JOHNSON LAMBERT & CO. LLP
CPAs and Consultants

Prevent Child Abuse America

Audited Financial Statements

Years ended December 31, 2010 and 2009
with Report of Independent Auditors

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Contents

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Report of Independent Auditors

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, 2010 and 2009 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. 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 Prevent Child Abuse America'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 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 at December 31, 2010 and 2009, 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 & Co LLP

Arlington Heights, Illinois
April 28, 2011

Prevent Child Abuse America

Statements of Financial Position

	December 31, 2010	December 31, 2009
Assets		
Cash and cash equivalents	$ 40,216	$ 193,180
Federal grants and pledges receivable, net	19,357	360,413
Accounts receivables, net	76,250	125,422
Other assets	13,350	36,889
Investments	2,692,043	2,638,151
Furniture and equipment, net	85,511	71,840
Total assets	$ 2,926,727	$ 3,425,895
Liabilities and net assets		
Liabilities:		
Accounts payable	$ 365,603	$ 861,607
Sublease rent settlement/deficit	-	250,000
Deferred revenue	59,019	297,933
Line of credit	-	38,124
Capital lease obligation	134,752	62,427
Total liabilities	559,374	1,510,091
Net (deficit) assets		
Unrestricted deficit	(963,484)	(1,723,746)
Temporarily restricted net assets	330,837	639,550
Permanently restricted net assets	3,000,000	3,000,000
Total net assets	2,367,353	1,915,804
Total liabilities and net assets	$ 2,926,727	$ 3,425,895

See accompanying notes to the financial statements.

Prevent Child Abuse America

Statements of Activities

Years ended December 31, 2010 and 2009

	Unrestricted 2010	Unrestricted 2009	Temporarily Restricted 2010	Temporarily Restricted 2009	Permanently Restricted 2010	Permanently Restricted 2009	Total 2010	Total 2009
Public support and other revenue								
Public support - contributions								
Individuals - workplace campaign	$ 49,616	$ 31,229	$ -	$ -	$ -	$ -	$ 49,616	$ 31,229
Individuals - other and family foundation	289,492	328,046	-	-	-	-	289,492	328,046
Corporations, foundations, associations	156,373	376,951	64,999	546,935	-	-	221,372	923,886
Conferences and program revenue	899,561	883,711	-	-	-	-	899,561	883,711
Special events, net of direct benefit to donors of $0 in 2010 and 2009	355,884	237,587	-	-	-	-	355,884	237,587
Total public support	1,750,926	1,857,524	64,999	546,935	-	-	1,815,925	2,404,459
Other revenue:								
Royalty income	112,007	157,457	-	-	-	-	112,007	157,457
Grants from government agencies	362,873	571,387	-	-	-	-	362,873	571,387
Investment return designated for current operations	-	-	282,597	86,513	-	-	282,597	86,513
Other	3,047	38,409	-	-	-	-	3,047	38,409
Total other revenue and support	477,927	767,253	282,597	86,513	-	-	760,524	853,766
Net assets released from restrictions	656,309	577,539	(656,309)	(577,539)	-	-	-	-
Total public support and other revenue	2,885,162	3,202,316	(308,713)	55,909	-	-	2,576,449	3,258,225
Expenses								
Program services	2,130,332	2,349,273	-	-	-	-	2,130,332	2,349,273
Supporting services	367,201	551,533	-	-	-	-	367,201	551,533
Total expenses	2,497,533	2,900,806	-	-	-	-	2,497,533	2,900,806
Change in net assets from operations	387,629	301,510	(308,713)	55,909	-	-	78,916	357,419
Other changes:								
Investment return in excess of amounts designated for current operations	32,897	-	-	426,671	-	-	32,897	426,671
Forgiveness of debt	164,484						164,484	
Gain on vacated space, net	175,252	103,072	-	-	-	-	175,252	103,072
Change in net assets	760,262	404,582	(308,713)	482,580	-	-	451,549	887,162
Net assets, beginning of period	(1,723,746)	(2,128,328)	639,550	156,970	3,000,000	3,000,000	1,915,804	1,028,642
Net assets, end of period	$ (963,484)	$ (1,723,746)	$ 330,837	$ 639,550	$ 3,000,000	$ 3,000,000	$ 2,367,353	$ 1,915,804

See accompanying notes to the financial statements.

Prevent Child Abuse America

Statement of Functional Expenses

Year ended December 31, 2010

	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	$ 175,624	$ 129,896	$ 440,401	$ 95,426	$ 99,302	$ 940,649	$ 8,445	$ 46,266	$ 54,711	$ 995,360
Benefits	23,836	9,224	44,188	7,434	9,225	93,907	9,652	6,974	16,626	110,533
Payroll taxes	13,608	12,815	31,955	6,934	6,758	72,070	1,769	3,807	5,576	77,646
Other	1,342	565	1,022	174	192	3,295	113	2,165	2,278	5,573
Accounting, auditing and computer consulting	34,071	26,283	85,353	19,970	16,574	182,251	11,011	18,425	29,436	211,687
Other professional and other services	115,912	2,087	11,776	42,548	1,612	173,935	321	11,070	11,391	185,326
Occupancy	16,020	13,017	45,058	8,009	9,012	91,116	2,004	7,008	9,012	100,128
Telephone	5,322	4,224	15,131	2,645	4,808	32,130	873	1,963	2,836	34,966
Postage	541	440	1,681	286	304	3,252	9	529	539	3,791
Office equipment expense and supplies	4,439	3,651	14,022	5,708	2,715	30,535	629	6,402	7,031	37,566
Printing and material development	349	284	4,780	174	196	5,783	44	153	196	5,979
Travel and board expense	5,741	1,088	124,246	6,707	26,384	164,166	1,944	537	2,481	166,647
Special events	-	-	-	-	-	-	-	216,613	216,613	216,613
Uncollectable debts	-	1,350	27,841	-	4,500	33,691	-	2,740	2,740	36,431
Payments to affiliates	203	-	-	-	-	203	-	-	-	203
Federal award sub grants	-	247,127	-	-	-	247,127	-	-	-	247,127
Interest	8,896	7,045	28,810	5,427	6,044	56,222	1,414	4,320	5,735	61,957
Total expenses	$ 405,904	$ 459,096	$ 876,264	$ 201,442	$ 187,626	$ 2,130,332	$ 38,228	$ 328,972	$ 367,201	$ 2,497,533

See accompanying notes to the financial statements.

Prevent Child Abuse America

Statement of Functional Expenses

Year ended December 31, 2009

	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	$ 134,612	$ 191,447	$ 381,962	$ 75,756	$ 203,295	$ 987,072	$ 9,632	$ 226,770	$ 236,402	$ 1,223,474
Benefits	11,147	25,061	35,364	9,047	20,319	100,938	757	23,686	24,443	125,381
Payroll taxes	9,996	14,984	29,200	6,009	15,345	75,534	660	17,690	18,350	93,884
Other	125	477	419	166	253	1,440	53	415	468	1,908
Accounting, auditing and computer consulting	28,083	53,286	69,158	14,462	33,267	198,256	5,429	39,569	44,998	243,254
Other professional and other services	25,347	(9,742)	7,389	44,096	6,826	73,916	2,921	21,567	24,488	98,404
Occupancy	20,029	49,833	66,537	18,247	39,464	194,110	2,419	45,617	48,036	242,146
Telephone	2,889	6,492	11,397	2,096	6,391	29,265	953	5,462	6,415	35,680
Postage	663	1,528	2,163	569	1,246	6,169	140	2,889	3,029	9,198
Office equipment expense and supplies	126	683	569	(258)	1,850	2,970	338	8,708	9,046	12,016
Printing and material development	29,979	193	562	95	221	31,050	16	81,100	81,116	112,166
Travel and board expense	7,792	13,479	58,612	7,184	26,390	113,457	2,597	8,610	11,207	124,664
Special events	-	-	-	-	9,544	9,544	-	29,553	29,553	39,097
Uncollectable debts	(102)	(76)	40,024	(38)	(89)	39,719	(6)	9,905	9,899	49,618
Payments to affiliates	-	(15,000)	32,445	31,815	375	49,635	-	-	-	49,635
Federal award sub grants	-	419,767	-	-	-	419,767	-	-	-	419,767
Interest	1,807	4,060	5,747	1,518	3,299	16,431	287	3,796	4,083	20,514
Depreciation	-	-	-	-	-	-	-	-	-	-
Total expenses	$ 272,493	$ 756,472	$ 741,548	$ 210,764	$ 367,996	$ 2,349,273	$ 26,196	$ 525,337	$ 551,533	$ 2,900,806

See accompanying notes to the financial statements.

Prevent Child Abuse America

Statements of Cash Flows

	Years ended December 31, 2010	2009
Cash flow from operating activities		
Change in net assets	$ 451,549	$ 887,162
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	224,883	145,384
Change in market value of investments	(256,911)	(452,528)
Changes in assets and liabilities:		
Accounts receivable	390,228	(162,441)
Other assets	23,539	12,567
Accounts payable	(496,004)	86,917
Sublease rent deficit	(250,000)	(96,021)
Deferred rent liability	-	(211,590)
Deferred revenue	(238,914)	69,401
Net cash (used in) provided by operating activities	(151,630)	278,851
Cash flows from investing activities		
Acquisition of equipment	(238,554)	-
Proceeds from sales of investments	569,676	447,657
Purchase of investments	(389,207)	(421,800)
Net cash (used in) provided by investing activities	(58,085)	25,857
Cash flows from financing activities		
Additions of capital leased assets	132,914	-
Repayments on line of credit	(38,124)	(86,876)
Principal payments on lease obligations	(38,039)	(26,357)
Net cash provided by (used in) financing activities	56,751	(113,233)
Net change in cash and cash equivalents	(152,964)	191,475
Cash and cash equivalents, beginning of year	193,180	1,705
Cash and cash equivalents, end of year	$ 40,216	$ 193,180
Supplemental disclosures of cash flow information		
Interest paid	$ 25,723	$ 20,514

See accompanying notes to the financial statements.

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 28, 2011, 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 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.

Federal Grant Receivable
Federal grants receivable represent amounts expended and not yet reimbursed under a Federal grant awarded to Prevent Child Abuse America. Federal grant revenue is recognized in the statement of activities as expenditures are incurred.

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, 2010 and 2009 Prevent Child Abuse America recorded $36,431 and $49,618, 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.

Note B - Summary of Signficant Accounting Policies (Continued)

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.

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.

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.

Government Agency Revenue
Grants from government agencies revenue represents reimbursement from the Department of Justice for expenses incurred; accordingly, grant revenues are equal to grant expenses.

Deferred Revenue
Deferred revenue consists of credentialing fees and the pinwheel campaign amounts paid in advance. Credentialing fees are recognized as revenue 1/3 when paid, 1/3 when the site visit has been completed and 1/3 when the credential is granted. Revenue related to the pinwheel campaign is recognized in the year of the campaign.

Note B - Summary of Signficant Accounting Policies (Continued)

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 through December 31, 2013. Management does not consider the cash balances above the FDIC insured limit to be a significant credit risk.

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. Tax years 2007-2009 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, 2010 and 2009 are as follows:

	2010	2009
Grants and pledges receivable expected to be collected in less than one year	$ 19,357	$ 360,413

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, 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.

Note E - Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2010 and 2009 are available for the following purposes:

	2010	2009
Public education campaign	$ 290,155	$ 494,032
Public Awareness Campaign for Chicago Child Abuse Prevention Initiative Project	-	18,615
Doris Duke-Crisis Grant	-	36,000
Prevention Planning	-	69,975
Publications	4,025	4,025
Healthy Families America	36,657	16,903
Endowment earnings (Note L)	-	-
Total	$ 330,837	$ 639,550

Net assets released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors during 2010 and 2009 were:

	2010	2009
Public Education Campaign	$ 203,877	$ -
Healthy Families America	20,246	26,000
Prevention Planning	69,975	-
Doris Duke-Crisis Grant	36,000	-
Public Awareness Campaign for Chicago Child Abuse Prevention Initiative Project	18,615	-
Verizon Grant	24,999	-
Publications	-	27,475
Early Childhood Coalition for Home Visitation Services	-	3,880
Public Perception and Communication Strategies About Child Abuse Prevention	-	7,000
Endowment earnings (Note L)	282,597	513,184
Total	$ 656,309	$ 577,539

Note F - Investments and Fair Value Measurement

The components of Prevent Child Abuse America's investments as of December 31, 2010 and 2009 are as follows:

	2010	2009
Money market	$ 151,490	$ 253,783
Mutual funds - equities	262,755	132,850
Mutual funds-fixed income	170,563	-
Mutual funds -international	305,145	265,459
Equities -domestic	1,173,179	1,098,738
Fixed income - corporate	527,599	837,581
Fixed income -government	101,312	49,740
	$ 2,692,043	$ 2,638,151

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

	2010	2009
Dividends and interest, net of investment fees of $20,997 and $20,861, respectively.	$ 58,583	$ 60,656
Change in market value	256,911	452,528
Total return on investments	315,494	513,184
Investment return designated for current operations	(282,597)	(86,513)
Investment return in excess of amounts designated for current operations	$ 32,897	$ 426,671

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, 2010 and 2009, Prevent Child Abuse America's investments in mutual funds and equities 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 consists of:

	2010	2009
Leasehold improvements	$ -	$ 158,616
Furniture and other furnishings	114,864	87,867
Equipment	-	719,393
Leased equipment	195,531	304,361
	310,395	1,270,237
Less accumulated depreciation	224,884	1,198,397
	$ 85,511	$ 71,840

Depreciation expense was $48,943 and $145,384 for the years ended December 31, 2010 and 2009, 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 leased equipment.

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, 2010:

Year ended December 31, 2011	$ 64,030
Year ended December 31, 2012	29,688
Year ended December 31, 2013	29,688
Year ended December 31, 2014	29,688
Year ended December 31, 2015	17,318
	170,412
Less amount representing interest	35,660
Present value of minimum lease payments	$ 134,752

Note H - In-Kind Contributions

Prevent Child Abuse America receives in-kind legal services. The donated services had an approximate fair value of $104,715 and $102,880 in 2010 and 2009, respectively and is recorded as corporations, foundation and association revenue in the statement of activities.

Note I - Related Party Transactions

Prevent Child Abuse America received approximately $392,864 in 2010 and $537,422 in 2009 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 - 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 2010 and 2009 was suspended.

Note K - Office Lease Commitment

At December 31, 2010, Prevent Child Abuse America was obligated under terms of a lease which expires February 2012 for office space located in Chicago, Illinois. Under terms of the lease agreement, Prevent Child Abuse America pays monthly base rent of $5,175. The base rent escalates by $.50 per rentable square footage per annum. Rent expense recorded as of December 31, 2010 and 2009 was $78,210 and $213,166, respectively. Future minimum base lease payments are as follows:

2011	$ 64,592
2012	11,117
	$ 75,709

At December 31, 2008, Prevent Child Abuse America was obligated under two lease agreements for which the spaces had been vacated. During 2008, Management entered into negotiations with each respective landlord in an effort to be relieved of its obligations under the leases. Subsequent to December 31, 2009, Management reached a settlement with both parties. As consideration for the termination of both lease agreements and in full satisfaction of any and all obligations under each lease, Prevent Child Abuse America paid each landlord the sum of $125,000 (total of $250,000). The financial statements have been adjusted to reflect these settlements.

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 or 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
(7) The investment policies of the organization.

Endowment funds net asset composition by type of fund as of December 31, 2010 and 2009 are;

	2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ (307,957)	$ -	$ 3,000,000	$ 2,692,043
Total funds	$ (307,957)	$ -	$ 3,000,000	$ 2,692,043

	2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ (361,849)	$ -	$ 3,000,000	$ 2,638,151
Total funds	$ (361,849)	$ -	$ 3,000,000	$ 2,638,151

Note L - Endowments (Continued)

Changes in endowment net assets for the year ended December 31, 2010 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (361,849)	$ -	$ 3,000,000	$ 2,638,151
Investment return:				
Investment income	-	79,578	-	79,578
Net appreciation (realized and unrealized)	-	256,911	-	256,911
Total investment return	-	336,489	-	336,489
Replenishment of unrestricted borrowings	336,489	(336,489)	-	-
Appropriation of endowment assets for 2010 expenditure	-	(282,597)	-	(282,597)
Loss in excess of earnings	(282,597)	282,597	-	-
Endowment net assets, end of year	$ (307,957)	$ (282,597)	$ 3,000,000	$ 2,692,043

Changes in endowment net assets for the year ended December 31, 2009 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (788,520)	$ -	$ 3,000,000	$ 2,211,480
Investment return:				
Investment income	-	60,656	-	60,656
Net depreciation (realized and unrealized)	-	452,528	-	452,528
Total investment return	-	513,184	-	513,184
Replenishment of unrestricted borrowings	513,184	(513,184	-	-
Appropriation of endowment assets for 2009 expenditure	-	(86,513)	-	(86,513)
Loss in excess of earnings	(86,513)	86,513	-	-
Endowment net assets, end of year	$ (361,849)	$ -	$ 3,000,000	$ 2,638,151

All permanently restricted net assets are required to be retained permanently either by explicit donor stipulation or by UMIFA at December 31, 2010 and 2009.

Note L - Endowments (Continued)

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 $307,957 and $361,849 as of December 31, 2010 and 2009, respectively.

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, $250,000 and $86,513 of endowment earnings in 2010 and 2009, 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.

Note M - Line of Credit

At December 31, 2010 and 2009, $0 and $38,124, respectively was outstanding on a line or credit. The line of credit expired on December 31, 2009 and was not renewed.

Note N - Risk and Uncertainties

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.