ChildFund International, USA

Consolidated Financial Statements
Year Ended June 30, 2018

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Contents

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Independent Auditor's Report

The Board of Directors
ChildFund International, USA
Richmond, Virginia

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of **ChildFund International, USA**, which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of **ChildFund International, USA** as of June 30, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 16 to the consolidated financial statements, the beginning balances of the consolidated financial statements for the year ended June 30, 2018 have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

BDO USA, LLP

November 26, 2018

Consolidated Financial Statements

ChildFund International, USA

Consolidated Statement of Financial Position

June 30,		2018
Assets		
Cash and cash equivalents	$	16,901,122
Receivable from affiliates		1,578,447
Grants receivable		1,711,070
Accounts receivable and other assets		6,193,311
Investments		59,611,550
Beneficial interests in trusts		9,462,012
Property, plant and equipment, net		31,652,973
Total assets	$	127,110,485
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$	16,357,049
Accrued pension benefit liability		3,822,963
Debt		8,395,833
Total Liabilities		28,575,845
Commitments and contingencies		
Net assets:		
Unrestricted		45,355,993
Temporarily restricted		35,809,855
Permanently restricted		17,368,792
Total net assets		98,534,640
Total liabilities and net assets	$	127,110,485

See accompanying notes to the consolidated financial statements.

ChildFund International, USA

Consolidated Statement of Activities

Year ended June 30, 2018	Unrestricted	Temporarily restricted	Permanently restricted	Total
Public support:				
Sponsorships:				
U.S. sponsors	$ -	$ 79,402,958	$ -	$ 79,402,958
International sponsors	-	46,935,668	-	46,935,668
Special gifts from sponsors for children	-	10,797,982	-	10,797,982
Total sponsorships	-	137,136,608	-	137,136,608
Contributions:				
General contributions	8,013,371	7,967,618	6,092	15,987,081
Major gifts and bequests	4,161,231	-	-	4,161,231
Gifts in kind	22,564,001	12,105,186	-	34,669,187
Total contributions	34,738,603	20,072,804	6,092	54,817,499
Grants:				
Grants and contracts	27,338,502	-	-	27,338,502
Total public support	62,077,105	157,209,412	6,092	219,292,609
Revenue:				
Investment income and currency transactions, net	2,684,498	159,419	-	2,843,917
Service fees and other	1,583,074	-	-	1,583,074
Total revenue	4,267,572	159,419	-	4,426,991
Net assets released from restrictions:				
Satisfaction of program and time restrictions	165,325,869	(165,325,869)	-	-
Total public support and revenue	231,670,546	(7,957,038)	6,092	223,719,600
Expenses:				
Program services:				
Basic education	72,432,639	-	-	72,432,639
Health and sanitation	30,882,139	-	-	30,882,139
Nutrition	9,815,054	-	-	9,815,054
Early childhood development	20,751,346	-	-	20,751,346
Micro enterprise	32,536,018	-	-	32,536,018
Emergencies	17,275,503	-	-	17,275,503
Total program services	183,692,699	-	-	183,692,699
Supporting services:				
Fundraising	23,803,614	-	-	23,803,614
Management and general	18,938,596	-	-	18,938,596
Total supporting services	42,742,210	-	-	42,742,210
Total expenses for operations	226,434,909	-	-	226,434,909
Change in net assets from operations	5,235,637	(7,957,038)	6,092	(2,715,309)
Nonoperating gains:				
Realized gains on investments, net	1,242,571	187,851	-	1,430,422
Unrealized gains on investments, net	715,510	192,320	-	907,830
Change in fair value of trusts	-	2,009	147,769	149,778
Change in accrued pension benefit liability other than net periodic costs	3,354,682	-	-	3,354,682
Total nonoperating gains	5,312,763	382,180	147,769	5,842,712
Change in net assets	10,548,400	(7,574,858)	153,861	3,127,403
Net assets, at beginning of year, previously reported	40,719,905	37,472,401	17,214,931	95,407,237
Prior period restatement (Note 16)	(5,912,312)	5,912,312	-	-
Net assets, at beginning of year, as restated	34,807,593	43,384,713	17,214,931	95,407,237
Net assets, at end of year	$ 45,355,993	$ 35,809,855	$ 17,368,792	$ 98,534,640

See accompanying notes to the consolidated financial statements.

ChildFund International, USA

Consolidated Statement of Cash Flows

Year ended June 30,	2018
Cash flows from operating activities:	
Change in net assets	$ 3,127,403
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	2,308,959
Realized and unrealized gains on investments, net	(2,338,252)
Proceeds from termination of charitable remainder trusts	84,706
Gift of beneficial interest in trust	(327,322)
Change in gifts in kind not distributed	5,944,651
Change in fair value of trusts	(149,778)
Loss on sale of property, plant and equipment	13,802
Contributions restricted for long-term investment	6,092
Change in accrued pension benefit liability other than net periodic costs	(3,354,682)
(Increase) decrease in assets:	
Receivable from affiliates	(34,298)
Grants receivable	581,147
Accounts receivable and other assets	359,141
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	(2,191,281)
Accrued pension benefit liability	(321,930)
Net cash provided by operating activities	3,708,358
Cash flows from investing activities:	
Purchases of property, plant and equipment	(4,063,519)
Proceeds from sales of property, plant and equipment	21,184
Proceeds from sales of investments	15,255,662
Purchases of investments	(19,628,821)
Net cash used in investing activities	(8,415,494)
Cash flows from financing activities:	
Payment of debt	(1,625,000)
Payment of line of credit	22,149,172
Proceeds from borrowings of line of credit	(22,149,172)
Contributions restricted for long-term investment	(6,092)
Net cash used in financing activities	(1,631,092)
Net decrease in cash and cash equivalents	(6,338,228)
Cash and cash equivalents, beginning of year	23,239,350
Cash and cash equivalents, end of year	$ 16,901,122
Supplemental Disclosures of Cash Flow Information:	
Gifts in kind	$ 34,669,187
Cash paid for Interest	$ 351,997
Purchases of property, plant and equipment funded by accounts payable and accrued expenses	$ 1,446,249

See accompanying notes to the consolidated financial statements.

ChildFund International, USA

Consolidated Statement of Functional Expenses

Year ended June 30, 2018	Program services: Basic education	Program services: Health and sanitation	Program services: Nutrition	Program services: Early childhood development	Program services: Micro enterprise	Program services: Emergencies	Program services: Total program services	Supporting services: Fundraising	Supporting services: Management and general	Supporting services: Total supporting services	Total expenses
Subsidies for children	$ 41,701,722	$ 11,439,283	$ 4,894,549	$ 10,245,887	$ 11,402,442	$ 3,869,355	$ 83,553,238	$ -	$ -	$ -	$ 83,553,238
Program grants	20,132,094	14,923,979	3,484,301	7,468,984	16,372,691	10,878,288	73,260,337	-	-	-	73,260,337
Supplies	116,630	49,726	15,804	33,414	52,389	27,817	295,780	92,804	261,836	354,640	650,420
Occupancy	425,240	181,304	57,623	121,828	191,014	101,422	1,078,431	231,581	257,040	488,621	1,567,052
Professional services	121,545	51,821	16,470	34,822	54,597	28,988	308,243	49,848	350,956	400,804	709,047
Contract services	537,583	229,202	72,846	154,013	241,477	128,215	1,363,336	10,078,736	3,309,027	13,387,763	14,751,099
Travel	592,460	252,599	80,282	169,735	266,127	141,304	1,502,507	432,961	354,688	787,649	2,290,156
Conferences and meetings	276,134	117,731	37,418	79,110	124,036	65,860	700,289	40,843	138,886	179,729	880,018
Automobile and truck	83,837	35,745	11,360	24,019	37,659	19,995	212,615	21,432	-	21,432	234,047
Advertising and public education	27,450	11,703	3,720	7,864	12,330	6,547	69,614	6,403,623	254,824	6,658,447	6,728,061
Equipment purchases and rentals	163,928	69,892	22,213	46,964	73,635	39,098	415,730	91,739	144,861	236,600	652,330
Telephone and cables	146,699	62,546	19,879	42,028	65,896	34,988	372,036	47,834	134,526	182,360	554,396
Postage and freight	44,865	19,128	6,079	12,853	20,153	10,700	113,778	903,246	597,576	1,500,822	1,614,600
Publication and printing costs	-	-	-	-	-	-	-	-	7,239	7,239	7,239
Staff training	57,658	24,583	7,813	16,518	25,899	13,753	146,224	23,888	6,879	30,767	176,991
Other expenses	122,097	52,057	16,545	34,980	54,845	29,116	309,640	371,293	2,326,964	2,698,257	3,007,897
Total expenses before personnel costs and other expenses	64,549,942	27,521,299	8,746,902	18,493,019	28,995,190	15,395,446	163,701,798	18,789,828	8,145,302	26,935,130	190,636,928
Personnel costs	7,223,454	3,079,767	978,821	2,069,459	3,244,703	1,722,825	18,319,029	4,895,525	10,267,678	15,163,203	33,482,232
Depreciation and interest	659,243	281,073	89,331	188,868	296,125	157,232	1,671,872	118,261	525,616	643,877	2,315,749
Total expenses from operations	$ 72,432,639	$ 30,882,139	$ 9,815,054	$ 20,751,346	$ 32,536,018	$ 17,275,503	$ 183,692,699	$ 23,803,614	$ 18,938,596	$ 42,742,210	$ 226,434,909

See accompanying notes to the consolidated financial statements.

1. Organization

ChildFund International, USA (ChildFund), formerly known as Christian Children's Fund, Inc. was established in 1938 and has developed into an international, nonsectarian, not-for-profit child development organization. ChildFund assists children and family members in 26 countries worldwide. There are approximately 486,000 enrolled children in ChildFund's programs. Of these children, approximately 430,000 are sponsored children who are supported through monthly contributions.

Most of the sponsorships - more than 235,000 - are supported by U.S. donors; the remainder are supported by in-country fundraising offices and international donors who sponsor children through autonomous organizations in Australia, Canada, Denmark, France, Germany, Ireland, Japan, Korea, New Zealand, Sweden, and Taiwan. ChildFund is a member of ChildFund Alliance, a global network of 11 child development organizations.

ChildFund is incorporated and headquartered in the Commonwealth of Virginia.

The following are descriptions of ChildFund’s significant programs:

Basic Education: Childfund's educational programs work with educators, community groups, parents, and children alike towards the goal of having all children enter schools ready to learn and complete basic education through activities that include improving early childhood and school facilities, enhancing teaching methodologies, creating safer school environments, as well as, improving policies to enhance student access and safety.

Health and Sanitation: ChildFund’s core programs address safe motherhood and newborn care, integrated early childhood development, integrated management of childhood illnesses, nutrition, water and sanitation, child, youth and adult focused sexual and reproductive health and education.

Nutrition: ChildFund promotes interventions that impact young children and mothers. These practical measures include nutrition education and promotion, micro-nutrient supplementation, parasite control measures, and situation specific household food security interventions.

Early Childhood Development: ChildFund is committed to effective programs that promote child development and secure infants and young children, early childhood development and protection services include parenting education and support groups home based outreach to support and promote child development, and preschool services in community managed centers.

Micro-Enterprise: Childfund's programs support youth livelihood development with a focus on skills training (including life skills), preparation for employment, guidance on business development, leadership development and civic engagement.

Emergencies: ChildFund believes that the well-being of all children leads to the well-being of the world; ChildFund empower children to thrive throughout all stages of life and become leaders of enduring change. ChildFund programs reach infants, children and youth, including their parents and families.

2. Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies followed by ChildFund in the preparation of these consolidated financial statements:

Basis of Accounting

The accompanying consolidated financial statements of ChildFund are presented in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) and have been prepared on the accrual basis of accounting.

Classification of Net Assets

Balances and transactions are presented according to the existence or absence of donor-imposed restrictions. This has been accomplished by recording transactions into the following classes of net assets:

Unrestricted net assets - Net assets resulting from public support and revenue not subject to donor-imposed restrictions.

Temporarily restricted net assets - Net assets resulting from public support and revenue whose use by ChildFund is limited by donor-imposed restrictions that either expire by passage of time or can be fulfilled and removed by actions of ChildFund pursuant to those donor-imposed restrictions.

Permanently restricted net assets - Net assets that generally represent contributions and other inflows of assets whose use by ChildFund is permanently limited by donor-imposed restrictions that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of ChildFund.

Public support and revenue are reported as increases in unrestricted net assets unless the use of the related assets is limited by donor-imposed restrictions. Sponsorship revenue is classified as temporarily restricted. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from temporarily restricted net assets to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless donors or state law restrict their use.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts and operations of the ChildFund international office, national offices, fundraising offices, and India Society (the Society). All significant transactions between the organizations, including all inter-organization balances, have been eliminated in consolidation. In compliance with local laws, certain of these national offices and fund raising offices are separate legal entities.

ChildFund established the Society in 1984. The Society is registered under the Societies Registration Act of 1860 and exists under the laws of India. ChildFund has majority voting power of the Society's governing body.

Use of Estimates

The preparation of the consolidated financial statements, in conformity with U.S. GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Investments and Beneficial Interests in Trusts and Fair Value Measurements

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820-10-65, *Fair Value Measurements and Disclosures,* established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that ChildFund has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

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

Investments in readily marketable equity securities and all debt securities are recorded at fair value, which are based on quoted market prices, where available. Due to variations in trading volumes and the lack of quoted market prices for some fixed maturities, the fair value of fixed maturities is normally derived through recent reported trades for identical or similar securities, making adjustments through the reporting date based upon available observable market data. If there are no recent reported trades, the fair value of fixed maturities may be derived through the use of matrix pricing or model processes, where the future cash flow expectations are developed based upon performance and discounted at an estimated market rate.

For investments measured at net asset value (NAV), specifically, fund of funds and real estate funds, fair value is based on NAV reported by underlying investment managers and reviewed by ChildFund after considering various sources of information. These values are further evaluated by doing internal reviews on the current fair values of the securities within these investments. The NAV is utilized as a practical expedient for fair value. The estimates of fair values, because of the inherent uncertainty of valuation of these estimates, may differ from the values that would have been used had a ready market existed.

Except for investments where donors specifically provide otherwise, investments are maintained in a pooled account. Additions to investments are assigned units of participation in the pooled account based upon their fair value on the date they enter the pooled account and the most recently determined unit fair value for the existing units of participation. Withdrawals are based upon the most recently determined fair value of the respective units of participation that include both realized and unrealized net gains and losses. The market value of the units of participation is calculated monthly.

The fair value of beneficial interests in perpetual and charitable remainder trusts is estimated by applying ChildFund's share of the earnings of the trust times the fair value of the underlying assets in the trusts as of the reporting date.

Investments and beneficial interests in perpetual trusts are exposed to several risks, such as interest rate, currency, market and credit risks. Due to the level of risk associated with certain investments and beneficial interests in trusts, it is at least reasonably possible that changes in the values of investments and beneficial interests in trusts will occur in the near term and that such changes could materially affect the amounts reported in ChildFund's consolidated financial statements.

Investment transactions are recorded on a trade date basis. Dividends are recorded on the ex-dividend date and interest is recognized on the accrual basis. Realized gains and losses are determined by specific identification. Realized and unrealized gains and change in fair value of trusts are recorded in the nonoperating revenues section of the consolidated statement of activities. Fees paid to custodian and investment managers are recorded on the accrual basis and are netted against investment income and currency transactions on the consolidated statement of activities.

Financial Instruments and Credit Risk

Financial instruments, which potentially subject ChildFund to concentrations of credit risk, consist principally of cash and cash equivalents and investments. ChildFund invests its cash and investments with high-quality financial institutions and limits the amount of credit exposure to any one financial institution. ChildFund's cash balances include aggregate bank balances on deposit both inside the United States and with international banks outside the United States. These balances can exceed federally insured limits (FDIC) or in the case of international accounts, not be covered under the FDIC. ChildFund has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents. In some cases, ChildFund has opened segregated cash accounts to meet restrictions placed on those funds by the donor. In general, these are grant funded accounts.

Credit risk with respect to investments is generally limited, because, by ChildFund's policy the investments are kept within limits designed to prevent risks caused by concentration.

ChildFund has operations in many countries throughout the world, many of which have politically and economically volatile environments. As a result, ChildFund may have financial and operational risks associated with these operations which could negatively impact ChildFund.

Accounts Receivable and Other Assets

Accounts receivable and other assets consist of general receivables, pledges receivable, advances, prepaid expenses and undistributed gifts-in-kind.

Property, Plant and Equipment

Land is carried at cost or fair value at the date of donation in the case of gifts. Buildings, furniture, fixtures and equipment, and data processing are carried at cost or fair value at the date of donation in the case of gifts, less accumulated depreciation. Purchases of property, plant and equipment in excess of $5,000 are capitalized. Depreciation of buildings and equipment is recorded on a straight-line basis over the estimated useful lives of the assets (5 to 40 years for buildings and improvements, 3 to 10 years for furniture, fixtures, and equipment, and 3 to 10 years for data processing). Upon retirement and disposition, the cost and accumulated depreciation of buildings, furniture, fixtures, and equipment, and data processing are removed from the accounts with any gain or loss reflected in the consolidated statement of activities. Maintenance and repair costs are expensed as incurred.

Revenue Recognition

Contributions are recognized as revenues in the period received or when the donor makes a promise to give to ChildFund, if earlier, that is, in substance, unconditional.

Donated or contributed property, plant and equipment, investments, services and gifts-in-kind are recorded at fair value when received.

Revenue from grants and contracts whereby ChildFund agrees to perform specified services is deemed to be earned and reported as unrestricted revenue when reimbursable expenses are incurred. Sponsorship revenues are unconditional transfers of cash recognized during the period received. Since these contributions are made without any promise to give in future periods, there are no sponsorships receivable recorded in the consolidated statement of financial position.

Gifts-In-Kind

The material portion of gifts-in-kind consists of TOM shoes and public service announcements. The fair value of gifts-in-kind are recorded using an exit value approach.

ChildFund received $5,341,277 of gifts-in-kind shoes during the year ended June 30, 2018. Included in accounts receivable and other assets is $3,102,684 of gifts-in-kind shoes yet to be distributed at June 30, 2018.

ChildFund received $22,501,537 of in-kind media and broadcast time in the form of public service announcements during the year ended June 30, 2018. During the year ended June 30, 2018, ChildFund received $22,416,079 in the United States and $85,458 in Mexico. The public service announcements, which have been featured in major magazines, airports, high traffic malls and shopping centers, were designed to educate the public about the challenges faced in ChildFund's program communities. In addition, the Mexico public service announcements are also used to generate sponsorships. ChildFund uses a third party purchasing agency to secure its public service announcements from media outlets as well as to estimate their fair value under an exit value approach, using billing rates normally charged to other customers under similar circumstances.

Expenses

Expenses are recognized during the period in which they are incurred. Expenses paid in advance and not yet incurred are deferred to the applicable period.

Fund-raising costs incurred in one year, which may result in contributions received in future years, are expensed as incurred. Additionally, advertising costs are expensed as incurred.

Functional Expenses

Certain costs have been allocated between program and supporting services, based on various allocation methods representing their estimated relative benefit to those activities. ChildFund's mission is conducted through it programs which is the primary allocation reported in the statements of activities. The functional presentation of expenses is presented within the consolidated statement of functional expenses.

Income Taxes

ChildFund is generally exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code. In addition, ChildFund qualifies for the charitable contributions deduction and has been classified as an organization that is not a private foundation. Income, which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. ChildFund had no net unrelated business income for the year ended June 30, 2018.

Management evaluated ChildFund's tax positions and concluded that ChildFund had taken no uncertain tax positions that require adjustment to the financial statements to comply with U.S. GAAP. With few exceptions, ChildFund is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2015.

Definition of Operations

Operating activities exclude realized and unrealized gains on investments, change in fair value of trusts, and change in accrued pension benefit liability other than net periodic costs.

Foreign Currency Translation

The functional currency of ChildFund is the U.S. Dollar. The consolidated financial statements and transactions of ChildFund's foreign operations are generally maintained in the relevant local currency. Where local currencies are used, assets and liabilities, except for property, plant and equipment and gift-in-kind inventory, are remeasured at the consolidated statement of financial position date using the bid/spot rate of the previous month. For revenue and expense items, translation is performed using the bid/spot rate of exchange of the previous month.

New Accounting Pronouncements to be Adopted

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 (ASU 2014-09), *Revenue from Contracts with Customers (Topic 606)*. The update establishes a comprehensive revenue recognition standard for virtually all industries including those that previously followed industry-specific guidance. The update requires that revenue should be recognized to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The original effective date for ASU 2014-09 would have required ChildFund to adopt the update in fiscal year 2019. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customer*s (Topic 606*) - Deferral of the*

Effective Date, which deferred the effective date for one year. Accordingly, the guidance is now effective for ChildFund's fiscal year beginning July 1, 2019. Management continues to evaluate the potential impact of ASU 2014-09 on ChildFund's consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02 (ASU 2016-02), *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statements of activities. ASU 2016-02 is effective for ChildFund's fiscal year beginning July 1, 2020. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. ChildFund is currently evaluating the impact of ASU 2016-02 on its consolidated financial statements.

In August 2016, the FASB issued Accounting Standards Update No. 2016-14 (ASU 2016-14), *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct internal investment expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. ASU 2016-14 is effective for ChildFund's consolidated financial statements for fiscal year beginning July 1, 2018. Early adoption is permitted. The provisions of ASU 2016-14 must be applied on a retrospective basis for all years presented although certain optional practical expedients are available for periods prior to adoption. ChildFund is currently evaluating the impact of ASU 2016-14 on its consolidated financial statements.

In June 2018, the FASB issued Accounting Standards Update No. 2018-08 (ASU 2018-08), *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 was issued to standardize how grants and other contracts received and made are classified across the sector, as either an exchange transaction or a contribution. ASU 2018-08 provides guidance to assist in the determination of whether a transaction is a contribution or an exchange transaction. If the transaction is deemed to be a contribution the guidance provides factors to consider with regard to whether the contribution is conditional or unconditional. For contributions received, if determined to be an unconditional contribution, the determination will then need to be made as to whether the contribution is restricted. ASU 2018-08 will assist in the determination of the nature of the transaction which will then govern the revenue and expense recognition methodology and timing of the transaction. ASU 2018-08 is effective for transactions in which the entity serves as the resource recipient to annual periods beginning after December 15, 2018. ChildFund is currently evaluating the impact of ASU 2018-08 on its consolidated financial statements.

3. Cash and Cash Equivalents

ChildFund considers all short-term deposits with an original maturity of three months or less to be cash equivalents. Cash in excess of current operating and program requirements was invested throughout the year on a short-term basis in various money market instruments. Cash equivalents were $2,238,278 as of June 30, 2018.

4. Investments

Investments, at fair value, as of June 30, 2018, are summarized as follows:

		2018
Corporate and other obligations	$	71,109
Time deposits		16,106,018
Mutual funds		35,076,220
Real estate funds		790,398
Funds of funds		7,567,805
	$	59,611,550

Investment return is summarized for the year ended June 30, 2018, as follows:

		2018
Interest and dividends	$	1,509,704
Currency transaction gains, net		1,458,619
Investment expense		(124,406)
	$	2,843,917
Realized gains on investments, net	$	1,430,422
Unrealized gains on investments, net		907,830
	$	2,338,252

The following table presents ChildFund's fair value hierarchy for assets measured at fair value on a recurring basis as of June 30, 2018:

	Total	Level 1	Level 2	Level 3	At NAV
Investments:					
Corporate and other obligations	$ 71,109	$ -	$ 71,109	$ -	$ -
Mutual funds:					
Long term equity	27,191,731	27,191,731	-	-	-
Long term fixed	7,884,489	7,884,489	-	-	-
Time deposits (at cost)	16,106,018	-	-	-	-
Investments measured at NAV *	8,358,203	-	-	-	8,358,203
	59,611,550	35,076,220	71,109	-	8,358,203
Beneficial interests in trusts	9,462,012	-	-	9,462,012	-
	$ 69,073,562	$ 35,076,220	$ 71,109	$ 9,462,012	$ 8,358,203

**Certain investments that are measured at fair value using the NAV per share (or its equivalent) as a practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.*

Time deposits totaling $16,106,018 for the year ended June 30, 2018, are not included in the fair value hierarchy table above, because they are recorded at cost plus accrued interest, which approximates fair value.

The following table summarizes changes in Level 3 beneficial interests in trusts measured at fair value on a recurring basis for the periods ended June 30, 2018:

	2018
Beginning balance	$ 9,069,618
Proceeds from terminated charitable remainder trusts	(84,706)
Gifts of beneficial interest in trust	327,322
Change in fair value of beneficial interest in trusts	149,778
Ending balance	$ 9,462,012

There were no significant transfers of investments between levels in the fair value hierarchy during the year ended June 30, 2018. There were no assets or liabilities measured at fair value on a nonrecurring basis as of June 30, 2018.

The following table summarizes information about the attributes of investments measured at NAV, as a practical expedient, by major class as of June 30, 2018:

		2018	Redemption frequency	Redemption notice period
Investments measured at NAV:				
Real estate	$	790,398	N/A	N/A
Absolute return, security selection, and hedging		4,775,694	Quarterly	100 days
Global equity		2,718,601	Monthly	30 days
Other		73,510	N/A	N/A
	$	8,358,203		

Real estate assets objectives are to acquire, hold for investment, and sell eligible interest-bearing debt obligations issued by project companies and acquire equity investments in certain project companies.

Absolute return, security selection and hedging fund invests in private investment funds with absolute return, security selection, and hedging strategies, with the objective of attempting to produce consistent capital appreciation with controlled volatility and reduced risk of major drawdowns. This investment offers "pass-through liquidity".

Global equity fund's objective is to achieve long-term capital growth by investing in emerging markets.

There were no material capital commitments to investment managers that have not been funded by ChildFund at June 30, 2018.

5. Split Interest Agreements

Charitable Gift Annuities

Total investments include amounts invested for ChildFund's charitable gift annuity program. These amounts are held in three segregated investment accounts. One for annuities issued to residents of California, one for annuities issued to residents of Florida, and another for annuities issued to residents of other states in which ChildFund is authorized to issue gift annuities. All segregated accounts are stated at fair value, as described in Note 2.

Under the charitable gift annuity agreements, the donors contribute assets to ChildFund. In return for the contribution, ChildFund pays an annuity to the donor, and/or another annuitant selected by the donor, for the remainder of the annuitant's life, subject in some instances to a deferred beginning date. The payout is a fixed amount based on a percentage of the original gift, as defined by the agreement. The fair value of the assets received under the annuity agreement is held in the applicable segregated investment account and invested in assets intended to comply with any investment restrictions imposed by California or the other states in which ChildFund is authorized to issue gift annuities. Contribution income is recognized at the date the agreement is established, net of the liability recorded for the present value of the estimated future payments to be made to the respective annuitants.

These segregated investments as of June 30, 2018 totaled $2,124,488, and are reported as investments on the consolidated statement of financial position. The liability associated with these charitable gift annuities is recorded at the present value of the gift based on the Individual Annuity Reserving 2012 tables and Internal Revenue Service interest rates as of the date of agreement which range from 1.2% to 6.2% as of June 30, 2018. The liability amounts are included in accounts payable and accrued expenses on the consolidated statement of financial position as of June 30, 2018 and total $1,389,998.

Perpetual Trusts

ChildFund is the beneficiary perpetual trusts created by donors, the assets of which are not in the possession of ChildFund. ChildFund has legally enforceable rights or claims to the income from the assets. The fair values of beneficial interest in perpetual trusts at June 30, 2018 was $8,847,933. A net increase of $149,778 related to changes in fair values of these trusts for the year ended June 30, 2018 was reported in changes in permanently restricted net assets on the accompanying consolidated statement of activities. There were no perpetual trusts given to ChildFund during the year ended June 30, 2018.

Charitable Remainder Trusts

ChildFund is the beneficiary of seven charitable remainder trusts, the assets of which are not in the possession of ChildFund. The fair values of beneficial interests in charitable remainder trusts at June 30, 2018 were $614,079. A net increase of $2,009 related to changes in fair values of these trusts for the year ended June 30, 2018 was reported in changes in temporarily restricted net assets on the accompanying consolidated statement of activities. Charitable remainder trusts terminated during the year ended June 30, 2018 totaled $84,706. New trusts received during the year ended June 30, 2018 totaling $327,322.

6. Property, Plant and Equipment

Property, plant, and equipment at June 30, 2018 is summarized as follows:

		2018
Land	$	1,146,128
Buildings and improvements		17,014,153
Data processing		31,406,299
Furniture, fixtures and equipment		7,563,264
Construction in progress		448,725
	$	57,578,569
Accumulated depreciation	$	(25,925,596)
Total	$	31,652,973

Depreciation expense was $2,308,959 for the year ended June 30, 2018.

7. Benefit Plans

ChildFund has a noncontributory defined benefit pension plan (the Pension Plan) and a defined contribution plan (403(b) Plan). Effective June 30, 2006, ChildFund elected to freeze the Pension Plan.

Pension Plan

The following table presents the Pension Plan's funded status as of June 30, 2018 (the latest actuarial valuation date), and the amount of accrued pension cost for the year then ended:

		2018
Projected and accumulated benefit obligation	$	26,603,364
Benefit obligation		(26,603,364)
Fair value of plan assets		22,780,401
Funded status		(3,822,963)
Accrued pension benefit liability	$	3,822,963

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

	2018
Benefit obligation discount rate	**4.00%**
Net periodic pension cost discount rate	**3.50%**
Expected return on plan assets	**6.50%**
Rate of compensation increase	**N/A**

The Pension Plan utilizes a measurement date of June 30. The amount of benefit payments from the Pension Plan for the year ended June 30, 2018 was $1,781,468.

Expected future benefit payments of the Pension Plan as of June 30, 2018 are as follows:

Years ending June 30,		
2019	**$**	**1,858,793**
2020		**1,844,470**
2021		**1,825,412**
2022		**1,797,836**
2023		**1,817,847**
2024-2028		**8,607,491**

Employer contributions made by ChildFund to the Pension Plan was $1,027,108 during the year ended June 30, 2018. The estimated contribution for the year ending June 30, 2019 is $660,478. At June 30, 2018, the unrecognized net actuarial loss was $10,388,324. Amortization of the unrecognized net actuarial loss for the year ending June 30, 2019 will be $787,995. The change in accrued pension benefit liability other than net periodic costs was $3,354,682 during the year ended June 30, 2018.

		2018
Net periodic pension cost:		
Interest cost	**$**	**1,000,678**
Expected return on plan assets		**(1,460,382)**
Amortization of net actuarial loss		**1,041,740**
	$	**582,036**

Pension costs are determined using the service prorate projected unit credit actuarial cost method. The plan is funded on a current basis as deemed necessary by management and the Pension Plan's consulting actuaries. The Pension Plan is subject to the applicable provisions of the Employment Retirement Income Security Act of 1974, as amended.

The fair values of the Pension Plan assets at June 30, 2018 by asset category are as follows:

		2018
Investments:		
Separate accounts:*		
Cash and cash equivalents	$	**165,334**
Receivable for securities sold		**737,416**
Mutual funds - equity		**14,051,890**
Mutual funds - fixed income		**7,825,761**
Total	**$**	**22,780,401**

** The separate accounts are measured at fair value using NAV per share, as a practical expedient, and as such have not been categorized in a fair value hierarchy table.*

The Pension Plan's assets consist of a group annuity contract with the Metropolitan Life Insurance Company, which is backed by nine separate accounts. The separate accounts invest in mutual funds with a focus on equity and fixed income securities. The value of the contract is dependent on the values of the units of the separate accounts funding the contract. The fair value of the separate accounts is determined based on daily unit NAV, primarily using quoted market prices of the underlying securities (or similar securities). The underlying investments of the separate accounts are stated at fair value as determined by quoted market prices in an active market or when not available, quoted market prices in an inactive market. The remaining component of the contract includes an interest-bearing cash account used by the Pension Plan to flow through funds from the separate accounts to pay the guaranteed monthly benefit payments to retirees.

The expected role of the Pension Plan equity investments is to maximize the long-term real growth of assets, while the role of fixed income investments is to generate current income, provide for more stable returns and provide some protection against a prolonged decline in the fair value of equity investments.

The target allocation and the asset allocation for the Pension Plan at June 30, 2018 are as follows:

	Target allocation 2018	Percentage of plan assets 2018
Equity	60.0%	61.7%
Fixed	40.0	36.7
Other	-	1.6
Total	100.0%	100.0%

ChildFund's policy is to provide for growth of capital with a moderate level of volatility by investing assets per the target allocations stated above. The assets will be reallocated periodically to meet the above target allocations.

The expected long-term rate of return for the Pension Plan's total assets is based on the expected return of each of the above categories, weighted based on the median of the target allocation for each class. Equity securities are expected to return 9.50% over the long-term, while fixed income is expected to return 3.25%.

403(b) Plan

All employees are eligible to participate in the 403(b) Plan. ChildFund contributed a non-voluntary amount equal to 6% of employees' base pay to the 403(b) Plan each payroll period for all employees. In addition, ChildFund also matches 50% of the first 6% of base pay that a participant contributes to the Plan. The actual rate is approved annually by the ChildFund Board of Directors (the Board). Total expense recognized for the year ended June 30, 2018 related to the 403(b) Plan was $1,010,759.

8. Debt

ChildFund has a $10,000,000 revolving line of credit with a maturity date of October 31, 2022. Interest expense is based on daily one month LIBOR + 1.10% basis points and is due and payable in consecutive monthly payments until fully paid. At June 30, 2018, no amounts were outstanding on the line of credit.

ChildFund has a $13,000,000 commercial note that matures on August 9, 2023. The interest rate on the note is 3.67% per annum. From September 1, 2013 through August 1, 2015, interest payments on outstanding principal, as applicable, were due monthly. From September 1, 2015 through August 1, 2023, principal payments, as applicable, are due monthly in the amount of $135,417 along with interest payments on outstanding principal, as applicable. The note contains certain financial covenants. ChildFund was in compliance with all debt covenants during the year ended June 30, 2018. As of June 30, 2018, the outstanding loan balance was $8,395,833.

Interest expense on the above debt was $351,997 for the year ended June 30, 2018. $345,207 of the interest expense incurred was capitalized as part of data processing upgrade that occurred and went live prior to June 30, 2018.

The future principal payments on the commercial note at June 30, 2018, are due as follows:

Years ending June 30,		
2019	$	**1,625,000**
2020		**1,625,000**
2021		**1,625,000**
2022		**1,625,000**
2023		**1,625,000**
Thereafter		**270,833**
	$	**8,395,833**

9. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2018, were available for the following purposes:

		2018
Subsidies and gifts for children	$	22,668,384
Appeal funded programs		6,601,758
Gifts in kind - not yet distributed		3,102,897
Time restricted		614,080
Local programs and other		2,822,736
	$	35,809,855

10. Permanently Restricted Net Assets

Permanently restricted net assets were $17,368,792 at June 30, 2018. These permanently restricted nets assets are comprised of perpetual trusts of $8,847,933 and the permanently restricted endowment of $8,520,859. The principal of these net assets must be invested in perpetuity; however, the income is expendable to support subsidies for children and other restricted program activities.

11. International Sponsors

Support from international sponsors is generated by autonomous organizations and consolidated operations.

Autonomous Organizations

Supporting ChildFund are ChildFund Australia, BORNEfonden (Denmark), Un Enfant Par La Main (France), ChildFund Kinderhilfswerk (Germany), ChildFund Ireland, ChildFund Japan, ChildFund Korea, Barnfonden (Sweden), Taiwan Fund for Children and Families, ChildFund Educo and ChildFund New Zealand. These autonomous organizations are incorporated in their respective countries for the purpose of initiating and overseeing programs that are distinct and unique to their mission. Because ChildFund does not control these organizations, their related assets, liabilities, net assets, revenues and expenses are not reflected in the accompanying consolidated financial statements.

The sponsorships and special gifts for children received from these organizations are included in the consolidated statements of activities for the year ended June 30, 2018 and are summarized by country in the accompanying table. As of June 30, 2018, ChildFund has sponsorship receivables from these autonomous organizations totaling $1,578,447. These receivables are the result of the timing of collection of funds as compared to deposit by the international offices. ChildFund recognized service fee revenue from these autonomous organizations in the consolidated statements of activities for the year ended June 30, 2018 of $944,493. The service fee covers the administrative costs of processing payments and ensuring proper receipt of funding to the local partners and ChildFund National Offices that support the sponsored children of the autonomous organizations.

Consolidated Operations

ChildFund works with national fund raising offices in Brazil, Mexico, Thailand and other countries that provide sponsorship revenue. These offices are organizations or segments of organizations that are independently registered in conformity with the laws of their respective countries. ChildFund possesses the power to direct the management and policies of these offices through affiliation agreements and consolidates the financial position and activities of these organizations.

The sponsorships and special gifts for children received internationally from the autonomous organizations and consolidated operations are included in the consolidated statement of activities for the year ended June 30, 2018, and are summarized in the accompanying table.

	Sponsorships	Special gifts for children	General contributions	Total 2018
Autonomous organizations:				
Australia	$ 10,179,734	$ 448,725	$ 94,607	$ 10,723,066
Denmark	2,231,317	201,774	-	2,433,091
France	1,641,782	61,373	156,820	1,859,975
Germany	4,145,848	209,969	277,696	4,633,513
Ireland	517,601	98,420	12,369	628,390
Japan	113,051	-	-	113,051
Korea	3,815,939	50,615	197,340	4,063,894
New Zealand	3,799,869	365,424	79,359	4,244,652
Sweden	3,940,035	558,111	96,058	4,594,204
Taiwan	5,322,442	503,493	50,000	5,875,935
Total autonomous organizations	35,707,618	2,497,904	964,249	39,169,771
Consolidated operations:				
Brazil	1,685,110	366,401	170,186	2,221,697
Mexico	759,362	32,678	373,477	1,165,517
Thailand	8,758,959	68,421	3,069,639	11,897,019
Other	24,619	-	-	24,619
Total consolidated operations	11,228,050	467,500	3,613,302	15,308,852
Total international sponsors	$ 46,935,668	$ 2,965,404	$ 4,577,551	$ 54,478,623

12. Total Public Support

Public support is summarized for the year ended June 30, 2018, as follows:

		2018
United States	$	145,554,567
Autonomous organizations, support from sponsors (note 11)		38,205,522
Autonomous organizations, other support		20,215,946
Consolidated operations, support from sponsors (note 11)		11,695,550
Consolidated operations, other support		3,621,024
	$	219,292,609

13. Related Party Transactions

In April 2002, ChildFund Alliance was established for charitable purposes to promote the well-being of children and their families. The Board of Directors of ChildFund Alliance consists of a significant percentage of ChildFund Board and staff; however, ChildFund does not have an economic or controlling interest in ChildFund Alliance; accordingly, ChildFund Alliance is not consolidated in ChildFund's consolidated financial statements. ChildFund does provide accounting services to ChildFund Alliance for approximately $39,400 for the year ended June 30, 2018.

14. Contingencies

From time to time, ChildFund is involved in various legal proceedings during the normal course of operations. In management's opinion, ChildFund is not currently involved in any legal proceedings which individually or in the aggregate could have a material effect on the financial condition, results of operations and/or liquidity of ChildFund.

ChildFund receives a portion of its revenue from U.S. Government funded grants and cooperative agreements, all of which are subject to audit. The ultimate determination of amounts received under these grants is generally based upon allowable costs reported to and subject to audit by sponsoring agencies. Management believes that disallowed costs, if any, will be immaterial to the financial statements.

15. Endowment Funds

FASB ASC 958-205-45, *Not-For-Profit Entities - Presentation of Financial Statements,* provides guidance on the net asset classification of donor restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and also requires disclosures about endowment funds, both donor-restricted endowment funds and board-designated endowment funds.

ChildFund's endowment consists of individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. Net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

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

Unless otherwise stated in the gift instrument, the assets in an endowment fund should be donor restricted assets until appropriated for expenditure by the Board. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by ChildFund in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, ChildFund considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of ChildFund and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of ChildFund
- The investment policies of ChildFund

Endowment net assets consist of the following at June 30, 2018:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ -	$ 2,065,908	$ 8,520,859	$ 10,586,767
Board-designated endowment funds	5,003,191	-	-	5,003,191
Total endowment net assets	$ 5,003,191	$ 2,065,908	$ 8,520,859	$ 15,589,958

The following table presents the changes in ChildFund's donor-restricted endowment funds and funds designated by the Board to function as endowment for the year ended June 30, 2018:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2018	$ 4,480,572	$ 1,542,677	$ 8,514,767	$ 14,538,016
Investment return:				
Investment income	165,309	143,061	-	308,370
Net appreciation	439,292	380,170	-	819,462
Total investment return	604,601	523,231	-	1,127,832
Contributions	-	-	6,092	6,092
Appropriation of endowment assets for expenditure	(81,982)	-	-	(81,982)
Endowment net assets, June 30,2018	$ 5,003,191	$ 2,065,908	$ 8,520,859	$ 15,589,958

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires ChildFund to retain as a fund of perpetual duration. In accordance with U.S. generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets. At June 30, 2018 there were no deficiencies of this nature.

Return Objectives and Risk Parameters

Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period as well as board-designated funds. ChildFund has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. ChildFund expects its endowment funds to provide an average annual real rate of return of approximately 5%.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, ChildFund relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). ChildFund targets a diversified asset allocation that places emphasis on investments in equities, bonds and absolute return strategies to achieve its long-term return objectives within a prudent risk framework.

Spending Policy and How Investment Objectives Relate to Spending Policy

ChildFund has two spending policies for endowments. For endowments restricted for child sponsorships, the appropriation and expenditure typically occur within the same reporting period. The spending rate is determined by the most current monthly sponsorship rate paid by sponsors in the United States. In order to meet this spending rate, donors are asked to contribute a one-time endowment gift. Investment gains and yields are used to provide the child with food, education, basic healthcare and other assistance.

For nonsponsorship endowments, unless otherwise directed by the donor, the policy for appropriating for distribution is equal to 5% of the endowment funds' average fair value for the preceding three years. In establishing this policy, ChildFund considered the expected return on its endowments. Accordingly, ChildFund expects the current spending policies to allow its nonsponsorship endowments to maintain their purchasing power by growing at a rate equal to planned payouts. For those endowments that maintain donor restrictions, ChildFund considers the cumulative earnings and expected rate of return and then appropriates available funds for distribution in accordance with the donor restrictions.

16. Restatement

During the course of normal operations, management identified an error related to its previously presented temporarily restricted net assets. The error resulted from a subsidiary fundraising office’s management’s decision to allocate more funds for programs from restricted net assets than planned. The aggregation of this reporting error over the four year period resulted in a material misstatement of ChildFund’s consolidated financial statements. The impact of the restatement is presented below:

	Previously Presented at June 30, 2017	Restatement	Restated Balances as of June 30, 2017
Unrestricted net assets	$ 40,719,905	$ (5,912,312)	$ 34,807,593
Temporarily restricted net assets	37,472,401	5,912,312	43,384,713

17. Subsequent Events

ChildFund has evaluated subsequent events for potential recognition and/or disclosure in the June 30, 2018 consolidated financial statements through November 26, 2018, the date the consolidated financial statements were issued.