JOHNSON LAMBERT LLP

Prevent Child Abuse America

Audited Financial Statements

Years ended December 31, 2012 and 2011
with Report of Independent Auditors

Prevent Child Abuse America

Audited Financial Statements

Years ended December 31, 2012 and 2011

Contents

JOHNSON LAMBERT LLP

Report of Independent Auditors

Board of Directors
Prevent Child Abuse America
Chicago, Illinois

We have audited the accompanying financial statements of Prevent Child Abuse America which comprise the statements of financial position as of December 31, 2012 and 2011 and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Prevent Child Abuse America as of December 31, 2012 and 2011 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Johnson Lambert LLP

Arlington Heights, Illinois
April 11, 2013

Prevent Child Abuse America

Statements of Financial Position

	December 31, 2012	December 31, 2011
Assets		
Cash and cash equivalents	$ 357,965	$ 11,719
Accounts receivable	349,234	164,574
Deposit and prepaid expenses	22,012	10,350
Investments	2,944,985	2,694,962
Furniture and equipment, net	40,812	57,861
Total assets	$ 3,715,008	$ 2,939,466
Liabilities and net assets		
Liabilities:		
Accounts payable	$ 170,495	$ 387,926
Deferred revenue	144,206	71,330
Capital lease obligation	65,091	85,108
Total liabilities	379,792	544,364
Net assets (deficit)		
Unrestricted assets (deficit)	(230,426)	(738,099)
Temporarily restricted net assets	565,642	133,201
Permanently restricted net assets	3,000,000	3,000,000
Total net assets	3,335,216	2,395,102
Total liabilities and net assets	$ 3,715,008	$ 2,939,466

See accompanying notes to the financial statements.

Prevent Child Abuse America

Statements of Activities

Years ended December 31, 2012 and 2011

	Unrestricted		Temporarily Restricted		Permanently Restricted		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
Public support and other revenue								
Public support - contributions								
Individuals - workplace campaign	$ 56,856	$ 67,915	$ -	$ -	$ -	$ -	$ 56,856	$ 67,915
Individuals - other and family foundations	213,728	259,356	437,500	-	-	-	651,228	259,356
Corporations and foundations	59,886	141,007	204,749	227,078	-	-	264,635	368,085
Conferences, association and program revenue	1,872,034	1,224,521	-	-	-	-	1,872,034	1,224,521
Special events, net of direct benefit to donors of $23,393 in 2012 and $18,578 2011	266,780	298,833	-	-	-	-	266,780	298,833
Total public support	2,469,284	1,991,632	642,249	227,078	-	-	3,111,533	2,218,710
Other revenue:								
Royalty income	92,388	100,316	-	-	-	-	92,388	100,316
Grants from government agencies	-	177,270	-	-	-	-	-	177,270
Investment return designated for current operations	20,000	-	-	-	-	-	20,000	-
Other	(655)	5,125	-	-	-	-	(655)	5,125
Total other revenue and support	111,733	282,711	-	-	-	-	111,733	282,711
Net assets released from restrictions	209,808	424,714	(209,808)	(424,714)	-	-	-	-
Total public support and other revenue	2,790,825	2,699,057	432,441	(197,636)	-	-	3,223,266	2,501,421
Expenses								
Program services	2,161,091	2,148,492	-	-	-	-	2,161,091	2,148,492
Supporting services	372,084	325,067	-	-	-	-	372,084	325,067
Total expenses	2,533,175	2,473,559	-	-	-	-	2,533,175	2,473,559
Change in net assets from operations	257,650	225,498	432,441	(197,636)	-	-	690,091	27,862
Other changes:								
Investment return in excess of amounts designated for current operations	250,023	(113)	-	-	-	-	250,023	(113)
Change in net assets (deficit)	507,673	225,385	432,441	(197,636)	-	-	940,114	27,749
Net assets (deficit), beginning of period	(738,099)	(963,484)	133,201	330,837	3,000,000	3,000,000	2,395,102	2,367,353
Net assets(deficit) , end of period	$ (230,426)	$ (738,099)	$ 565,642	$ 133,201	$ 3,000,000	$ 3,000,000	$ 3,335,216	$ 2,395,102

See accompanying notes to the financial statements.

Prevent Child Abuse America

Statement of Functional Expenses

Year ended December 31, 2012

	Program Services						Supporting Services			
	Prevention Education	Prevention Research	Prevention Programs	Prevention Advocacy	Chapter Activities	Total	Management and General	Advancement	Total	Total Expenses
Employee expenses										
Salaries	$ 155,495	$ 12,051	$ 608,961	$ 98,614	$ 122,175	$ 997,296	$ 21,270	$ 87,978	$ 109,248	$ 1,106,544
Benefits	11,975	5,053	44,904	8,000	8,988	78,920	2,845	6,432	9,277	88,197
Payroll taxes	12,852	977	50,306	7,937	10,092	82,164	1,893	7,271	9,164	91,328
Other	1,065	377	3,973	686	807	6,908	428	565	993	7,901
Accounting, auditing and computer consulting	16,423	7,466	62,412	10,033	11,922	108,256	6,791	19,104	25,895	134,151
Other services	5,745	911	51,187	5,490	82,178	145,511	12,023	3,579	15,602	161,113
Occupancy	9,343	4,183	34,232	6,070	6,990	60,818	2,597	4,956	7,553	68,371
Telephone	3,308	1,028	12,364	2,616	2,531	21,847	483	1,811	2,294	24,141
Postage	514	100	1,355	290	270	2,529	268	1,530	1,798	4,327
National conference	-	-	224,624	-	-	224,624	-	-	-	224,624
Office equipment expense and supplies	1,734	521	5,434	2,589	1,655	11,933	1,997	6,765	8,762	20,695
Printing and material development	6,867	24	382	65	752	8,090	185	916	1,101	9,191
Travel and HFA expense	5,783	1,106	337,092	2,545	27,847	374,373	5,500	3,003	8,503	382,876
Special events	-	-	-	-	-	-	-	168,803	168,803	168,803
Bad debt expense	-	-	4,360	-	500	4,860	-	450	450	5,310
Federal award sub grants	-	7,101	-	-	-	7,101	-	-	-	7,101
Interest	1,368	453	5,125	882	1,043	8,871	209	748	957	9,828
Depreciation	2,614	2,020	8,804	1,681	1,871	16,990	373	1,311	1,684	18,674
Total expenses	$ 235,086	$ 43,371	$ 1,455,515	$ 147,498	$ 279,621	$ 2,161,091	$ 56,862	$ 315,222	$ 372,084	$ 2,533,175

See accompanying notes to the financial statements.

Prevent Child Abuse America

Statement of Functional Expenses

Year ended December 31, 2011

	Program Services						Supporting Services			
	Prevention Education	Prevention Research	Prevention Programs	Prevention Advocacy	Chapter Activities	Total	Management and General	Advancement	Total	Total Expenses
Employee expenses										
Salaries	$ 164,378	$ 70,146	$ 521,141	$ 103,915	$ 126,595	$ 986,175	$ 19,494	$ 62,253	$ 81,747	$ 1,067,922
Benefits	8,868	7,085	30,071	5,359	6,986	58,369	1,150	4,653	5,803	64,172
Payroll taxes	14,200	6,884	43,624	8,798	10,800	84,306	939	5,595	6,534	90,840
Other	939	739	3,082	604	684	6,048	134	470	604	6,652
Accounting, auditing and computer consulting	20,894	16,153	70,709	13,187	14,485	135,428	3,523	10,577	14,100	149,528
Other services	187,244	5,811	25,374	36,982	87,282	342,693	2,160	9,853	12,013	354,706
Occupancy	10,963	8,639	36,296	6,914	7,689	70,501	1,611	5,423	7,034	77,535
Telephone	3,407	2,615	10,721	2,194	2,377	21,314	466	1,664	2,130	23,444
Postage	182	143	838	72	80	1,315	68	891	959	2,274
National conference	-	-	11,082	-	-	11,082	10,382	-	10,382	21,464
Office equipment expense and supplies	3,849	5,117	14,161	5,244	3,529	31,900	1,257	6,398	7,655	39,555
Printing and material development	77	60	699	49	55	940	11	2,418	2,429	3,369
Travel and HFA expense	18,263	904	160,293	5,814	21,526	206,800	3,289	975	4,264	211,064
Special events	-	-	-	-	-	-	-	159,464	159,464	159,464
Bad debt expense	-	-	2,148	-	(3,734)	(1,586)	-	5,550	5,550	3,964
Federal award sub grants	-	148,728	-	-	-	148,728	-	-	-	148,728
Interest	1,438	1,130	4,827	924	1,027	9,346	207	719	926	10,272
Depreciation	5,405	4,247	18,145	3,475	3,861	35,133	772	2,701	3,473	38,606
Total expenses	$ 440,107	$ 278,401	$ 953,211	$ 193,531	$ 283,242	$ 2,148,492	$ 45,463	$ 279,604	$ 325,067	$ 2,473,559

See accompanying notes to the financial statements.

Prevent Child Abuse America

Statements of Cash Flows

	Years ended December 31, 2012	2011
Cash flows from operating activities		
Change in net assets	$ 940,114	$ 27,749
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	18,674	38,606
Change in market value of investments	(181,738)	68,916
Changes in assets and liabilities:		
Accounts receivable	(184,660)	(68,967)
Other assets	(11,662)	3,000
Accounts payable	(217,431)	22,323
Deferred revenue	72,876	12,311
Net cash provided by operating activities	436,173	103,938
Cash flows from investing activities		
Acquisition of equipment	(1,625)	(10,956)
Proceeds from sales of investments	1,742,025	1,260,773
Purchase of investments	(1,810,197)	(1,332,608)
Net cash used in investing activities	(69,797)	(82,791)
Cash flows from financing activities		
Principal payments on lease obligations	(20,130)	(49,644)
Net cash used in financing activities	(20,130)	(49,644)
Net change in cash and cash equivalents	346,246	(28,497)
Cash and cash equivalents, beginning of year	11,719	40,216
Cash and cash equivalents, end of year	$ 357,965	$ 11,719
Supplemental disclosures of cash flow information		
Interest paid	$ 9,828	$ 10,272

See accompanying notes to the financial statements.

Prevent Child Abuse America

Notes to Financial Statements

Years ended December 31, 2012 and 2011

Note A - Nature of Activities

Prevent Child Abuse America is an organization established for the purpose of building a nationwide commitment to prevent child abuse in all its forms. Prevent Child Abuse America is supported primarily by contributions and grants from corporations and foundations.

Note B - Summary of Significant Accounting Policies

Basis of Presentation
The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Accordingly, net assets of Prevent Child Abuse America and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of Prevent Child Abuse America and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by Prevent Child Abuse America. Generally, the donors of these assets permit Prevent Child Abuse America to use all or part of the income earned on these investments for general operations.

Subsequent Events
Prevent Child Abuse America has performed an evaluation of subsequent events through April 11, 2013, which is the date the financial statements were available to be issued and has considered any relevant matters in the preparation of the financial statements and footnotes.

Contributions
Contributions, including unconditional promises to give, are recorded when received. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized as revenue when the conditions on which they depend are substantially met. Unconditional promises to give due in the next year are recorded at their net realizable value which approximates fair value. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using adjusted risk-free interest rates applicable to the years in which the promises were received.

Note B - Summary of Signficant Accounting Policies (Continued)

Contributions (continued)
Prevent Child Abuse America uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

Cash and Cash Equivalents
Prevent Child Abuse America considers cash on hand, cash deposited in banks and money market fund investments to be cash equivalents, with the exception of the cash that is included in the investment portfolio. That cash is designated for long-term investment purposes.

Accounts Receivable
Accounts receivable include amounts related to training fees, publications and other services. Prevent Child Abuse America does not maintain an allowance for doubtful accounts for these receivables, however management does monitor and estimate the amount of any uncollectible balances throughout the year. Management will record adjustments as necessary, which are reflected in the statement of activities. At December 31, 2012 and 2011 Prevent Child Abuse America recorded $5,310 and $3,964, respectively as bad debt expense.

Furniture and Equipment
Furniture and equipment is recorded at cost or at estimated fair value at the date of gift. Donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire furniture, fixtures and office equipment are reported as temporarily restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, Prevent Child Abuse America reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. Prevent Child Abuse America reclassifies temporarily restricted net assets to unrestricted net asset at that time.

Prevent Child Abuse America depreciates its furniture, fixtures and office equipment over their estimated useful lives, typically 5 years, using the straight-line method.

Contributed Services and Materials
Donated services and materials are reported as contribution revenue and as assets and expenses only if the services and materials create or enhance a nonfinancial asset, require specialized skills and are provided by individuals possessing those skills, are measurable, and would have been purchased if they had not been contributed. Donated services and materials are measured at their fair value.

Note B - Summary of Signficant Accounting Policies (Continued)

Functional Allocation of Expenses
Prevent Child Abuse America allocates its expenses to the separate functional categories of program services and supporting services based on the number of employees associated with the conduct of each function. The costs that have been allocated include rent, utilities, payroll, payroll related costs, printing, computer service, office supplies, telephone, accounting, auditing, equipment rental, postage and insurance.

Estimates
The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Investments
Prevent Child Abuse America carries its investments at fair value and reports gains and losses in the statement of activities. The fair value of investments are based on quoted market prices at the reporting date.

Prevent Child Abuse America invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and those such changes could materially affect the amounts reported in the statement of financial position.

The board of directors designates a portion of Prevent Child Abuse America's total investment return for support of current operations in accordance with the board's investment policy.

Deferred Revenue
Deferred revenue consists of training and affiliation fees paid in advance. Training revenue is recorded when the training occurs and affiliation revenues is recorded in the year in which it relates.

Concentration of Credit Risk
Throughout the year, Prevent Child Abuse America may have cash and cash equivalents held by financial institutions in excess of the Federal Deposit Insurance Corporation (FDIC) coverage limit of $250,000. Management does not consider the cash balances above the FDIC insured limit to be a significant credit risk.

Note B - Summary of Signficant Accounting Policies (Continued)

Income Taxes
Prevent Child Abuse America is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC) and that it has been classified as an organization that is not a private foundation under Section 509(a)(2). Management has concluded that Prevent Child Abuse America has properly maintained its exempt status. The previous three tax years are subject to examination by federal authorities, there are currently no examinations being conducted.

Note C - Grants and Pledges Receivable

Unconditional grants and pledges receivable at December 31, 2012 and 2011 are as follows:

	2012	2011
Grants and pledges receivable expected to be collected in less than one year	$ 71,490	$ 71,022

Note D - Permanently Restricted Net Assets

The permanently restricted net assets are endowments consisting of:

- A $1,000,000 grant from the Pesch Family Foundation (and the related $1,000,000 matching funds) which contains a donor stipulation that the principal be maintained intact in perpetuity and that only the income from investment thereof be expended for general purposes.

- A $500,000 grant from the W. Clement Stone 1990 Revocable Trust which contains a donor stipulation that the principal be maintained intact in perpetuity and that only the income from investment thereof be expended for general purposes.

- A $500,000 grant from the Independent Order of Foresters which contains a donor stipulation that the principal be maintained intact in perpetuity and that only the income from investment thereof be expended to support Healthy Families America and the Chapter network with approval of the Foresters. Until designated for operations by the board of directors, investment income from this grant is classified as temporarily restricted for these purposes.

Note E - Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31 are available for the following purposes:

	2012	2011
Doris Duke-Crisis Grant	$ 400,000	$ -
Communities Take Action for Kids	13,535	-
Learning Circle to Prevent Child Sexual Abuse	5,807	-
Publications	4,025	4,025
Healthy Families America	66,680	96,794
Bullying Prevention	50,595	-
Economic Impact	-	9,250
Enough Abuse Campaign	-	7,189
In-home Cognitive Behavior	25,000	15,943
Total	$ 565,642	$ 133,201

Net assets are released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. Amounts released from restriction at December 31 were as follows:

	2012	2011
Public Education Campaign	$ -	$ 290,155
Healthy Families America	78,864	37,691
Communities Take Action for Kids	86,465	-
Learning Circle to Prevent Child Sexual Abuse	5,193	-
In-home Cognitive Behavior	15,943	4,057
Bullying Prevention	6,904	-
Economic Impact	9,250	-
Enough Abuse Campaign	7,189	92,811
Total	$ 209,808	$ 424,714

Note F - Investments and Fair Value Measurement

The components of Prevent Child Abuse America's investments consist of the following at December 31:

	2012	2011
Money market funds	$ 159,889	$ 208,609
Equity mutual funds	289,954	275,404
Fixed-income mutual funds	831,858	414,030
Equity securities	1,512,323	1,381,000
Corporate bonds	100,143	364,471
Government bonds	50,818	51,448
	$ 2,944,985	$ 2,694,962

The following schedule summarizes the investment return and its classification in the statement of activities as of December 31:

	2012	2011
Dividends and interest, net of investment fees of $4,999 and $5,500, respectively	$ 88,285	$ 68,803
Change in market value	181,738	(68,916)
Total return on investments	270,023	(113)
Investment return designated for current operations	(20,000)	-
Investment return in excess of amounts designated for current operations	$ 250,023	$ (113)

In accordance with GAAP, Prevent Child Abuse America prioritizes the inputs to valuation techniques used to measure fair value. The levels of the hierarchy and those investments included in each are as follows:

Level 1: Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities traded in active markets.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability and market-corroborated inputs.

Level 3: Inputs to valuation methodology are unobservable for the asset or liability and are significant to the fair value measurement.

Note F - Investments and Fair Value Measurement (Continued)

At December 31, 2012 and 2011, Prevent Child Abuse America's investments in mutual funds and equity securities are measured at fair value based on quoted market prices for actively traded securities (Level 1). Fair value of fixed income securities are based on estimates using current market inputs for similar financial instruments with comparable terms and credit quality (Level 2).

Note G - Furniture and Equipment

Furniture and equipment at December 31 consists of:

	2012	2011
Furniture and other furnishings	$ 114,864	$ 114,864
Equipment	75,196	206,487
	190,060	321,351
Less accumulated depreciation	149,248	263,490
	$ 40,812	$ 57,861

Depreciation expense was $18,674 and $38,606 for the years ended December 31, 2012 and 2011, respectively.

Prevent Child Abuse America leases certain equipment under terms of capital leases. The economic substance of the leases is that Prevent Child Abuse America is financing the acquisition of the assets through the lease, and, accordingly, the related assets and liabilities have been recorded in the statement of financial position. During 2010, Prevent Child Abuse America entered into a new leasing agreement which expires in 2015. As part of the leasing agreement Prevent Child Abuse America also obtained a loan from the leasing company in the amount of $46,853. The loan has the same terms as the equipment lease.

The following is a schedule of future minimum lease and loan payments required under the agreement together with their present value as of December 31, 2012:

Year ended December 31, 2013	$ 29,688
Year ended December 31, 2014	29,688
Year ended December 31, 2015	17,318
	76,694
Less amount representing interest	11,603
Present value of minimum lease payments	$ 65,091

Note H - In-Kind Contributions

Prevent Child Abuse America receives contributed services. These donated services had a fair value of $33,062 and $104,326 in 2012 and 2011, respectively and is recorded as corporations, foundation and association revenue in the statements of activities.

Note I - Related Party Transactions

Prevent Child Abuse America received $449,152 and $510,174 in 2012 and 2011, respectively of support from Prevent Child Abuse America's Board of Directors and corporations that employ members of Prevent Child Abuse America's Board of Directors.

Note J - Retirement Plan

Prevent Child Abuse America has a defined contribution retirement plan that covers substantially all employees. Prevent Child Abuse America funds the plan through annual contributions based upon a fixed percentage of eligible employees' salaries. The contributions for 2012 and 2011 were suspended.

Note K - Commitments

Office Lease
Prevent Child Abuse America is obligated under terms of a lease which expires February 28, 2015 for office space located in Chicago, Illinois. Under terms of the lease agreement, Prevent Child Abuse America pays monthly base rent of $5,500. The base rent escalates by 4% per annum. Rent expense recorded for the years ended December 31, 2012 and 2011 was $47,862 and $63,526, respectively. Future minimum base lease payments are as follows:

2013	$ 62,000
2014	64,480
2015	10,816
	$ 137,296

Event Contract
Prevent Child Abuse America entered into a contract for future conferences. In the event the conference is cancelled, Prevent Child Abuse America can be held liable for liquidated damages. The potential liability at December 31, 2012, in the event of cancellation is $186,193.

Note L - Endowments

Prevent Child Abuse America's endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Directors of Prevent Child Abuse America has interpreted the Illinois Uniform Management of Institutional Funds Act (UMIFA) as requiring the 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, Prevent Child Abuse America 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, if so restricted by the donor or unrestricted net assets. In accordance with UMIFA, Prevent Child Abuse America considers the following factors in making a determination of the amount to appropriate for current operations:

(1) The duration and preservation of the fund;
(2) The purposes of the organization 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 the organization; and
(7) The investment policies of the organization.

Endowment funds net asset composition by type of fund at December 31 were:

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ (55,015)	$ -	$ 3,000,000	$ 2,944,985
Total funds	$ (55,015)	$ -	$ 3,000,000	$ 2,944,985

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ (305,038)	$ -	$ 3,000,000	$ 2,694,962
Total funds	$ (305,038)	$ -	$ 3,000,000	$ 2,694,962

Note L - Endowments (Continued)

Changes in endowment net assets for the year ended December 31, 2012 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (305,038)	$ -	$ 3,000,000	$ 2,694,962
Investment return:				
Investment income	-	88,285	-	88,285
Net appreciation (realized and unrealized)	-	181,738	-	181,738
Total investment return	-	270,023	-	270,023
Replenishment of unrestricted borrowings	270,023	(270,023)	-	-
Appropriation of endowment assets for 2012 expenditure	(20,000)	-	-	(20,000)
Endowment net assets, end of year	$ (55,015)	$ -	$ 3,000,000	$ 2,944,985

Changes in endowment net assets for the year ended December 31, 2011 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (307,957)	$ -	$ 3,000,000	$ 2,692,043
Investment return:				
Investment income	-	71,835	-	71,835
Net depreciation (realized and unrealized)	-	(68,916)	-	(68,916)
Total investment return	-	2,919	-	2,919
Replenishment of unrestricted borrowings	2,919	(2,919)	-	-
Endowment net assets, end of year	$ (305,038)	$ -	$ 3,000,000	$ 2,694,962

All permanently restricted net assets are required to be retained permanently either by explicit donor stipulation or by UMIFA at December 31, 2012 and 2011.

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 UMIFA requires Prevent Child Abuse America to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and were $55,015 and $305,038 as of December 31, 2012 and 2011, respectively.

Note L - Endowments (Continued)

Return Objectives and Risk Parameters
Prevent Child Abuse America 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 historic dollar value of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or until as used per donor specifications as well as board designated funds. Under this policy the endowment assets are invested in a manner that is intended to produce results that exceed the rolling three year return of a weighted benchmark including the Lehman Brothers Intermediate Government and Corporate Index for fixed income and cash equivalent securities, the Standard & Poor's SOD index for domestic equity securities and the Morgan Stanley Capital International Non-U.S. index for international equity investments while assuming a moderate level of investment risk. Prevent Child Abuse America expects its endowment funds, over time, to provide an average rate of return that exceeds the rate of inflation as measured in the CPI by 5% annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives
To satisfy its long-term rate-of-return objectives, Prevent Child Abuse America 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). Prevent Child Abuse America targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy
The board of directors annually appropriates a portion of the total return on its investments to current operations. Under Prevent Child Abuse America's policy, $20,000 and $0 of endowment earnings in 2012 and 2011, respectively, were appropriated to support current operations. In determining the amount to appropriate, the Directors consider the long-term expected return on its endowment. This is consistent with the Organization's objective to maintain the preservation of the fair value of the original gift held in perpetuity or for a specified term as well as to provide predictable amount of funds for current operations. The total return on endowment funds are reduced by investment fees incurred related to those funds.