PREVENT CHILD ABUSE AMERICA

FINANCIAL STATEMENTS

for the years ended December 31, 2008 and 2007

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Prevent Child Abuse America
Chicago, Illinois

We have audited the accompanying statements of financial position of Prevent Child Abuse America as of December 31, 2008 and 2007, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of Prevent Child Abuse America's management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2008 and 2007, 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.

The accompanying financial statements have been prepared assuming that Prevent Child Abuse America will continue as a going concern. As discussed in Note 14 to the financial statements, Prevent Child Abuse America has suffered recurring losses from operations and has an unrestricted net asset deficiency that raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 14. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated ________, 2009 on our consideration of Prevent Child Abuse America's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Chicago, Illinois
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PREVENT CHILD ABUSE AMERICA
STATEMENTS OF FINANCIAL POSITION
December 31, 2008 and 2007

	2008	2007
Assets		
Cash and cash equivalents	$ 1,705	$ 246,840
Grants and contribution pledges receivable, net	167,033	184,470
Other receivables, net	156,361	180,590
Other assets	49,456	47,965
Investments	2,211,480	3,251,370
Furniture and equipment, net	217,224	296,867
Total assets	$ 2,803,259	$ 4,208,102
Liabilities and Net Assets		
Accounts payable	$ 774,690	$ 329,095
Sublease rent deficit	346,021	97,169
Deferred rent liability	211,590	211,345
Deferred revenue	228,532	404,753
Sublease tenant security deposit	–	51,027
Line of credit	125,000	125,000
Leases payable	88,784	111,615
Total liabilities	1,774,617	1,330,004
Unrestricted net assets	(2,128,328)	(733,745)
Temporarily restricted net assets	156,970	611,843
Permanently restricted net assets	3,000,000	3,000,000
Total net assets	1,028,642	2,878,098
Total liabilities and net assets	$ 2,803,259	$ 4,208,102

See accompanying notes to financial statements.

PREVENT CHILD ABUSE AMERICA
STATEMENTS OF ACTIVITIES
for the years ended December 31, 2008 and 2007

	Unrestricted		Temporarily Restricted		Permanently Restricted		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
Public support and other revenue								
Public support - contributions								
Individuals-workplace campaign	$ 84,658	$ 30,152					$ 84,658	$ 30,152
Individuals-other and family foundation	268,104	215,531					268,104	215,531
Corporations, foundations, associations	573,963	536,529	$ 234,000	$ 399,900			807,963	936,429
Conferences and chapter activities	872,972	391,609					872,972	391,609
Special events, net of direct benefit to donors of $125,703 in 2008and $130,984 in 2007	500,488	678,136					500,488	678,136
Total public support	2,300,185	1,851,957	234,000	399,900			2,534,185	2,251,857
Other revenue								
Literature sales	135,181	125,993					135,181	125,993
Grants from government agencies	345,654			197,225			345,654	197,225
Investment return designated for current operations	99,818	116,163					99,818	116,163
Other	205,417	229,596					205,417	229,596
Total other revenue and support	786,070	471,752		197,225			786,070	668,977
Net assets released from restrictions	633,916	565,081	(633,916)	(565,081)				
Total public support and other revenue	3,720,171	2,888,790	(399,916)	32,044			3,320,255	2,920,834
Expenses								
Program services	3,115,393	2,905,387					3,115,393	2,905,387
Supporting services	1,065,649	705,469					1,065,649	705,469
Total expenses	4,181,042	3,610,856					4,181,042	3,610,856
Change in net assets from operations	(460,871)	(722,066)	(399,916)	32,044			(860,787)	(690,022)
Other changes:								
Investment return in excess of amounts designated for current operations	(933,712)	91,120	(54,957)	66,845			(988,669)	157,965
Change in net assets	(1,394,583)	(630,946)	(454,873)	98,889			(1,849,456)	(532,057)
Net assets, beginning of period	(733,745)	(102,799)	611,843	512,954	$ 3,000,000	$ 3,000,000	2,878,098	3,410,155
Net assets, end of period	$ (2,128,328)	$ (733,745)	$ 156,970	$ 611,843	$ 3,000,000	$ 3,000,000	$ 1,028,642	$ 2,878,098

See accompanying notes to financial statements.

PREVENT CHILD ABUSE AMERICA
STATEMENT OF FUNCTIONAL EXPENSES
for the year ended December 31, 2008

	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	$ 146,389	$ 255,606	$ 470,372	$ 79,218	$ 182,412	$ 1,133,997	$ 82,989	$ 276,802	$ 359,791	$ 1,493,788
Benefits	6,104	26,624	28,045	9,345	29,806	99,924	13,096	22,223	35,319	135,243
Payroll taxes	11,551	19,935	35,692	6,349	14,364	87,891	7,495	22,563	30,058	117,949
Other	254	495	698	172	466	2,085	21	598	619	2,704
Accounting, auditing and computer consulting	11,435	44,862	48,471	15,246	32,397	152,411	(3,430)	43,254	39,824	192,235
Other professional and other services	93,307	256,759	96,806	87,186	42,718	576,776	5,501	51,196	56,697	633,473
Occupancy	12,902	49,458	76,906	17,203	53,260	209,729	2,150	43,008	45,158	254,887
Telephone	2,061	8,552	9,515	2,423	6,954	29,505	531	5,950	6,481	35,986
Postage	578	2,115	3,547	809	1,619	8,668	518	3,593	4,111	12,779
Office equipment expense and supplies	1,247	5,999	8,302	6,635	5,417	27,600	352	18,545	18,897	46,497
Printing and material development	50,322	9	924	3	1,197	52,455		4,538	4,538	56,993
Travel and board expense	2,742	11,099	178,551	5,314	35,244	232,950	1,314	9,476	10,790	243,740
Special events			194,711	9,336		204,047		191,017	191,017	395,064
Loss on sublease							239,900		239,900	239,900
Payments to affiliates		46,434	154,296	10,500	1,672	212,902				212,902
Interest	1,284	4,922	5,350	1,712	3,638	16,906	214	4,280	4,494	21,400
Depreciation	5,130	19,666	21,376	6,840	14,535	67,547	855	17,100	17,955	85,502
Total expenses	$ 345,306	$ 752,535	$1,333,562	$ 258,291	$ 425,699	$ 3,115,393	$ 351,506	$ 714,143	$ 1,065,649	$ 4,181,042

See accompanying notes to financial statements.

PREVENT CHILD ABUSE AMERICA
STATEMENT OF FUNCTIONAL EXPENSES
for the year ended December 31, 2007

	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	$ 109,253	$ 375,333	$ 477,664	$ 81,698	$ 264,494	$ 1,308,442	$ 49,920	$ 312,931	$ 362,851	$ 1,671,293
Benefits	7,616	29,196	31,735	10,155	34,329	113,031	1,269	25,613	26,882	139,913
Payroll taxes	8,602	31,410	37,700	7,129	22,643	107,484	4,566	26,224	30,790	138,274
Other	2,044	1,246	1,965	484	920	6,659	86	4,204	4,290	10,949
Accounting, auditing and computer consulting	8,761	33,828	36,505	11,682	24,823	115,599	1,460	35,315	36,775	152,374
Other professional and other services	122,934	20,503	169,124	67,386	19,171	399,118	831	42,078	42,909	442,027
Occupancy	14,065	53,916	58,604	18,753	59,286	204,624	2,344	46,883	49,227	253,851
Telephone	1,681	9,934	14,198	2,460	10,104	38,377	4,256	6,195	10,451	48,828
Postage	340	1,230	5,063	424	1,323	8,380	1,926	2,543	4,469	12,849
Office equipment expense and supplies	2,391	6,676	7,963	4,044	9,165	30,239	414	9,572	9,986	40,225
Printing and material development	1,378	2,179	5,329	777	1,611	11,274	168	12,709	12,877	24,151
Travel and board expense	1,727	2,663	204,045	5,900	56,831	271,166	1,835	84,757	86,592	357,758
Special events			11,039	8,450		19,489				19,489
Payments to affiliates			155,296	13,250		168,546				168,546
Interest	1,592	6,101	6,632	2,122	4,510	20,957	265	5,306	5,571	26,528
Depreciation	6,228	23,874	25,950	8,304	17,646	82,002	1,039	20,760	21,799	103,801
Total expenses	$ 288,612	$ 598,089	$1,248,812	$ 243,018	$ 526,856	$ 2,905,387	$ 70,379	$ 635,090	$ 705,469	$ 3,610,856

See accompanying notes to financial statements.

PREVENT CHILD ABUSE AMERICA
STATEMENTS OF CASH FLOWS
for the years ended December 31, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Change in net assets	$ (1,849,456)	$ (532,057)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	85,502	103,801
Net realized loss (gain) on sale of investments	155,585	(450,849)
Change in unrealized appreciation on investments	788,598	322,605
Changes in assets and liabilities:		
Receivables	41,666	56,783
Other assets	(1,491)	(284)
Accounts payable	445,595	259,416
Sublease rent deficit	248,852	(34,519)
Deferred rent liability	245	14,204
Deferred revenue	(176,221)	104,500
Sublease tenant security deposit	(51,027)	1,027
Net cash (used) by operating activities	(312,152)	(155,373)
Cash flows from investing activities:		
Acquisition of equipment	(5,859)	(10,565)
Proceeds from sales of investments	2,163,346	4,615,408
Purchase of investments	(2,067,639)	(4,572,934)
Net cash (used) by investing activities	89,848	31,909
Cash flows from financing activities:		
Proceeds from line of credit		125,000
Principal payments on lease obligations	(22,831)	(30,497)
Net cash provided (used) by financing activities	(22,831)	94,503
Net (decrease) in cash and cash equivalents	(245,135)	(28,961)
Cash and cash equivalents, beginning of period	246,840	275,801
Cash and cash equivalents, end of period	$ 1,705	$ 246,840
Supplemental disclosures:		
Interest paid	$ 21,400	$ 26,528

See accompanying notes to financial statements.

PREVENT CHILD ABUSE AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 1 - 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 2 - 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. Net asset and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. 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 operation.

Contributions

Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized 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. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are to be received.

NOTE 2 - SUMMARY OF SIGNIFICANT 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.

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.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Cost of securities sold is determined by specific identification (first in, first out) method with realized gains and losses included in other revenue and support. Investment income (dividend and interest income) is accrued when earned.

The board of directors designates a portion of Prevent Child Abuse America's total investment return for support of current operations; the remainder is retained to support operations of future years. The amount designated for operations under this policy and all investment income earned by investing cash in excess of daily requirements are used to support current operations.

Income Taxes

Prevent Child Abuse America has received a determination letter from the Internal Revenue Service which stated that the organization is exempt from federal income tax under Section 501 (c)(3) of the Internal Revenue Code and that it has been classified as an organization that is not a private foundation under Section 509 (a)(2).

Cash and Cash Equivalents

For the purposes of the statements of cash flows, Prevent Child Abuse America considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

NOTE 3 - GRANTS AND CONTRIBUTION PLEDGES RECEIVABLE

Unconditional grants and contribution pledges receivable at December 31, 2008 and 2007 are as follows:

	2008	2007
Grants and contribution pledges receivable expected to be collected in less than one year	$ 167,033	$ 184,470

Grants and contribution pledges receivable are primarily from government agencies and corporations located throughout the United States and are reflected at present value of estimated future cash flow.

NOTE 4 - 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 in tact in perpetuity and that only the income from investment thereof be expended to support Healthy Families America, prevention packets and the Chapter network. Until designated for operations by the board of directors, investment income from this grant is classified as temporarily restricted for these purposes.

PREVENT CHILD ABUSE AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2008 and 2007 are available for the following purposes:

	2008	2007
Project to develop and strengthen a network of mutual support/self help programs		$ 174,655
Public Awareness Campaign for Chicago Child Abuse Prevention Initiative Project	$ 18,615	18,615
Children of Incarcerated Parents		69,866
Prevention Planning	69,975	
Publications	31,500	135,000
Healthy Families America	26,000	
Training for Healthy Families America		35,000
Bullying Prevention		15,000
Early Childhood Coalition for Home Visitation Services	3,880	6,750
Public Perception and Communication Strategies About Child Abuse Prevention	7,000	50,000
Forresters Endowment earnings (Note 4)		106,957
Total	$ 156,970	$ 611,843

Net assets released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors during 2008 and 2007 were:

	2008	2007
Project to develop and strengthen a network of mutual support/self help programs	$ 174,655	$ 185,550
Healthy Families America	75,000	50,000
HFA prenatal support services		50,000
Prevention Planning	14,025	
Public Awareness Campaign for Chicago Child Abuse Prevention Initiative Project		6,285
Program Information Management Systems		20,832
Training for Healthy Families America	35,000	74,030
Children of Incarcerated Parents	69,866	30,134
Publications	127,500	60,000
Early Childhood Coalition for Home Visitation Services	2,870	13,250
IT Infrastructure/Controller's Compensation		75,000
Chapters	25,000	
Bullying Prevention	15,000	
Public Perception and Communication Strategies About Child Abuse Prevention	43,000	
Forresters Endowment earnings (Note 4)	52,000	
Total	$ 633,916	$ 565,081

NOTE 6 - INVESTMENTS

The components of Prevent Child Abuse America's investments as of December 31, 2008 and 2007 are as follows:

	December 31, 2008		
	Cost	Quoted Market Value	Unrealized Appreciation (Depreciation)
Endowment and other investments:			
Money market funds/certificates of deposit	$ 379,980	$ 379,980	
Equity securities	1,717,929	1,086,128	$ (631,801)
Fixed income securities	778,985	745,372	(33,613)
Total	$ 2,876,894	$ 2,211,480	$ (665,414)

	December 31, 2007		
	Cost	Quoted Market Value	Unrealized Appreciation (Depreciation)
Endowment and other investments:			
Money market funds/certificates of deposit	$ 127,342	$ 127,342	
Equity securities	1,824,925	1,973,241	$ 148,316
Fixed income securities	1,175,920	1,150,787	(25,133)
Total	$ 3,128,187	$ 3,251,370	$ 123,183

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

	2008	2007
Dividends and interest, net of fees of $26,691 in 2008 and $25,040 in 2007	$ 54,514	$ 144,718
Realized (losses) gains	(155,585)	450,849
Unrealized (losses)	(788,598)	(322,602)
Net (losses) gains	(944,183)	128,247
Total return on investments	(889,669)	272,965
Investment return designated for current operations	(99,000)	(115,000)
Investment return in excess of amounts designated for current operations	$ (988,669)	$ 157,965

NOTE 6 - INVESTMENTS (Continued)

The Financial Accounting Standards Board issued Statements No. 157, *Fair Value Measurements* (FAS 157) effective December 31, 2008. This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

FAS 157 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. FAS 157 describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in market that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Fair values of assets measured on a recurring basis at December 31, 2008 consist of investments which had a fair value of $1,466,108 and for which fair values were based on quoted prices in active markets for identical assets (Level 1) and investments which had a fair value of $745,372 and for which fair values were based on matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

NOTE 7 - FURNITURE AND EQUIPMENT

Furniture and equipment consists of:

	2008	2007
Leasehold improvements	$ 158,616	$ 158,616
Furniture and other furnishings	87,867	87,866
Equipment	719,393	713,535
Leased equipment	304,361	304,361
	1,270,237	1,264,378
Less accumulated depreciation	1,053,014	967,511
	$ 217,223	$ 296,867

NOTE 7 - FURNITURE AND EQUIPMENT (Continued)

Depreciation expense was $85,502 and $103,801 for the years ended December 31, 2008 and 2007.

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 net assets. Included in accumulated depreciation is $237,903 and $211,320 in 2008 and 2007 related to leased equipment.

The following is a schedule of future minimum lease payments required under the leases together with their present value as of December 31, 2008.

Year ended December 31, 2009	$ 37,482
Year ended December 31, 2010	37,482
Year ended December 31, 2011	34,359
	109,323
Less amount representing interest	20,539
Present value of minimum lease payments	$ 88,784

NOTE 8 - IN KIND CONTRIBUTIONS

Prevent Child Abuse America receives in-kind legal services. The donated services had an approximate fair value of $94,484 and $98,569 in 2008 and 2007, respectively.

NOTE 9 - RELATED PARTY TRANSACTIONS

Prevent Child Abuse America received approximately $508,594 in 2008 and $512,000 in 2007 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 10 - PENSION PLAN

Prevent Child Abuse America has a defined contribution pension 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 contribution for 2008 and 2007 was suspended.

NOTE 11 - OFFICE LEASE COMMITMENT

At December 31, 2008, Prevent Child Abuse America was obligated under terms of a lease which expires May 2010 for space it formerly occupied and subsequently subleased to a tenant through May 31, 2009 (the 200 South Michigan Avenue location). Under terms of the lease agreement, the future minimum base lease payments are as follows:

2009	$ 288,972
2010	121,158
	$ 410,130

The lease also provides for additional rent representing Prevent Child Abuse America's proportionate share of the increase of operating costs and real estate taxes over 1999 costs, as determined by the lessor. This amount was $11,650 in 2008.

Future rentals expected to be received under terms of the sublease as amended for the 200 South Michigan Avenue location are as follows:

2009	$ 127,307

The amendment to the sublease relieved the tenant of rent payments for June 30, 2009 - February, 2010 of $234,360.

The sublease did not provide for additional rent representing operating costs and real estate taxes.

Prevent Child Abuse America was not relieved of the primary obligation under the 200 South Michigan Avenue lease and the amount of the expected rent shortfall as a result of amending the sublease and related sublease costs have been accrued.

NOTE 11 - OFFICE LEASE COMMITMENT (Continued)

In January 2006, Prevent Child Abuse America entered into a new lease for more appropriate space at 500 North Michigan Avenue which expires in January 2017. Under terms of the 500 North Michigan Avenue lease agreement the future minimum base lease payments are as follows:

2009	$ 211,345
2010	217,223
2011	223,100
2012	228,978
2013	234,855
2014-2017	750,361
	$ 1,865,862

The 500 North Michigan Avenue lease also provides for additional rent representing Prevent Child Abuse America's proportionate share of the increase of operating costs and real estate taxes over 2006 costs as determined by the lessor. Prevent Child Abuse America has provided a $70,000 irrevocable standby letter of credit collateralized by a deposit account having a market value of approximately $70,000 that provides financial assurance that it will fulfill its obligation with respect to its obligations under terms of the 500 North Michigan Avenue lease. The letter of credit expires in 2017.

Rent expense amounted to $239,499 and $228,118 for the years ended December 31, 2008 and 2007.

NOTE 12 - 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

NOTE 12 - ENDOWMENTS (Continued)

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
(7) The investment policies of the organization.

Endowment funds net asset composition by type of fund as of December 31, 2008 and 2007 are:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2008				
Donor restricted endowment funds	$ (862,162)		$ 3,000,000	$ 2,137,838
Board designated	73,642			73,642
Total funds	$ (788,520)	$ –	$ 3,000,000	$ 2,211,480
2007				
Donor restricted endowment funds	$ 71,550	$ 106,957	$ 3,000,000	$ 3,178,507
Board designated	72,863			72,863
Total funds	$ 144,413	$ 106,957	$ 3,000,000	$ 3,251,370

NOTE 12 - ENDOWMENTS (Continued)

Changes in endowment net assets for the year ended December 31, 2008 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 144,413	$ 106,957	$ 3,000,000	$ 3,251,370
Investment return:				
Investment income	42,994	12,298		55,292
Net depreciation (realized and unrealized)	(766,241)	(177,941)		(944,182)
Total investment return	(723,247)	(165,643)		(888,890)
Appropriation of endowment assets for 2008 expenditure	(99,000)	(52,000)		(151,000)
Loss in excess of earnings	(110,686)	110,686		
Endowment net assets, end of year	$ (788,520)	$ –	$ 3,000,000	$ 2,211,480

Changes in endowment net assets for the year ended December 31, 2007 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 125,488	$ 40,112	$ 3,000,000	$ 3,165,600
Investment return:				
Investment income	114,159	32,681		146,840
Net appreciation (realized and unrealized)	94,083	34,164		128,247
Total investment return	208,242	66,845		275,087
Transfer of endowment assets for 2006 expenditures	(74,317)			(74,317)
Appropriation of endowment assets for 2007 expenditure	(115,000)			(115,000)
Endowment net assets, end of year	$ 144,413	$ 106,957	$ 3,000,000	$ 3,251,370

NOTE 12 - ENDOWMENTS (Continued)

All permanently restricted net assets are required to be retained permanently either by explicit donor stipulation or by UMIFA at December 31, 2008 and 2007.

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 generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets and were $862,162 as of December 31, 2008. These deficiencies resulted from unfavorable market fluctuations that occurred in 2008. There were no such deficiencies as of December 31, 2007.

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 500 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.

NOTE 12 - ENDOWMENTS (Continued)

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, $151,000 and $115,000 of endowment earnings in 2008 and 2007, 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.

NOTE 13 - LINE OF CREDIT

At December 31, 2008, $125,000 was outstanding on a line of credit. The line of credit bears interest at the lenders prime rate of interest (3.25% at December 31, 2008) and expired in November 2008. Under terms agreed to by the Bank, the line of credit is to be repaid by December 31, 2009.

NOTE 14 - GOING CONCERN

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the organization as a going concern. Prevent Child Abuse America has, however, sustained a substantial operating losses in 2008 and 2007. As indicated in the accompanying financial statements, Prevent Child Abuse America had an increase in unrestricted net asset deficit from operations of $460,871 during the year ended December 31, 2008 and as of December 31, 2008 the organization's unrestricted liabilities exceeded its unrestricted assets by $2,128,328.

These continued operating losses create an uncertainty about Prevent Child Abuse America's ability to continue as a going concern. Management and the Board of Directors have developed a plan to increase its unrestricted revenue. This plan includes:

NOTE 14 - GOING CONCERN (Continued)

- Special events,
- Redesign of the organization’s website,
- Launch of a new individual giving campaign utilizing the internet,
- Significantly increased contacts with and requests to major past donors,
- Development of a new “message” that will enhance the public’s and major donor’s understanding of the mission and needs of the organization, and
- New communication assets.

In addition to the plans to increase unrestricted revenues, significant reductions in the ongoing operating expenses have been instituted.