
Germany	5,936,604	391,921	6,328,525	7,216,890
Ireland	1,045,272	153,318	1,198,590	1,248,029
Japan	136,791	—	136,791	112,083
New Zealand	5,264,384	466,214	5,730,598	6,851,142
Sweden	3,942,138	489,250	4,431,388	5,096,110
Korea	636,800	8,500	645,300	376,275
Taiwan	6,424,741	469,174	6,893,915	6,468,961
Total autonomous organizations	41,555,007	3,437,090	44,992,097	50,145,332
Consolidated operations:				
Brazil	2,034,964	532,430	2,567,394	3,299,630
Mexico	878,667	26,549	905,216	1,018,996
Thailand	3,282,266	19,501	3,301,767	2,737,652
Other	5,858	232	6,090	9,513
Total consolidated operations	6,201,755	578,712	6,780,467	7,065,791
Total international sponsors	$ 47,756,762	4,015,802	51,772,564	57,211,123

(12) Total Public Support

Public support is summarized for the years ended June 30, 2009 and 2008, as follows:

	2009	2008
United States	$ 143,421,784	148,761,063
Autonomous organizations, support from sponsors (note 11)	44,992,097	50,145,332
Autonomous organizations, other support	21,022,249	21,527,085
Consolidated operations, support from sponsors (note 11)	6,780,467	7,065,791
Consolidated operations, other support	36,623	60,740
Total public support	$ 216,253,220	227,560,011

(13) Income Taxes

ChildFund has been granted exemption by the Internal Revenue Service (IRS) from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is an exempt organization in the Commonwealth of Virginia. In addition, the IRS has determined that ChildFund is not a "private foundation." No provision for income taxes has been recorded for the years ended June 30, 2009 and 2008, as ChildFund has no taxable unrelated business income.

(14) ChildFund Alliance

In April 2002, ChildFund Alliance was established for charitable purposes to promote the well-being of children and their families and to promote the brand name of ChildFund. The Board of Directors consists of a significant percentage of ChildFund Board of Directors and staff; however, ChildFund does not have an economic interest in ChildFund Alliance; accordingly, ChildFund Alliance is not consolidated in ChildFund's consolidated financial statements.

(15) Commitments and Contingencies

From time to time, ChildFund is involved in various legal proceedings during the normal course of operations. In management's opinion, ChildFund is not currently involved in any legal proceedings which individually or in the aggregate could have a material effect on the financial condition, results of operations and/or liquidity of ChildFund.

(16) Endowment Funds

FSP 117-1 provides guidance on the net asset classification of donor restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and also requires disclosures about endowment funds, both donor-restricted endowment funds and board-designated endowment funds.

ChildFund's endowment consists of individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors (the Board) to function as endowments. Net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

Through June 30, 2008, ChildFund's management and investment of donor-restricted endowment funds was subject to the provisions of the Uniform Management of Institutional Funds Act (UMIFA). In 2006, the Uniform Law Commission approved the model act, UPMIFA, that serves as a guideline to states to use in enacting legislation. Among UPMIFA's most significant changes is the elimination of UMIFA's important concept of historic dollar threshold, the amount below which an organization could not spend from the fund in favor of a more robust set of guidelines about what constitutes prudent spending. Effective July 1, 2008, the Commonwealth of Virginia (the Commonwealth) enacted UPMIFA, the provisions of which apply to funds existing on or established after that date.

ChildFund has interpreted the Commonwealth's enacted version of the UPMIFA as the prudent preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, ChildFund classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by ChildFund in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, ChildFund considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of ChildFund and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of ChildFund
7. The investment policies of ChildFund

Endowment net assets consist of the following at June 30, 2009:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ (2,363,452)	469,198	8,129,662	6,235,408
Board-designated endowment funds	2,974,357	—	—	2,974,357
Total endowment net assets	$ 610,905	469,198	8,129,662	9,209,765

Endowment net assets consist of the following at June 30, 2008:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ (558,447)	289,198	7,942,399	7,673,150
Board-designated endowment funds	3,532,002	—	—	3,532,002
Total endowment net assets	$ 2,973,555	289,198	7,942,399	11,205,152

The following table presents the changes in ChildFund's donor-restricted endowment funds and funds designated by the Board to function as endowments for the year ended June 30, 2009:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2008	$ 2,973,555	289,198	7,942,399	11,205,152
Investment return:				
Investment income	123,386	—	—	123,386
Net depreciation	(2,090,144)	—	—	(2,090,144)
Total investment return	(1,966,758)	—	—	(1,966,758)
Contributions	668	180,000	187,263	367,931
Appropriation of endowment assets for expenditure	(396,560)	—	—	(396,560)
Endowment net assets, June 30, 2009	$ 610,905	469,198	8,129,662	9,209,765

The following table presents the changes in ChildFund's donor-restricted endowment funds and funds designated by the Board to function as endowments for the year ended June 30, 2008:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2007	$ 3,444,686	268,698	7,800,929	11,514,313
Investment return:				
Investment income	124,579	—	—	124,579
Net depreciation	(208,051)	—	—	(208,051)
Total investment return	(83,472)	—	—	(83,472)
Contributions	555	20,500	141,470	162,525
Appropriation of endowment assets for expenditure	(388,214)	—	—	(388,214)
Endowment net assets, June 30, 2008	$ 2,973,555	289,198	7,942,399	11,205,152

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires ChildFund to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and amounted to $2,363,452 and $558,447 as of June 30, 2009 and 2008, respectively. These deficiencies resulted from unfavorable market fluctuations. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets until fully restored and then temporarily restricted.

Return Objectives and Risk Parameters

Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period as well as board-designated funds. ChildFund has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. ChildFund expects its endowment funds to provide an average annual real rate of return of approximately 5%.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, ChildFund relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). ChildFund targets a diversified asset allocation that places emphasis on investments in equities, bonds and absolute return strategies to achieve its long-term return objectives within a prudent risk framework.

Spending Policy and How Investment Objectives Relate to Spending Policy

ChildFund has two spending policies for endowments. For endowments restricted for child sponsorships, the appropriation and expenditure typically occur within the same reporting period. The spending rate is determined by the most current monthly sponsorship rate paid by sponsors in the United States, for example $24 per month for the year ended June 30, 2009. In order to meet this spending rate, donors are asked to contribute a one-time gift of $15,000 per child. Investment gains and yields are used to provide the child with food, education, basic healthcare and other assistance.

For nonsponsorship endowments, the policy for appropriating for distribution is equal to 5% of the endowment funds' average fair value for the preceding three years. In establishing this policy, ChildFund considered the expected return on its endowments. Accordingly, ChildFund expects the current spending policies to allow its nonsponsorship endowments to maintain their purchasing power by growing at a rate equal to planned payouts. Additional real growth will be provided through new gifts and any excess investment return.