KPMG

CHILDFUND INTERNATIONAL, USA

Consolidated Financial Statements

June 30, 2010

(With Independent Auditors' Report Thereon)

CHILDFUND INTERNATIONAL, USA

Table of Contents

KPMG LLP
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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, 2010, and the related consolidated statements of activities, cash flows, and functional expenses for the year then ended. These consolidated financial statements are the responsibility of ChildFund's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from ChildFund's 2009 consolidated financial statements, and in our report dated October 23, 2009, we 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, 2010, 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.

KPMG LLP

October 19, 2010

CHILDFUND INTERNATIONAL, USA

Consolidated Statement of Financial Position

June 30, 2010
(with comparative financial information as of June 30, 2009)

Assets		**2010**	**2009**
Cash and cash equivalents (note 3)	$	22,794,361	23,383,045
Receivable from affiliates (note 11)		2,348,499	2,343,504
Grants receivable		3,703,021	3,021,975
Accounts receivable and other assets		3,339,469	3,480,152
Investments (notes 4 and 5)		30,433,241	28,034,554
Beneficial interests in trusts (note 5)		6,377,558	5,889,193
Property, plant and equipment, net (note 6)		14,083,289	13,825,862
Total assets	$	83,079,438	79,978,285
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses (note 5)	$	13,581,942	16,458,161
Accrued benefit liability (note 7)		8,474,515	7,152,790
Total liabilities		22,056,457	23,610,951
Net assets:			
Unrestricted (note 16)		16,033,869	13,862,323
Temporarily restricted (notes 9 and 16)		32,871,076	30,779,532
Permanently restricted (notes 10 and 16)		12,118,036	11,725,479
Total net assets		61,022,981	56,367,334
Commitments and contingencies (note 15)			
Total liabilities and net assets	$	83,079,438	79,978,285

See accompanying notes to consolidated financial statements.

CHILDFUND INTERNATIONAL, USA

Consolidated Statement of Activities

Year ended June 30, 2010
(with summarized financial information for the year ended June 30, 2009)

	Unrestricted	Temporarily restricted	Permanently restricted	Total 2010	Total 2009
Public support (note 12):					
Sponsorships (note 11):					
U.S. sponsors	$ —	89,874,604	—	89,874,604	99,070,961
International sponsors	—	54,723,629	—	54,723,629	47,756,762
Special gifts from sponsors for children	—	17,404,318	—	17,404,318	17,714,919
Total sponsorships	—	162,002,551	—	162,002,551	164,542,642
Contributions:					
General contributions	10,726,758	7,079,210	47,587	17,853,555	20,070,029
Major gifts and bequests	2,788,657	621,317	—	3,409,974	4,291,651
Gifts in kind	2,256,854	—	—	2,256,854	77,914
Total contributions	15,772,269	7,700,527	47,587	23,520,383	24,439,594
Grants:					
Grants and contracts	27,388,754	—	—	27,388,754	27,000,516
Total public support	43,161,023	169,703,078	47,587	212,911,688	215,982,752
Revenue:					
Investment income and currency transactions (note 4)	1,203,364	1,859	—	1,205,223	370,408
Service fees and other (note 11)	1,859,144	—	—	1,859,144	1,685,555
Total revenue	3,062,508	1,859	—	3,064,367	2,055,963
Net assets released from restrictions:					
Satisfaction of program and time restrictions	167,767,254	(167,767,254)	—	—	—
Total public support and revenue	213,990,785	1,937,683	47,587	215,976,055	218,038,715
Expenses (notes 7 and 8):					
Program:					
Basic education	61,535,166	—	—	61,535,166	58,616,056
Health and sanitation	44,145,849	—	—	44,145,849	41,134,358
Nutrition	14,688,825	—	—	14,688,825	15,192,853
Early childhood development	19,958,484	—	—	19,958,484	20,235,844
Micro enterprise	20,408,024	—	—	20,408,024	19,022,823
Emergencies	11,865,159	—	—	11,865,159	11,919,192
Total program	172,601,507	—	—	172,601,507	166,121,126
Supporting services:					
Fund raising	23,420,237	—	—	23,420,237	21,888,780
Management and general	16,849,426	—	—	16,849,426	17,268,244
Total supporting services	40,269,663	—	—	40,269,663	39,157,024
Total expenses from operations	212,871,170	—	—	212,871,170	205,278,150
Change in net assets from operations	1,119,615	1,937,683	47,587	3,104,885	12,760,565
Nonoperating gains (losses):					
Realized loss on investments (note 4)	(108,273)	(96)	—	(108,369)	(633,730)
Unrealized gain (loss) on investments (note 4)	2,638,097	10,562	—	2,648,659	(6,505,488)
Change in value of trusts (note 5)	—	143,395	344,970	488,365	(1,205,305)
Change in accrued benefit liability other than net periodic costs (note 7)	(1,477,893)	—	—	(1,477,893)	(4,332,257)
Total nonoperating gains (losses)	1,051,931	153,861	344,970	1,550,762	(12,676,780)
Change in net assets	2,171,546	2,091,544	392,557	4,655,647	83,785
Net assets at beginning of year	13,862,323	30,779,532	11,725,479	56,367,334	56,283,549
Net assets at end of year	$ 16,033,869	32,871,076	12,118,036	61,022,981	56,367,334

See accompanying notes to consolidated financial statements.

CHILDFUND INTERNATIONAL, USA

Consolidated Statement of Cash Flows

Year ended June 30, 2010
(with comparative financial information for the year ended June 30, 2009)

		2010	2009
Cash flows from operating activities:			
Change in net assets	$	4,655,647	83,785
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation		2,017,346	2,256,304
Realized loss on investments		108,369	633,730
Unrealized (gain) loss on investments		(2,648,659)	6,505,488
Change in value of trusts		(488,365)	1,205,305
Gain on sale of property, plant and equipment		(65,762)	(11,224)
Contributions restricted for long-term investment		(47,587)	(187,263)
Change in accrued benefit liability other than net periodic costs		1,477,893	4,332,257
Changes in operating assets and liabilities:			
Grants receivable		(681,046)	1,049,690
Receivable from affiliates		(4,995)	219,469
Accounts receivable and other assets		140,683	(830,771)
Accounts payable and accrued expenses		(2,876,219)	(1,162,014)
Accrued benefit liability		(156,168)	(544,447)
Net cash provided by operating activities		1,431,137	13,550,309
Cash flows from investing activities:			
Purchases of property, plant and equipment		(2,304,382)	(1,701,900)
Proceeds from sales of property, plant and equipment		95,371	240,416
Proceeds from sales of investments		28,763,959	5,362,248
Purchases of investments		(28,622,356)	(5,489,689)
Net cash used in investing activities		(2,067,408)	(1,588,925)
Cash flows from financing activities:			
Payment of debt and line of credit		98,460,000	64,210,000
Proceeds from borrowings of debt and line of credit		(98,460,000)	(64,210,000)
Contributions restricted for long-term investment		47,587	187,263
Net cash provided by financing activities		47,587	187,263
Net (decrease) increase in cash and cash equivalents		(588,684)	12,148,647
Cash and cash equivalents at beginning of year		23,383,045	11,234,398
Cash and cash equivalents at end of year	$	22,794,361	23,383,045
Supplemental cash flow information:			
Interest paid	$	90,144	25,756

See accompanying notes to consolidated financial statements.

CHILDFUND INTERNATIONAL, USA

Consolidated Statement of Functional Expenses

Year ended June 30, 2010
(with summarized financial information for the year ended June 30, 2009)

	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**	**2010**	**2009**
Subsidies for children	$ 43,196,939	20,530,568	9,321,761	14,982,081	13,574,742	3,759,394	105,365,485	—	—	—	105,365,485	102,090,481
Program grants	6,355,043	15,018,444	2,506,605	1,089,745	2,859,082	5,795,178	33,624,097	—	—	—	33,624,097	31,034,081
Supplies	305,458	219,139	72,915	99,073	101,305	58,898	856,788	120,780	428,144	548,924	1,405,712	1,255,693
Occupancy	533,438	382,692	127,335	173,016	176,913	102,857	1,496,251	69,143	364,458	433,601	1,929,852	1,993,367
Professional services	404,271	290,028	96,502	131,122	134,076	77,951	1,133,950	144,780	568,099	712,879	1,846,829	1,211,746
Contract services	653,316	468,695	155,951	211,900	216,671	125,970	1,832,503	1,340,864	1,710,944	3,051,808	4,884,311	4,459,165
Travel	642,228	460,740	153,303	208,302	212,994	123,834	1,801,401	239,775	226,676	466,451	2,267,852	2,549,344
Conferences and meetings	242,880	174,244	57,977	78,777	80,551	46,832	681,261	112,685	158,818	271,503	952,764	1,115,530
Automobile and truck expense	175,852	126,157	41,977	57,036	58,321	33,908	493,251	16,562	—	16,562	509,813	607,012
Advertising and public education	86,479	62,040	20,642	28,049	28,680	16,675	242,565	17,126,031	293,156	17,419,187	17,661,752	15,851,268
Equipment purchases and rentals	227,233	163,019	54,242	73,701	75,361	43,815	637,371	55,927	329,423	385,350	1,022,721	1,066,114
Telephone and cables	257,184	184,507	61,391	83,416	85,295	49,590	721,383	81,057	201,372	282,429	1,003,812	1,045,180
Postage and freight	503,881	361,488	120,279	163,430	167,111	97,158	1,413,347	107,744	808,336	916,080	2,329,427	1,381,918
Staff training	161,025	115,520	38,438	52,227	53,403	31,049	451,662	11,776	23,796	35,572	487,234	589,995
Miscellaneous expenses	181,285	130,055	43,274	58,798	60,123	34,955	508,490	285,540	1,896,614	2,182,154	2,690,644	2,739,046
Total expenses before personnel costs and other expenses	53,926,512	38,687,336	12,872,592	17,490,673	17,884,628	10,398,064	151,259,805	19,712,664	7,009,836	26,722,500	177,982,305	168,989,939
Personnel costs	7,208,253	5,171,262	1,720,655	2,337,944	2,390,604	1,389,890	20,218,608	3,647,137	8,915,630	12,562,767	32,781,375	34,006,151
Depreciation and interest	400,401	287,251	95,578	129,867	132,792	77,205	1,123,094	60,436	923,960	984,396	2,107,490	2,282,060
Total expenses from operations	$ 61,535,166	44,145,849	14,688,825	19,958,484	20,408,024	11,865,159	172,601,507	23,420,237	16,849,426	40,269,663	212,871,170	205,278,150

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 children and family members in 31 countries worldwide. There are more than 685,000 enrolled children in ChildFund's programs. Of these children more than 472,000 are sponsored children who are supported through monthly contributions.

Most of the sponsorships – more than 297,000 – 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 the ChildFund international office, national offices, and fundraising offices. All significant transactions between the organizations, including all inter-organization balances, have been eliminated in consolidation. In compliance with local laws, certain of these national offices and fund raising offices are separate legal entities.

(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. Significant accounting estimates and management judgments reflected in the consolidated financial statements include valuation of alternative investments and beneficial interests in trusts, pension plan liability, and the estimated useful life of buildings, furniture and equipment.

(d) Investments and Beneficial Interests in Trusts

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 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 fair values of the securities within these alternative investments. 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

(Continued)

and unrealized net gains and losses. The market value of the units of participation is calculated monthly.

The fair value of beneficial interests in perpetual trusts is estimated by applying ChildFund's share of the earnings of the trust times the fair value of the underlying assets in the trusts as of the reporting date. The value of beneficial interests in charitable remainder trusts is estimated by applying present value techniques to ChildFund's percentage of the fair value of the underlying assets in the trust as of the reporting date. The fair value of the underlying assets are measured in the same manner ChildFund's investments are measured as described above.

Investments and beneficial interests in perpetual trusts are exposed to several risks, such as interest rate, currency, market and credit risks. Due to the level of risk associated with certain investments and beneficial interests in trusts, it is at least reasonably possible that changes in the values of investments and beneficial interests in trusts 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 and change in value of trusts are recorded in the nonoperating revenues section of the consolidated statement of activities. Fees paid to custodian and investment managers are recorded on the accrual basis and are netted against investment income and currency transactions on the consolidated statement 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 invests 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 and beneficial interests in trusts 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 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 statement 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 statement 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 year-end. 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, 2009, from which the summarized information was derived.

(m) Reclassifications

Certain 2009 financial statement amounts have been reclassified to conform with the 2010 presentation.

(n) Correction of Immaterial Error

Prior to 2010, ChildFund had not recognized its interests in perpetual and charitable remainder trusts. Therefore, the consolidated financial statements as and for the year ended June 30, 2009 have been adjusted to record these beneficial interests as well as permanently restricted net assets of approximately $4,463,000 and temporarily restricted net assets of approximately $2,631,000 as of July 1, 2008, the beginning of the earliest year presented in these consolidated financial statements. Income from these trusts of $270,468 were reclassified from major gifts and bequests to investment income and currency transactions for the year ended June 30, 2009. Additionally, change in value of trusts of approximately $(1,205,000) was recorded for the year ended June 30, 2009 in the consolidated statement of activities. The adjustments did not impact total operating, investing or financial activities on the consolidated statement of cash flows or the consolidated statement of functional expenses for the year ended June 30, 2009. The following table summarizes the effects of the adjustments to the consolidated financial statements as of and for the year ended June 30, 2009:

		Previously Reported	As Adjusted
Consolidated Statement of Financial Position:			
Beneficial interests in trusts	$	—	5,889,193
Total assets		74,089,092	79,978,285
Temporarily restricted net assets		28,486,156	30,779,532
Permanently restricted net assets		8,129,662	11,725,479
Total net assets		50,478,141	56,367,334
Total liabilities and net assets		74,089,092	79,978,285
Consolidated Statement of Activities:			
Major gifts and bequests	$	4,562,119	4,291,651
Total contributions		24,710,062	24,439,594
Total public support		216,253,220	215,982,752
Investment income		99,940	370,408
Total revenue		1,785,495	2,055,963
Change in value of trusts		—	(1,205,305)
Total nonoperating losses		(11,471,475)	(12,676,780)
Change in net assets		1,289,090	83,785
Net assets at beginning of year		49,189,051	56,283,549
Net assets at end of year		50,478,141	56,367,334
Consolidated Statement of Cash Flows:			
Change in net assets	$	1,289,090	83,785
Change in value of trusts		—	1,205,305

(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 $8,800,000 and $11,900,000 as of June 30, 2010 and 2009, respectively.

(4) Investments and Investment Return

Investments, at fair value, as of June 30, 2010 and 2009 are summarized as follows:

		2010	2009
Cash and cash equivalents	$	—	107,976
Corporate and other obligations		1,293,502	4,053,598
U.S. equity securities		1,357,022	1,905,099
Global equity securities		1,278,128	4,228,131
Mutual funds		21,703,895	8,445,152
U.S. government and agency bonds		—	2,086,542
Real estate funds		1,604,440	1,482,412
Funds of funds		3,196,254	5,725,644
Total	$	30,433,241	28,034,554

Investment return is summarized for the years ended June 30, 2010 and 2009, as follows:

		2010	2009
Interest and dividends	$	1,037,972	879,421
Currency transaction gains (losses), net		248,286	(458,441)
Investment expense		(81,035)	(50,572)
Total investment income and currency transactions		1,205,223	370,408
Realized loss on investments		(108,369)	(633,730)
Unrealized gain (loss) on investments		2,648,659	(6,505,488)
Total investment return	$	3,745,513	(6,768,810)

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820-10-65, *Fair Value Measurements and Disclosures*, 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 investments measured at fair value as of June 30, 2010:

	Level 1	Level 2	Level 3	Total
Investments:				
Corporate and other obligations	$ —	1,293,502	—	1,293,502
U.S. equity securities	1,357,022	—	—	1,357,022
Global equity securities	—	1,278,128	—	1,278,128
Mutual funds:				
Long term equity	8,507,202	—	—	8,507,202
Long term fixed	5,197,131	—	—	5,197,131
Short term	7,119,291	—	—	7,119,291
Other long term	880,271	—	—	880,271
Total mutual funds	21,703,895	—	—	21,703,895
Real estate funds	—	—	1,604,440	1,604,440
Funds of funds:				
Global equity	—	—	3,122,744	3,122,744
Other	—	—	73,510	73,510
Total funds of funds	—	—	3,196,254	3,196,254
Total	$ 23,060,917	2,571,630	4,800,694	30,433,241

The Level 3 investments are redeemable between December 2010 and November 2015.

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

	Level 1	Level 2	Level 3	Total
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
US 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	$ 12,544,769	8,281,729	7,208,056	28,034,554

The following table summarizes changes in Level 3 investments measured at fair value on a recurring basis for the periods ending June 30, 2010 and 2009:

	2010	2009
Investments:		
Beginning balance	$ 7,208,056	8,779,111
Total net gains (losses) included in:		
Change in net assets	718,410	(1,644,565)
Purchases	122,732	73,510
Sales	(3,248,504)	—
Ending balance	$ 4,800,694	7,208,056
Net unrealized gains (losses) included in change in net assets for the period relating to Level 3 investments held at June 30	$ 282,852	(1,454,766)

The following table summarizes the ownership of the investments by net asset categories as of June 30, 2010 and 2009:

	2010	2009
Unrestricted net assets	$ 1,358,805	610,905
Temporarily restricted net assets	20,897,187	19,293,987
Permanently restricted net assets	8,177,249	8,129,662
Total	$ 30,433,241	28,034,554

(Continued)

(5) Split Interest Agreements

(a) 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 Florida, 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 annuitants.

These segregated investments as of June 30, 2010 and 2009 totaled $2,611,403 and $2,466,398, respectively and are reported as investments on the consolidated statements of financial position. 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 7.5%. The liability amounts are included in accounts payable and accrued expenses on the consolidated statements of financial position as of June 30, 2010 and 2009 and total $1,666,136 and $1,655,008, respectively.

(b) Perpetual Trusts

ChildFund is the beneficiary of approximately 9 perpetual trusts created by donors, the assets of which are not in the possession of ChildFund. ChildFund has legally enforceable rights or claims to the income from the assets. The fair values of beneficial interest in perpetual trusts at June 30, 2010 and 2009 were $3,940,787 and $3,595,817, respectively. Net increases (decreases) of $344,970 and ($868,014) related to changes in fair values for the years ended June 30, 2010 and 2009, respectively, were reported in changes in permanently restricted net assets on the accompanying statements of activities. There were no perpetual trusts given to ChildFund during the years ended June 30, 2010 and 2009.

(c) Charitable Remainder Trusts

ChildFund is the beneficiary of approximately 7 charitable remainder trusts, the assets of which are not in the possession of ChildFund. The fair values of beneficial interests in charitable remainder trusts at June 30, 2010 and 2009 were $2,436,771 and $2,293,376. Changes in value of split interest agreements totaled $143,395 and $(337,291) for the years ended June 30, 2010 and 2009, respectively and were recorded in temporarily restricted net assets on the accompanying statements of activities. There were no charitable remainder trusts given to ChildFund during the years ended June 30, 2010 and 2009.

(d) Fair Value Disclosures

The following table presents ChildFund's fair value hierarchy for beneficial interests in trusts measured at fair value as of June 30, 2010:

	Level 1	Level 2	Level 3	Total
Beneficial interests in trusts	$ —	—	6,377,558	6,377,558

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

	Level 1	Level 2	Level 3	Total
Beneficial interests in trusts	$ —	—	5,889,193	5,889,193

The following table summarizes changes in Level 3 beneficial interests in trusts measured at fair value on a recurring basis for the periods ending June 30, 2010 and 2009:

	2010	2009
Beneficial interests in trusts:		
Beginning balance	$ 5,889,193	7,094,498
Total net gains (losses) included in:		
Change in net assets	488,365	(1,205,305)
Ending balance	$ 6,377,558	5,889,193
Net unrealized gains (losses) included in change in net assets for the period relating to Level 3 beneficial interests in trusts held at June 30	$ 488,365	(1,205,305)

(6) Property, Plant and Equipment

Property, plant, and equipment at June 30, 2010 and 2009 are summarized as follows:

		2010	2009
Land	$	1,180,378	1,180,378
Buildings and improvements		15,884,220	15,574,638
Furniture, fixtures and equipment		17,115,499	15,878,216
Construction in progress		1,427,986	931,831
		35,608,083	33,565,063
Accumulated depreciation		(21,524,794)	(19,739,201)
Total	$	14,083,289	13,825,862

(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 obligation, for the years ended June 30, 2010 and 2009:

		2010	2009
Accumulated benefit obligation	$	24,002,839	21,497,446
Benefit obligation		(24,002,839)	(21,497,446)
Fair value of plan assets		15,528,324	14,344,756
Funded status		(8,474,515)	(7,152,690)
Accrued benefit liability	$	8,474,515	7,152,690

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, 2010 and 2009 were $1,251,055 and $1,127,390 respectively.

Expected future benefit payments of the Pension Plan as of June 30, 2010 are as follows:

2011	$	1,290,418
2012		1,317,909
2013		1,356,307
2014		1,493,251
2015		1,560,232
2016 – 2020		8,104,720

Employer contributions made by ChildFund to the Pension Plan were $641,131 and $567,481 during the years ended June 30, 2010 and 2009, respectively. The estimated contribution for the year ending June 30, 2011 is $826,000. At June 30, 2010 and 2009, the unrecognized net actuarial loss was $10,944,457 and $9,466,564, respectively. Amortization of the unrecognized net actuarial loss for the year ending June 30, 2011 will be $719,559.

		2010	2009
Net periodic pension cost:			
Interest cost	$	1,300,765	1,295,676
Expected return on plan assets		(1,268,868)	(1,433,984)
Recognized net actuarial loss		453,066	161,342
Net periodic pension cost	$	484,963	23,034

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 Pension Plan's contract with the Metropolitan Life Insurance Company is partly backed by two MetLife separate accounts. The separate accounts invest in the MetLife Large Cap Core Index and the MetLife Core Bond Index, respectively. The value of the contract is dependent on the values of the units of the separate accounts backing the contract. The fair value of the separate accounts is determined based on daily unit net asset value (NAV), primarily using quoted market prices of the underlying securities (or similar securities). The underlying investments of the separate accounts are stated at fair value as determined by quoted market prices in an active market or when not available quoted market prices in an inactive market. The remaining component of the contract includes an interest bearing cash account used by the Pension Plan to flow through funds from the separate accounts discussed above to pay the guaranteed monthly benefit payments to retirees.

The Pension Plan assets are managed in balanced portfolio comprised of two major components: an equity portion and a fixed income portion. The expected role of the Pension Plan equity investments is to maximize the long-term real growth of assets, while the role of fixed income investments is to generate current income, provide for more stable returns and provide some protection against a prolonged decline in the fair value of equity investments.

The asset allocation for the Pension Plan at June 30, 2010 and 2009 and the target allocation for fiscal year 2011 by asset category are as follows:

	Target allocation	Percentage of plan assets at year end	
	2011	2010	2009
Equity securities	60.0%	57.5%	70.1%
Fixed income securities	40.0	42.5	29.9
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 9.25% over the long-term, while cash and fixed income is expected to return 4.75%.

The fair values of the Pension Plan assets at June 30, 2010 by asset category are as follows:

	2010	2009
Investments:		
Separate accounts:		
Cash equivalents	$ 14,800	12,165
Mutual funds – large cap equities	8,920,502	10,046,780
Mutual funds – bonds	6,593,022	4,285,811
Total	$ 15,528,324	14,344,756

The following table presents ChildFund's fair value hierarchy for the Pension Plan assets measured at fair value as of June 30, 2010:

	Level 1	Level 2	Level 3	Total
Investments:				
Separate accounts:				
Cash and cash equivalents	$ 14,800	—	—	14,800
Mutual funds – large cap equities	—	8,920,502	—	8,920,502
Mutual funds – bonds	—	6,593,022	—	6,593,022
Total	$ 14,800	15,513,524	—	15,528,324

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

	Level 1	Level 2	Level 3	Total
Investments:				
Separate accounts:				
Cash equivalents	$ 12,165	—	—	12,165
Mutual funds – large cap equities	—	10,046,780	—	10,046,780
Mutual funds – bonds	—	4,285,811	—	4,285,811
Total	$ 12,165	14,332,591	—	14,344,756

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

	2010	2009
Discount rate	5.25%	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 contributed 6% to 12% of employees' base pay to the 403(b) Plan each payroll period based on their period of service with ChildFund for the period July 1, 2009 to March 31, 2010. Beginning April 1, 2010, ChildFund contributed 6% of employees' base pay to the 403(b) Plan each payroll period for all employees. 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, 2010 and 2009 related to the 403(b) Plan was $1,168,348 and $1,179,176, respectively.

(8) Revolving Line of Credit

At June 30, 2010 and 2009, ChildFund had a $10,000,000 collateralized revolving line of credit. For each of the years ended June 30, 2010 and 2009, interest expense was based on LIBOR + 100 basis points. 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, 2010 and 2009, no amounts were outstanding on the line of credit.

Total interest expense on the revolving line of credit was $90,144 and $25,756 for the years ended June 30, 2010 and 2009, respectively.

(Continued)

(9) Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2010 and 2009 were available for the following purposes:

		2010	2009
Subsidies and gifts for children	$	24,544,733	23,015,499
Appeal funded programs		4,850,169	4,550,877
Time restricted		2,436,771	2,293,376
Local programs and other		1,039,403	919,780
Total	$	32,871,076	30,779,532

(10) Permanently Restricted Net Assets

Permanently restricted net assets were $12,118,036 and $11,725,479 at June 30, 2010 and 2009, 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, 2010 and 2009 and are summarized by country in the accompanying table. As of June 30, 2010 and 2009, ChildFund has sponsorship receivables from these autonomous organizations totaling $2,348,499 and $2,343,504, 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, 2010 and 2009 of $1,358,045 and $1,271,403, 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, 2010 and 2009, and are summarized in the accompanying table.

			Total	
	Sponsorships	Special gifts for children	2010	2009
Autonomous organizations:				
Australia	$ 15,979,396	1,079,868	17,059,264	13,440,389
Denmark	4,087,697	477,078	4,564,775	4,375,408
France	1,755,171	140,030	1,895,201	1,811,193
Germany	5,823,715	354,929	6,178,644	6,328,525
Ireland	1,090,633	181,131	1,271,764	1,198,590
Japan	155,534	—	155,534	136,791
New Zealand	5,816,515	585,196	6,401,711	5,730,598
Sweden	4,332,781	570,124	4,902,905	4,431,388
Korea	1,299,431	18,495	1,317,926	645,300
Taiwan	6,653,069	509,762	7,162,831	6,893,915
Total autonomous organizations	46,993,942	3,916,613	50,910,555	44,992,097
Consolidated operations:				
Brazil	2,366,877	616,318	2,983,195	2,567,394
Mexico	982,763	16,817	999,580	905,216
Thailand	4,374,853	23,174	4,398,027	3,301,767
Other	5,194	—	5,194	6,090
Total consolidated operations	7,729,687	656,309	8,385,996	6,780,467
Total international sponsors	$ 54,723,629	4,572,922	59,296,551	51,772,564

(Continued)

(12) Total Public Support

Public support is summarized for the years ended June 30, 2010 and 2009, as follows:

		2010	2009
United States	$	133,511,594	143,421,784
Autonomous organizations, support from sponsors (note 11)		50,910,555	44,992,097
Autonomous organizations, other support		19,987,442	21,022,249
Consolidated operations, support from sponsors (note 11)		8,385,996	6,780,467
Consolidated operations, other support		317,310	36,623
Total public support	$	213,112,897	216,253,220

(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." On July 1, 2009, ChildFund adopted the provisions of FASB ASC 740-10, *Income Taxes*, which requires a tax position be recognized on a "more-likely than-not" threshold. This applies to positions taken or expected to be taken on a tax return. ChildFund does not believe its financial statements include or reflect any uncertain tax positions. No provision for income taxes has been recorded for the years ended June 30, 2010 and 2009.

(14) ChildFund Alliance

In April 2002, ChildFund Alliance was established for charitable purposes to promote the well-being of children and their families. 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

FASB ASC 958-205-45, *Not-For-Profit Entities – Presentation of Financial Statements*, 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.

(a) 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, 2010:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ (1,697,457)	489,198	8,177,249	6,968,990
Board-designated endowment funds	3,056,262	—	—	3,056,262
Total endowment net assets	$ 1,358,805	489,198	8,177,249	10,025,252

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

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, 2010:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2009	$ 610,905	469,198	8,129,662	9,209,765
Investment return:				
Investment income	131,613	—	—	131,613
Net appreciation	736,448	—	—	736,448
Total investment return	868,061	—	—	868,061
Contributions	—	20,000	47,587	67,587
Appropriation of endowment assets for expenditure	(120,161)	—	—	(120,161)
Endowment net assets, June 30, 2010	$ 1,358,805	489,198	8,177,249	10,025,252

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

(b) 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 $1,697,457 and $2,363,452 as of June 30, 2010 and 2009, respectively. These deficiencies resulted from unfavorable market fluctuations. Subsequent gains, if any, 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.

(c) 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%.

(d) 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.

(e) 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 $28 per month for the years ended June 30, 2010 and 2009. In order to meet this spending rate, donors are asked to contribute a one-time endowment 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.

(17) Subsequent Events

ChildFund has evaluated subsequent events for potential recognition and/or disclosure in the June 30, 2010 consolidated financial statements through October 19, 2010, the date the consolidated financial statements were available to be issued.