CHILDFUND INTERNATIONAL, USA

Consolidated Financial Statements

June 30, 2012

(With Independent Auditors' Report Thereon)

CHILDFUND INTERNATIONAL, USA

Table of Contents

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, 2012, 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 2011 consolidated financial statements, and in our report dated November 3, 2011, 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, 2012, 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 26, 2012

CHILDFUND INTERNATIONAL, USA

Consolidated Statement of Financial Position

June 30, 2012
(with comparative financial information as of June 30, 2011)

Assets		**2012**	**2011**
Cash and cash equivalents (note 3)	$	32,635,265	30,010,701
Receivable from affiliates (note 11)		2,394,135	2,693,973
Grants receivable		4,567,537	4,303,481
Accounts receivable and other assets		5,582,284	4,534,622
Investments (notes 4 and 5)		33,719,284	34,178,516
Beneficial interests in trusts (note 5)		12,519,256	12,611,221
Property, plant and equipment, net (note 6)		13,585,144	13,069,066
Total assets	$	105,002,905	101,401,580
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses (note 5)	$	17,698,488	14,568,626
Accrued benefit liability (note 7)		9,505,482	5,968,425
Total liabilities		27,203,970	20,537,051
Net assets:			
Unrestricted (note 16)		23,780,994	25,567,789
Temporarily restricted (notes 9 and 16)		36,217,951	37,681,840
Permanently restricted (notes 10 and 16)		17,799,990	17,614,900
Total net assets		77,798,935	80,864,529
Contingencies (notes 8 and 15)			
Total liabilities and net assets	$	105,002,905	101,401,580

See accompanying notes to consolidated financial statements.

CHILDFUND INTERNATIONAL, USA

Consolidated Statement of Activities

Year ended June 30, 2012
(with summarized financial information for the year ended June 30, 2011)

	Unrestricted	Temporarily restricted	Permanently restricted	Total 2012	Total 2011
Public support (note 12):					
Sponsorships (note 11):					
U.S. sponsors	$ —	84,352,515	—	84,352,515	87,079,942
International sponsors	—	61,908,234	—	61,908,234	60,814,311
Special gifts from sponsors for children	—	16,409,782	—	16,409,782	17,847,305
Total sponsorships	—	162,670,531	—	162,670,531	165,741,558
Contributions:					
General contributions (note 11)	10,464,049	9,247,238	370	19,711,657	21,964,439
Major gifts and bequests (note 5)	5,912,966	24,066	—	5,937,032	4,031,161
Gifts in kind	16,893,061	3,285,746	—	20,178,807	11,706,958
Total contributions	33,270,076	12,557,050	370	45,827,496	37,702,558
Grants:					
Grants and contracts	33,736,875	—	—	33,736,875	30,148,066
Total public support	67,006,951	175,227,581	370	242,234,902	233,592,182
Revenue:					
Investment income and currency transactions (note 4)	763,639	29,599	—	793,238	1,750,943
Service fees and other (note 11)	2,236,082	—	—	2,236,082	2,303,964
Total revenue	2,999,721	29,599	—	3,029,320	4,054,907
Net assets released from restrictions:					
Satisfaction of program and time restrictions	176,416,090	(176,416,090)	—	—	—
Total public support and revenue	246,422,762	(1,158,910)	370	245,264,222	237,647,089
Expenses (notes 7 and 8):					
Program:					
Basic education	72,326,121	—	—	72,326,121	70,474,506
Health and sanitation	43,448,028	—	—	43,448,028	51,161,568
Nutrition	19,535,306	—	—	19,535,306	15,506,883
Early childhood development	21,848,910	—	—	21,848,910	22,518,828
Micro enterprise	19,316,674	—	—	19,316,674	16,882,547
Emergencies	21,772,407	—	—	21,772,407	10,971,455
Total program	198,247,446	—	—	198,247,446	187,515,787
Supporting services:					
Fund raising	26,371,513	—	—	26,371,513	23,483,186
Management and general	17,872,320	—	—	17,872,320	15,736,903
Total supporting services	44,243,833	—	—	44,243,833	39,220,089
Total expenses from operations	242,491,279	—	—	242,491,279	226,735,876
Change in net assets from operations	3,931,483	(1,158,910)	370	2,772,943	10,911,213
Nonoperating gains (losses):					
Realized gain on investments (note 4)	544,302	2,593	—	546,895	999,697
Unrealized (loss) gain on investments (note 4)	(1,529,663)	(6,821)	—	(1,536,484)	3,881,773
Change in value of trusts (note 5)	—	(300,751)	184,720	(116,031)	1,131,548
Change in accrued benefit liability other than net periodic costs (note 7)	(4,732,917)	—	—	(4,732,917)	2,917,317
Total nonoperating gains (losses)	(5,718,278)	(304,979)	184,720	(5,838,537)	8,930,335
Change in net assets	(1,786,795)	(1,463,889)	185,090	(3,065,594)	19,841,548
Net assets at beginning of year	25,567,789	37,681,840	17,614,900	80,864,529	61,022,981
Net assets at end of year	$ 23,780,994	36,217,951	17,799,990	77,798,935	80,864,529

See accompanying notes to consolidated financial statements.

CHILDFUND INTERNATIONAL, USA

Consolidated Statement of Cash Flows

Year ended June 30, 2012
(with comparative financial information for the year ended June 30, 2011)

		2012	2011
Cash flows from operating activities:			
Change in net assets	$	(3,065,594)	19,841,548
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation		1,843,628	2,048,679
Realized gain on investments		(546,895)	(999,697)
Unrealized loss (gain) on investments		1,536,484	(3,881,773)
Gift of beneficial interest in trust		(24,066)	(5,102,115)
Change in value of trusts		116,031	(1,131,548)
Gain on sale of property, plant and equipment		(46,197)	(344,516)
Contributions restricted for long-term investment		(370)	(16,071)
Change in accrued benefit liability other than net periodic costs		4,732,917	(2,917,317)
Changes in operating assets and liabilities:			
Grants receivable		(264,056)	(600,460)
Receivable from affiliates		299,838	(345,474)
Accounts receivable and other assets		(1,047,662)	(1,195,153)
Accounts payable and accrued expenses		3,129,862	986,684
Accrued benefit liability		(1,195,860)	411,227
Net cash provided by operating activities		5,468,060	6,754,014
Cash flows from investing activities:			
Purchases of property, plant and equipment		(2,388,044)	(1,372,608)
Proceeds from sales of property, plant and equipment		74,535	682,668
Proceeds from sales of investments		8,091,642	9,773,701
Purchases of investments		(8,621,999)	(8,637,506)
Net cash (used in) provided by investing activities		(2,843,866)	446,255
Cash flows from financing activities:			
Payment of line of credit		9,377,000	1,186,000
Proceeds from borrowings of line of credit		(9,377,000)	(1,186,000)
Contributions restricted for long-term investment		370	16,071
Net cash provided by financing activities		370	16,071
Net increase in cash and cash equivalents		2,624,564	7,216,340
Cash and cash equivalents at beginning of year		30,010,701	22,794,361
Cash and cash equivalents at end of year	$	32,635,265	30,010,701
Supplemental cash flow information:			
Interest paid	$	2,463	172
Supplemental disclosures of noncash transactions:			
Gift of beneficial interest in trust	$	24,066	5,102,115
Gifts in kind		20,178,807	11,706,958

See accompanying notes to consolidated financial statements.

CHILDFUND INTERNATIONAL, USA

Consolidated Statement of Functional Expenses

Year ended June 30, 2012
(with summarized financial information for the year ended June 30, 2011)

	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	2012	2011
Subsidies for children	$ 37,976,153	22,813,183	10,257,369	11,472,171	10,142,575	11,432,001	104,093,452	—	—	—	104,093,452	106,808,263
Program grants	21,449,954	12,885,500	5,793,638	6,479,791	5,728,799	6,457,102	58,794,784	—	—	—	58,794,784	45,314,704
Supplies	316,405	190,072	85,461	95,582	84,505	95,248	867,273	95,413	341,433	436,846	1,304,119	1,282,470
Occupancy	581,806	349,505	157,146	175,757	155,387	175,142	1,594,743	206,112	278,713	484,825	2,079,568	2,019,740
Professional services	442,913	266,068	119,631	133,799	118,292	133,330	1,214,033	83,146	382,073	465,219	1,679,252	1,730,969
Contract services	763,978	458,940	206,351	230,789	204,041	229,981	2,094,080	1,491,192	2,948,591	4,439,783	6,533,863	4,973,637
Travel	624,843	375,358	168,770	188,758	166,881	188,097	1,712,707	357,368	450,234	807,602	2,520,309	2,610,170
Conferences and meetings	497,758	299,015	134,445	150,367	132,940	149,841	1,364,366	114,450	5,614	120,064	1,484,430	1,091,268
Automobile and truck expense	174,949	105,096	47,254	52,850	46,725	52,665	479,539	40,000	—	40,000	519,539	466,700
Advertising and public education	38,934	23,389	10,516	11,762	10,398	11,720	106,719	19,102,305	328,518	19,430,823	19,537,542	17,943,033
Equipment purchases and rentals	164,171	98,621	44,343	49,594	43,846	49,420	449,995	68,821	791,564	860,385	1,310,380	1,340,925
Telephone and cables	193,690	116,354	52,316	58,512	51,730	58,307	530,909	88,391	163,458	251,849	782,758	816,876
Postage and freight	535,273	321,551	144,577	161,700	142,959	161,134	1,467,194	126,933	767,332	894,265	2,361,459	2,322,897
Staff training	82,157	49,353	22,191	24,819	21,942	24,732	225,194	11,766	49,061	60,827	286,021	328,030
Miscellaneous expenses	125,306	75,274	33,845	37,853	33,466	37,721	343,465	366,843	1,915,942	2,282,785	2,626,250	2,968,841
Total expenses before personnel costs and other expenses	63,968,290	38,427,279	17,277,853	19,324,104	17,084,486	19,256,441	175,338,453	22,152,740	8,422,533	30,575,273	205,913,726	192,018,523
Personnel costs	7,931,965	4,764,921	2,142,426	2,396,157	2,118,449	2,387,767	21,741,685	4,111,605	8,878,172	12,989,777	34,731,462	32,668,502
Depreciation and interest	425,866	255,828	115,027	128,649	113,739	128,199	1,167,308	107,168	571,615	678,783	1,846,091	2,048,851
Total expenses from operations	$ 72,326,121	43,448,028	19,535,306	21,848,910	19,316,674	21,772,407	198,247,446	26,371,513	17,872,320	44,243,833	242,491,279	226,735,876

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 625,000 enrolled children in ChildFund's programs. Of these children more than 454,000 are sponsored children who are supported through monthly contributions.

Most of the sponsorships – more than 270,000 – 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 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 the consolidated 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

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.

If the inputs used to measure the asset or liability fall within different levels of the hierarchy, the classification is based on the lowest level input that is significant to the fair value measurement of the asset or liability.

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, real estate funds, and global equity securities, 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 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.

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 cash equivalents 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

(Continued)

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.

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.

Investments and beneficial interests in trusts are carried at fair value as discussed in note 2(d). 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.

(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. ChildFund received approximately $3,285,000 of gifts-in-kind shoes during the year ended June 30, 2012. The fair value of gifts-in-kind shoes are recorded using an exit value approach. Approximately $1,950,000 of gifts-in-kind shoes yet to be distributed was included in accounts receivable and other assets at June 30, 2012. ChildFund received approximately $15,800,000 and $10,000,000 of in-kind media and broadcast time in the form of public service announcements during the years ended June 30, 2012 and 2011, respectively. The public service announcements, which have been featured in major magazines, airports, high traffic malls and shopping centers, were designed to educate the public about the challenges faced in ChildFund's program communities. ChildFund uses a third party purchasing agency to secure its public service announcements from media outlets as well as to estimate their fair value under an exit value approach, using billing rates normally charged to other customers under similar circumstances.

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, advertising, 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

Operating activities exclude realized and unrealized gains and losses on investments, changes in value of trusts, 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, 2011, from which the summarized information was derived.

(m) Reclassifications

Certain reclassifications have been made to the 2011 consolidated financial statements in order to conform with the 2012 presentation.

(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 statement 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 $13,800,000 and $13,000,000 as of June 30, 2012 and 2011, respectively.

(Continued)

(4) Investments and Investment Return

Investments, at fair value, as of June 30, 2012 and 2011 are summarized as follows:

		2012	2011
Corporate and other obligations	$	735,048	1,380,671
U.S. equity securities		5,102,279	3,513,966
Global equity securities		1,689,272	1,344,380
Mutual funds		20,726,097	22,430,547
Real estate funds		1,886,249	1,871,298
Funds of funds		3,580,339	3,637,654
Total	$	33,719,284	34,178,516

Investment return is summarized for the years ended June 30, 2012 and 2011, as follows:

		2012	2011
Interest and dividends	$	1,580,552	1,138,342
Currency transaction (losses) gains, net		(729,767)	686,058
Investment expense		(57,547)	(73,457)
Total investment income and currency transactions		793,238	1,750,943
Realized gain on investments		546,895	999,697
Unrealized (loss) gain on investments		(1,536,484)	3,881,773
Total investment return	$	(196,351)	6,632,413

The following table presents ChildFund's fair value hierarchy for investments measured at fair value as of June 30, 2012:

	Level 1	Level 2	Level 3	Total
Investments:				
Corporate and other obligations	$ —	735,048	—	735,048
U.S. equity securities	5,102,279	—	—	5,102,279
Global equity securities	—	1,689,272	—	1,689,272
Mutual funds:				
Long term equity	11,394,649	—	—	11,394,649
Long term fixed	6,291,738	—	—	6,291,738
Other long term	3,039,710	—	—	3,039,710
Total mutual funds	20,726,097	—	—	20,726,097
Real estate funds	—	—	1,886,249	1,886,249
Funds of funds:				
Global equity	—	—	3,506,829	3,506,829
Other	—	—	73,510	73,510
Total funds of funds	—	—	3,580,339	3,580,339
Total	$ 25,828,376	2,424,320	5,466,588	33,719,284

Global equity funds may be redeemed 83% during fiscal year 2013, 10% during fiscal year 2014, 4% during fiscal year 2015 and 3% during fiscal year 2016. Real estate funds may be redeemed during fiscal years 2016 and 2017. There were no material capital commitments to investment managers that have not been funded by ChildFund for the years ended June 30, 2012 and 2011.

The following table presents ChildFund's fair value hierarchy for investments measured at fair value as of June 30, 2011:

	Level 1	Level 2	Level 3	Total
Investments:				
Corporate and other obligations	$ —	1,380,671	—	1,380,671
U.S. equity securities	3,513,966	—	—	3,513,966
Global equity securities	—	1,344,380	—	1,344,380
Mutual funds:				
Long term equity	11,109,617	—	—	11,109,617
Long term fixed	4,369,474	—	—	4,369,474
Short term	5,637,595	—	—	5,637,595
Other long term	1,313,861	—	—	1,313,861
Total mutual funds	22,430,547	—	—	22,430,547
Real estate funds	—	—	1,871,298	1,871,298
Funds of funds:				
Global equity	—	—	3,564,144	3,564,144
Other	—	—	73,510	73,510
Total funds of funds	—	—	3,637,654	3,637,654
Total	$ 25,944,513	2,725,051	5,508,952	34,178,516

The following table summarizes changes in Level 3 investments measured at fair value on a recurring basis for the periods ended June 30, 2012 and 2011:

	2012	2011
Investments:		
Beginning balance	$ 5,508,952	4,800,694
Total net gains included in:		
Change in net assets	29,803	248,106
Purchases	—	3,388,918
Sales	(72,167)	(2,928,766)
Ending balance	$ 5,466,588	5,508,952
Net unrealized gains (losses) included in change in net assets for the period relating to Level 3 investments held at June 30	$ 11,640	(138,466)

There were no significant transfers into/out of Level 1 or Level 2 investments during the years ended June 30, 2012 and 2011. There were no assets or liabilities measured at fair value on a nonrecurring basis as of June 30, 2012 and 2011.

(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, as described in note 2(d).

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, 2012 and 2011 totaled $2,574,472 and $2,804,659, respectively and are reported as investments on the consolidated statement 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 1.6% to 7.6%. The liability amounts are included in accounts payable and accrued expenses on the consolidated statement of financial position as of June 30, 2012 and 2011 and total $1,492,056 and $1,540,754, respectively.

(b) Perpetual Trusts

ChildFund is the beneficiary of approximately 10 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, 2012 and 2011 were $9,606,300 and $9,421,580, respectively. Net increases of $184,720 and $378,678 related to changes in fair values for the years ended June 30, 2012 and 2011, respectively, were reported in changes in permanently restricted net assets on the accompanying statement of activities. There were no perpetual trusts given to ChildFund during the year ended June 30, 2012.

Charitable Remainder Trusts

ChildFund is the beneficiary of approximately 6 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, 2012 and 2011 were $2,912,956 and $3,189,641. Changes in value of split interest agreements totaled ($300,751) and $752,870 for the years ended June 30, 2012 and 2011, respectively and were recorded in temporarily restricted net assets on the accompanying statement of activities. There was one charitable remainder trust valued at $24,066 given to ChildFund during the year ended June 30, 2012, which is reflected in temporarily restricted major gifts and bequests in the accompanying consolidated statement of activities. There were no charitable remainder trusts given to ChildFund during the year ended June 30, 2011.

Fair Value Disclosures

The following table presents ChildFund's fair value hierarchy for beneficial interests in trusts measured at fair value on a recurring basis as of June 30, 2012:

	Level 1	Level 2	Level 3	Total
Beneficial interests in trusts	$ —	—	12,519,256	12,519,256

The following table presents ChildFund's fair value hierarchy for beneficial interests in trusts measured at fair value on a recurring basis as of June 30, 2011:

	Level 1	Level 2	Level 3	Total
Beneficial interests in trusts	$ —	—	12,611,221	12,611,221

The following table summarizes changes in Level 3 beneficial interests in trusts measured at fair value on a recurring basis for the periods ended June 30, 2012 and 2011:

	2012	2011
Beneficial interests in trusts:		
Beginning balance	$ 12,611,221	6,377,558
Total net (losses) gains included in:		
Change in net assets	(116,031)	1,131,548
Gift of beneficial interests in trusts	24,066	5,102,115
Ending balance	$ 12,519,256	12,611,221
Net unrealized (losses) gains included in change in net assets for the period relating to Level 3 beneficial interests in trusts held at June 30	$ (116,031)	1,131,548

(6) Property, Plant and Equipment

Property, plant, and equipment at June 30, 2012 and 2011 are summarized as follows:

		2012	2011
Land	$	1,180,378	1,180,378
Buildings and improvements		15,599,610	15,492,612
Furniture, fixtures and equipment		20,468,619	19,535,334
Construction in progress		1,134,718	220,868
		38,383,325	36,429,192
Accumulated depreciation		(24,798,181)	(23,360,126)
Total	$	13,585,144	13,069,066

(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, 2012 and 2011:

		2012	2011
Accumulated benefit obligation	$	27,281,302	23,166,070
Benefit obligation		(27,281,302)	(23,166,070)
Fair value of plan assets		17,775,820	17,197,645
Funded status		(9,505,482)	(5,968,425)
Accrued benefit liability	$	9,505,482	5,968,425

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, 2012 and 2011 were $1,565,477 and $1,480,783 respectively.

Expected future benefit payments of the Pension Plan as of June 30, 2012 are as follows:

2013	$	1,562,754
2014		1,566,250
2015		1,612,504
2016		1,630,028
2017		1,698,493
2018 – 2022		8,353,396

Employer contributions made by ChildFund to the Pension Plan were $1,929,437 and $454,168 during the years ended June 30, 2012 and 2011, respectively. The estimated contribution for the year ending June 30, 2013 is $1,553,000. At June 30, 2012 and 2011, the unrecognized net actuarial loss was $12,760,057 and $8,027,140, respectively. Amortization of the unrecognized net actuarial loss for the year ending June 30, 2013 will be $1,133,711.

		2012	2011
Net periodic pension cost:			
Interest cost	$	1,301,160	1,257,320
Expected return on plan assets		(1,259,773)	(1,251,621)
Recognized net actuarial loss		692,190	859,696
Net periodic pension cost	$	733,577	865,395

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 fair values of the Pension Plan assets at June 30, 2012 and 2011 by asset category are as follows:

		2012	2011
Investments:			
Separate accounts:			
Cash and cash equivalents	$	156,836	32,785
Mutual fund – equity		10,579,403	10,451,737
Mutual fund – fixed income		7,039,581	6,713,123
Total	$	17,775,820	17,197,645

The Pension Plan's contract with the Metropolitan Life Insurance Company is funded by nine separate accounts. The separate accounts invest in mutual funds with a focus on equity and fixed income securities. The value of the contract is dependent on the values of the units of the separate accounts funding 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 to pay the guaranteed monthly benefit payments to retirees.

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, 2012 and 2011 and the target allocation for fiscal year 2013 by asset category are as follows:

	Target allocation	Percentage of plan assets at year end	
	2013	**2012**	**2011**
Mutual fund – equity	60.0%	60.4%	60.9%
Mutual fund – fixed income	40.0	39.6	39.1
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 9.30% over the long-term, while cash and fixed income is expected to return 4.50%.

The following table presents ChildFund's fair value hierarchy for the Pension Plan assets measured at fair value as of June 30, 2012:

		Level 1	Level 2	Level 3	Total
Investments:					
Separate accounts:					
Cash and cash equivalents	$	156,836	—	—	156,836
Mutual fund – equity		—	10,579,403	—	10,579,403
Mutual fund – fixed income		—	7,039,581	—	7,039,581
Total	$	156,836	17,618,984	—	17,775,820

The following table presents ChildFund's fair value hierarchy for the Pension Plan assets measured at fair value as of June 30, 2011:

		Level 1	Level 2	Level 3	Total
Investments:					
Separate accounts:					
Cash and cash equivalents	$	32,785	—	—	32,785
Mutual fund – equity		—	10,451,737	—	10,451,737
Mutual fund – fixed income		—	6,713,123	—	6,713,123
Total	$	32,785	17,164,860	—	17,197,645

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

	2012	2011
Discount rate	4.25%	5.75%
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 (the Board). Total expense recognized for the years ended June 30, 2012 and 2011 related to the 403(b) Plan was $1,012,445 and $911,183, respectively.

(8) Revolving Line of Credit

At June 30, 2012 and 2011, ChildFund had a $10,000,000 collateralized revolving line of credit. For each of the years ended June 30, 2012 and 2011, interest expense was based on LIBOR + 95 basis points. The line of credit payable is due and payable on February 28, 2013 and related interest is due and payable in consecutive monthly payments until fully paid. This line of credit is collateralized by ChildFund's corporate headquarters building located in Richmond, Virginia and expires February 28, 2013. At June 30, 2012 and 2011, no amounts were outstanding on the line of credit.

(9) Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2012 and 2011 were available for the following purposes:

		2012	2011
Subsidies and gifts for children	$	25,202,693	28,073,126
Appeal funded programs		4,844,950	4,765,973
Time restricted		4,864,637	3,189,641
Local programs and other		1,305,671	1,653,100
Total	$	36,217,951	37,681,840

(10) Permanently Restricted Net Assets

Permanently restricted net assets were $17,799,990 and $17,614,900 at June 30, 2012 and 2011, 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, 2012 and 2011 and are summarized by country in the accompanying table. As of June 30, 2012 and 2011, ChildFund has sponsorship receivables from these autonomous organizations totaling $2,394,135 and $2,693,973, 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, 2012 and 2011 of $1,463,479 and $1,443,012, 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, 2012 and 2011, and are summarized in the accompanying table.

	Sponsorships	Special gifts for children	General contributions	Total 2012	2011
Autonomous organizations:					
Australia	$ 18,482,505	1,102,750	1,029,942	20,615,197	19,992,474
Canada	—	—	38,802	38,802	—
Denmark	3,758,310	411,952	92,204	4,262,466	4,512,026
France	1,681,579	132,073	39,645	1,853,297	1,841,136
Germany	5,073,094	295,431	523,248	5,891,773	6,149,485
Ireland	961,739	162,175	49,985	1,173,899	1,162,291
Japan	158,228	—	—	158,228	165,421
New Zealand	6,212,316	640,474	312,060	7,164,850	6,717,123
Sweden	4,713,164	602,622	418,152	5,733,938	5,854,056
Korea	2,651,121	53,231	454,994	3,159,346	2,921,589
Taiwan	7,530,852	643,793	209,368	8,384,013	7,691,447
Total autonomous organizations	51,222,908	4,044,501	3,168,400	58,435,809	57,007,048
Consolidated operations:					
Brazil	2,831,647	711,129	86,514	3,629,290	3,726,797
Mexico	1,098,402	17,117	145,890	1,261,409	1,289,827
Thailand	6,752,459	34,736	1,601,927	8,389,122	8,586,511
Other	2,818	—	—	2,818	3,825
Total consolidated operations	10,685,326	762,982	1,834,331	13,282,639	13,606,960
Total international sponsors	$ 61,908,234	4,807,483	5,002,731	71,718,448	70,614,008

(12) Total Public Support

Public support is summarized for the years ended June 30, 2012 and 2011, as follows:

		2012	2011
United States	$	149,292,762	143,707,885
Autonomous organizations, support from sponsors (note 11)		55,267,409	54,888,797
Autonomous organizations, other support		25,634,898	23,748,045
Consolidated operations, support from sponsors (note 11)		11,448,308	10,988,176
Consolidated operations, other support		591,525	259,279
Total public support	$	242,234,902	233,592,182

(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” ChildFund recognizes an uncertain tax position in its financial statements if it is “more likely than not” that the position will be sustained. 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, 2012 and 2011.

(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 of ChildFund Alliance consists of a significant percentage of ChildFund Board 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) 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 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

ChildFund has interpreted the Commonwealth of Virginia's enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing ChildFund to appropriate for expenditure or accumulate as much of an endowment fund as ChildFund determines is prudent for the uses, purposes, and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument.

Unless otherwise stated in the gift instrument, the assets in an endowment fund should be donor restricted assets until appropriated for expenditure by the Board. 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, 2012:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(851,288)	749,198	8,193,690	8,091,600
Board-designated endowment funds		3,159,000	—	—	3,159,000
Total endowment net assets	$	2,307,712	749,198	8,193,690	11,250,600

Endowment net assets consist of the following at June 30, 2011:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(651,942)	609,198	8,193,320	8,150,576
Board-designated endowment funds		3,279,571	—	—	3,279,571
Total endowment net assets	$	2,627,629	609,198	8,193,320	11,430,147

The following table presents the changes in ChildFund's donor-restricted endowment funds and funds designated by the Board to function as endowment for the year ended June 30, 2012:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2011	$ 2,627,629	609,198	8,193,320	11,430,147
Investment return:				
Investment income	223,552	—	—	223,552
Net depreciation	(301,370)	—	—	(301,370)
Total investment return	(77,818)	—	—	(77,818)
Contributions	—	140,000	370	140,370
Appropriation of endowment assets for expenditure	(242,099)	—	—	(242,099)
Endowment net assets, June 30, 2012	$ 2,307,712	749,198	8,193,690	11,250,600

The following table presents the changes in ChildFund's donor-restricted endowment funds and funds designated by the Board to function as endowment for the year ended June 30, 2011:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2010	$ 1,358,805	489,198	8,177,249	10,025,252
Investment return:				
Investment income	177,114	—	—	177,114
Net appreciation	1,353,864	—	—	1,353,864
Total investment return	1,530,978	—	—	1,530,978
Contributions	—	120,000	16,071	136,071
Appropriation of endowment assets for expenditure	(262,154)	—	—	(262,154)
Endowment net assets, June 30, 2011	$ 2,627,629	609,198	8,193,320	11,430,147

(Continued)

(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 $851,288 and $651,942 as of June 30, 2012 and 2011, 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, 2012 and 2011. 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.

(Continued)

(17) Subsequent Events

ChildFund has evaluated subsequent events for potential recognition and/or disclosure in the June 30, 2012 consolidated financial statements through October 26, 2012, the date the consolidated financial statements were issued.