



ChildFund International, USA

Consolidated Financial Statements
Year Ended June 30, 2020

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.



ChildFund International, USA

Consolidated Financial Statements
Year Ended June 30, 2020

ChildFund International, USA

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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, 2020, 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, 2020, 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 2 to the consolidated financial statements, **ChildFund International, USA** changed its method for revenue recognition as a result of the adoption of the amendments to the Financial Accounting Standards Board Accounting Standards Codification resulting from Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, and ASU 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* effective July 1, 2019. Our opinion is not modified with respect to these matters.

BDO USA, LLP

November 30, 2020

Consolidated Financial Statements

ChildFund International, USA

Consolidated Statement of Financial Position

<i>June 30,</i>	2020
Assets	
Cash and cash equivalents	\$ 26,602,570
Receivable from affiliates	1,176,001
Grants receivable	9,754,857
Accounts receivable and other assets	6,420,703
Investments	61,594,084
Beneficial interests in trusts	9,611,857
Property, plant and equipment, net	29,231,200
Total assets	\$ 144,391,272
Liabilities and Net Assets	
Liabilities:	
Accounts payable and accrued expenses	\$ 11,563,592
Accrued pension benefit liability	7,935,936
Debt	8,379,433
Total liabilities	27,878,961
Commitments and Contingencies	
Net assets:	
Without donor restrictions	46,126,343
With donor restrictions	70,385,968
Total net assets	116,512,311
Total liabilities and net assets	\$ 144,391,272

See accompanying notes to consolidated financial statements.

ChildFund International, USA

Consolidated Statement of Activities

<i>Year ended June 30, 2020</i>	Without Donor Restrictions	With Donor Restrictions	Total
Public support:			
Sponsorships:			
U.S. sponsors	\$ -	\$ 80,004,620	\$ 80,004,620
International sponsors - ChildFund Alliance	-	28,321,390	28,321,390
International sponsors - F.R.O.	-	11,227,436	11,227,436
Special gifts from sponsors for children	-	8,979,899	8,979,899
Total sponsorships	-	128,533,345	128,533,345
Contributions:			
General contributions	8,463,803	6,089,447	14,553,250
Major gifts and bequests	3,749,692	944,421	4,694,113
Gifts-in-kind	25,656,302	16,775,950	42,432,252
Total contributions	37,869,797	23,809,818	61,679,615
Grants:			
Grants and contracts	20,964,415	8,690,842	29,655,257
Total public support	58,834,212	161,034,005	219,868,217
Revenue:			
Investment income and currency transactions, net	772,621	154,055	926,676
Service fees and other	1,320,741	-	1,320,741
Total revenue	2,093,362	154,055	2,247,417
Net assets released from restrictions:			
Satisfaction of program and time restrictions	152,509,515	(152,509,515)	-
Total public support and revenue	213,437,089	8,678,545	222,115,634
Expenses:			
Program services:			
Basic education	60,580,733	-	60,580,733
Health and sanitation	29,153,910	-	29,153,910
Nutrition	6,102,093	-	6,102,093
Early childhood development	16,994,162	-	16,994,162
Micro-enterprise	24,255,205	-	24,255,205
Emergencies	28,759,443	-	28,759,443
Total program services	165,845,546	-	165,845,546
Supporting services:			
Fundraising	22,639,005	-	22,639,005
Management and general	20,319,564	-	20,319,564
Total supporting services	42,958,569	-	42,958,569
Total expenses from operations	208,804,115	-	208,804,115
Change in net assets from operations	4,632,974	8,678,545	13,311,519
Nonoperating gains (losses):			
Investment return, net	315,662	68,847	384,509
Change in value of trusts	-	57,745	57,745
Change in accrued pension benefit liability other than net periodic costs	(3,261,568)	-	(3,261,568)
Total nonoperating (losses) gains	(2,945,906)	126,592	(2,819,314)
Change in net assets	1,687,068	8,805,137	10,492,205
Net assets, at beginning of year	44,439,275	55,054,854	99,494,129
Cumulative effect of a change in accounting principle related to revenue recognition	-	6,525,977	6,525,977
Net assets, at end of year	\$ 46,126,343	\$ 70,385,968	\$ 116,512,311

See accompanying notes to consolidated financial statements.

ChildFund International, USA

Consolidated Statement of Cash Flows

Year ended June 30,	2020
Cash flows from operating activities:	
Change in net assets	\$ 10,492,205
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	3,585,281
Realized gain on investments, net	(1,170,050)
Unrealized loss on investments, net	785,541
Change in gifts-in-kind not distributed	1,925,352
Change in fair value of trusts, net	(57,745)
Gain on sale of property, plant and equipment	(27,061)
Change in accrued pension benefit liability other than net periodic costs	3,261,568
(Increase) decrease in assets	
Receivable from affiliates	232,087
Grants receivable	(7,358,259)
Accounts receivable and other assets	816,251
Increase (decrease) in liabilities	
Accounts payable and accrued expenses	819,218
Accrued pension benefit liability	(386,119)
Net cash provided by operating activities	12,918,269
Cash flows from investing activities:	
Purchases of property, plant and equipment	(1,876,518)
Proceeds from sales of property, plant and equipment	39,590
Proceeds from sales of investments	15,115,410
Purchases of investments	(15,651,295)
Net cash used in investing activities	(2,372,813)
Cash flows from financing activities:	
Payment of debt	(1,625,000)
Proceeds from borrowings of line of credit	8,265,252
Payment of line of credit	(8,719,652)
Proceeds from Payroll Protection Program loan	3,233,600
Net cash provided by financing activities	1,154,200
Net increase in cash and cash equivalents	11,699,656
Cash and cash equivalents, beginning of year	14,902,914
Cash and cash equivalents, end of year	\$ 26,602,570
Supplemental disclosures of cash flow information:	
Cash paid for interest	\$ 318,807
Supplemental disclosures of noncash transactions:	
Gifts-in-kind	\$ 42,432,252

See accompanying notes to consolidated financial statements.

ChildFund International

Consolidated Statement of Functional Expenses

<i>For the year ended June 30, 2020</i>	Basic Education	Health and Sanitation	Nutrition	Early Childhood Development	Micro- Enterprise	Emergencies	Total Program Services	Fundraising	Management and General	Total Supporting Services	Total Expenses
Subsidy for children	\$ 32,227,291	\$ 8,095,800	\$ 3,450,258	\$ 8,522,863	\$ 7,959,092	\$ 13,677,886	\$ 73,933,190	\$ -	\$ -	\$ -	\$ 73,933,190
Program grants	19,619,486	16,854,976	1,772,093	6,021,242	12,799,228	10,935,294	68,002,319	-	-	-	68,002,319
Supplies	106,244	51,129	10,702	29,804	42,538	50,437	290,854	97,755	263,725	361,480	652,334
Occupancy	290,613	139,855	29,273	81,523	116,355	137,963	795,582	172,223	234,243	406,466	1,202,048
Professional services	89,074	42,866	8,972	24,987	35,663	42,286	243,848	886,501	242,739	1,129,240	1,373,088
Contract services	488,993	235,323	49,253	137,173	195,782	232,139	1,338,663	8,025,090	4,596,157	12,621,247	13,959,910
Travel	-	-	-	-	-	-	-	461,041	226,481	687,522	687,522
Conferences and meetings	129,372	62,259	13,031	36,291	51,798	61,416	354,167	34,260	68,189	102,449	456,616
Automobile and truck expense	52,788	25,404	5,317	14,808	21,135	25,060	144,512	13,838	1,171	15,009	159,521
Advertising and public education	2,597	1,250	262	728	1,040	1,233	7,110	6,696,439	858	6,697,297	6,704,407
Equipment purchases and rentals	130,672	62,885	13,162	36,656	52,318	62,034	357,727	38,907	191,594	230,501	588,228
Telephone and cables	256,682	123,526	25,855	72,005	102,770	121,854	702,692	39,389	97,556	136,945	839,637
Postage and freight	62,353	30,007	6,281	17,491	24,965	29,601	170,698	683,108	564,705	1,247,813	1,418,511
Program costs	136,862	65,863	13,786	38,393	54,796	64,972	374,672	-	-	-	374,672
Staff training	37,597	18,093	3,787	10,547	15,053	17,848	102,925	22,685	29,486	52,171	155,096
Miscellaneous expenses	73,166	35,210	7,370	20,525	29,294	34,734	200,299	337,213	2,420,684	2,757,897	2,958,196
Total expenses before personnel costs and other expenses	53,703,790	25,844,446	5,409,402	15,065,036	21,501,827	25,494,757	147,019,258	17,508,449	8,937,588	26,446,037	173,465,295
Personnel costs	5,845,386	2,813,037	588,786	1,639,753	2,340,365	2,774,976	16,002,303	5,008,215	10,424,214	15,432,429	31,434,732
Depreciation and interest	1,031,557	496,427	103,905	289,373	413,013	489,710	2,823,985	122,341	957,762	1,080,103	3,904,088
	6,876,943	3,309,464	692,691	1,929,126	2,753,378	3,264,686	18,826,288	5,130,556	11,381,976	16,512,532	35,338,820
Total expenses from operations	\$ 60,580,733	\$ 29,153,910	\$ 6,102,093	\$ 16,994,162	\$ 24,255,205	\$ 28,759,443	\$ 165,845,546	\$ 22,639,005	\$ 20,319,564	\$ 42,958,569	\$ 208,804,115

See accompanying notes to consolidated financial statements.

ChildFund International, USA

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 24 countries worldwide. There are approximately 458,000 enrolled children in ChildFund's programs. Of these children, approximately 339,000 are sponsored children who are supported through monthly contributions.

Most of the sponsorships - more than 211,000 - 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.

ChildFund International, USA

Notes to the Consolidated Financial Statements

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:

Without donor restrictions - Net assets resulting from public support and revenue not subject to donor-imposed restrictions.

With donor restrictions - 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.

Net assets with donor restrictions also includes contributions and other inflows of assets whose use by ChildFund is 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 net assets without donor restrictions unless the use of the related assets is limited by donor-imposed restrictions. Sponsorship revenue is classified as net assets with donor restrictions. Expirations of net assets with donor restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from net assets with donor restrictions to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments are reported as increases or decreases in net assets without donor restrictions 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.

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Notes to the Consolidated Financial Statements

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

ChildFund International, USA

Notes to the Consolidated Financial Statements

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) of \$250,000 or in the case of international accounts, not be covered under the FDIC. Amounts held in excess of the FDIC limits was \$8,303,974 at June 30, 2020. 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.

Grants Receivable

ChildFund receives grants from various foundations and other organizations. This funding is subject to various contractual restrictions. These balances are due from the grantor based on terms outlined within the underlying grant agreement. An allowance for doubtful accounts is provided based on management's judgment, including such factors as prior collection history. Management has concluded no such allowance is necessary at June 30, 2020.

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Notes to the Consolidated Financial Statements

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.

Paycheck Protection Program Loan

ChildFund received loan proceeds in the amount of \$3,233,600 on April 21, 2020, under the Paycheck Protection Program (“PPP”). The PPP, established as part of the *Coronavirus Aid, Relief and Economic Security Act* (“CARES Act”), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loan and accrued interest are forgivable after eight or twenty-four weeks as long as the borrower has initially qualified for the loan and uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the eight or twenty-four week period. The loan is included within notes payable in the statements of financial position. See Note 9.

Revenue Recognition

Contributions

Historically, contribution revenue was accounted for under FASB ASC Topic 958-605, *Not-for-Profit Entities, Revenue Recognition*, before the implementation of the new standards. With the clarifications outlined in FASB Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08), Organization management reviewed existing agreements as of the effective date, as well as new agreements.

Contributions and unconditional grants, including unconditional promises to give, are recognized in the period received. Contributions received are available for use unless specifically restricted by the donor. Amounts received that are designated for a future period or are restricted by the donor for specific purposes are reported as contributions with donor restrictions. These contributions also increase net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions. Contributions with donor restrictions that are used for the purpose specified by the donor in the same year as the contribution is received are recognized as contributions without donor restrictions.

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Notes to the Consolidated Financial Statements

Contributions are reported at fair value, which is net of estimated uncollectible amounts. ChildFund uses the allowance method to determine uncollectible, unconditional pledges receivable. The allowance is based on experience as well as management's analysis of specific pledges made, including such factors as prior collection history, type of contribution, and nature of fundraising activity. Contributions to be received after one year, are recorded at the present value of the estimated future cash flows. Subsequent changes in this discount resulting from the passage of time are accounted for as contributions in subsequent years.

Conditional promises to give, including those received under multi-year grant agreements are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. A promise is considered conditional only if the donor has stipulated one or more barriers that must be overcome before ChildFund is entitled to the assets transferred or promised, and there also exists a right of return to the donor of any assets transferred or a right of release of the donor's obligation to honor the promise. ChildFund has \$16,109,729 of conditional grants outstanding as of June 30, 2020.

Grants and Contract Revenue

Under ASU 2018-08, grants and contracts constitute contributions since the customer does not receive commensurate value for the consideration received by ChildFund; rather, the purpose of an arrangement is for the benefit of the general public. Therefore, ChildFund's management concluded that the agreements are conditional due to rights of return/release and barriers to entitlement to funds. Revenue is recognized when the condition is satisfied. Because the nature of conditions is either based on incurring qualifying expenses or satisfying a milestone or other deliverable, the pattern of revenue recognition remained consistent with previous years. Therefore, under the prospective approach, there was no material change in the revenue recognition for government grants and contracts. Under ASU 2018-08, a refundable advance is recorded when ChildFund receives assets (i.e. cash) in advance of the satisfaction of the conditions within these arrangements. As of June 30, 2020, there was \$1,974,912 in refundable advances recorded related to conditional grants and contracts.

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.

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

Adjustments inputted due to the adoption of ASU 2018-08 are noted below under New Accounting Pronouncement Adopted.

Gifts-In-Kind

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

ChildFund received \$11,064,681 of gifts-in-kind pharmaceuticals during the year ended June 30, 2020. Included in accounts receivable and other assets is \$1,245,168 of gifts-in-kind pharmaceuticals yet to be distributed at June 30, 2020.

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Notes to the Consolidated Financial Statements

ChildFund received \$24,652,910 of in-kind media and broadcast time in the form of public service announcements during the year ended June 30, 2020. The public service announcements, which have been featured in major magazines, airports, high traffic malls and shopping centers, were designed to educate the public about the challenges faced in ChildFund's program communities. ChildFund uses a third-party purchasing agency to secure its public service announcements from media outlets as well as to estimate their fair value under an exit value approach, using billing rates normally charged to other customers under similar circumstances.

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.

Fundraising 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

The costs of providing various programs and supporting activities have been summarized on a functional basis in the consolidated statement of activities. In the consolidated statement of functional expenses, costs that can be identified with a specific program or support services are charged directly according to their natural expenditure classifications. Management and general expenses include those that are not directly identifiable with any specific function, but which provide for the overall support and direction of ChildFund. The consolidated financial statements report certain categories of expenses that are attributable to one or more programs or supporting functions of ChildFund. Indirect costs related to building maintenance and information technology are allocated to various functions based on square footage and usage, respectively. The consolidated statement of functional expenses present the natural classification detail of expenses by function.

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. No income tax provision has been recorded as the changes in net assets, if any, from any unrelated trade or business, in the opinion of management, is not material to the consolidated financial statements taken as a whole.

Management evaluated ChildFund's tax positions and concluded that ChildFund had taken no uncertain tax positions that require adjustment to the consolidated 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 2017.

Definition of Operations

Operating activities exclude realized and unrealized gains on investments, change in fair value of trusts, change in accrued pension benefit liability other than net periodic costs and other items, if any, which are unusual or nonrecurring in nature.

ChildFund International, USA

Notes to the Consolidated Financial Statements

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 Pronouncement Adopted

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This update, along with ASU 2016-08, *Revenue from Contracts with Customer (Topic 606), Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, ASU 2016-10, *Revenue from Contracts with Customers (Topic 606), Identifying Performance Obligations and Licensing*, and ASU 2016-12, *Revenue from Contracts with Customers (Topic 606), Narrow-Scope Improvements and Practical Expedients*, established a comprehensive revenue recognition standard. The update also requires additional disclosure to enable readers of the financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. ChildFund adopted this update, along with all subsequent amendments (collectively, "ASC 606") in 2019 under the modified retrospective method. Additionally, ChildFund applied the practical expedient (i) to account for revenues with similar characteristics as a collective group rather than individually, (ii) to not adjust the transaction price for the effects of significant financing components (if any), and (iii) to not disclose the transaction price allocated to unsatisfied or partially unsatisfied performance obligations as of the end of the reporting period when the performance obligations relate to contracts with an expected duration of less than one year. The effect of ChildFund's adoption of ASC 606 is outlined below.

In June 2018, the FASB issued ASU 2018-08. The standard clarified and improved current guidance by providing criteria for determining whether a nonprofit is receiving commensurate value in return for the resources transferred. The outcome of the analysis determines whether the contract or grant constitutes either a contribution or an exchange transaction (i.e., ASC 606). The guidance also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. ChildFund adopted this update on a prospective basis and the effects of the adoption are outlined previously.

The effect of ASC 606 and ASU 2018-08 on ChildFund's consolidated financial statements were examined in conjunction with one another. Almost all of ChildFund's revenue-producing arrangements do not meet the definition of a contract under ASC 606, as the arrangement does not have commercial substance and does not meet the definition of an exchange transaction under the clarified guidance in ASU 2018-08. Prior to the clarifications provided in ASU 2018-08, transactions with customers that benefited the general public were considered to be exchange transactions. Under the clarified guidance, such transactions constitute contributions. ChildFund reassessed the nature of its revenue-producing arrangements to ensure alignment with the definition of a contract under ASC 606 and an exchange transaction under ASU 2018-08. The following changes in accounting policies occurred during the year ended June 30, 2020, as a result of the implementation of the ASC 606 and ASU 2018-08:

ChildFund International, USA

Notes to the Consolidated Financial Statements

Revenue from grants and contracts were previously accounted for as conditional contributions with time or purpose restrictions as management concluded the barriers were of magnitude to preclude revenue recognition.

Under ASU 2018-08, these arrangements constitute contributions since the customer does not receive commensurate value for the consideration received by ChildFund; rather, the purpose of an arrangement is for the benefit of the general public. ChildFund's management concluded that many of the agreements are unconditional contributions since there were no rights of return or the barriers were solely administrative in nature as defined by ASU 2018-08. Revenue is now recognized when the commitment is made by the donor unless a barrier exists. Because the entire amount of the grant award is recognized at time of commitment, a receivable is also recorded to reflect any uncollected amounts.

Impact on Statement of Financial Position as of June 30, 2020:

	June 30, 2020 prior to ASU 2018-08		ASU 2018-08	June 30, 2020 with ASU 2018- 08		
Grants receivable	\$	8,442,374	\$	1,312,483	\$	9,754,857
Other assets		134,636,415		-		134,636,415
Total assets	\$	143,078,789	\$	1,312,483	\$	144,391,272
Accounts payable and accrued expenses	\$	16,777,086	\$	(5,213,494)	\$	11,563,592
Other liabilities		16,315,369		-		16,315,369
Total liabilities		33,092,455		(5,213,494)		27,878,961
Net assets without donor restrictions		46,126,343		-		46,126,343
Net assets with donor restrictions		63,859,991		6,525,977		70,385,968
Total net assets		109,986,334		6,525,977		116,512,311
Total liabilities and net assets	\$	143,078,789	\$	1,312,483	\$	144,391,272

ChildFund International, USA

Notes to the Consolidated Financial Statements

Impact on Consolidated Statement of Activities for the year ended June 30, 2020:

	Results for the year ended June 30, 2020 prior to ASU 2018-08		ASU 2018-08	Results for the year ended June 30, 2020 with ASU 2018- 08	
Grants and contracts revenue	\$	20,964,415	\$	8,690,842	\$ 29,655,257
Other public support and revenue		192,460,377		-	192,460,377
Total public support and revenue	\$	213,424,792	\$	8,690,842	\$ 222,115,634
Total expenses		208,804,115		-	208,804,115
Nonoperating activities		(2,819,314)		-	(2,819,314)
Increase in net assets	\$	1,801,363	\$	8,690,842	\$ 10,492,205

Impact on Consolidated Statement of Cash Flows for the year ended June 30, 2020:

	Cash Flows for the year ended June 30, 2020 prior to ASU 2018-08		ASU 2018-08	Cash Flows for the year ended June 30, 2020 with ASU 2018- 08	
Change in net assets	\$	3,966,228	\$	6,525,977	\$ 10,492,205
Change in grants receivable		(6,045,776)		(1,312,483)	(7,358,259)
Change in accounts payable and accrued expenses		6,032,712		(5,213,494)	819,218
Net cash provided by other operating activities		8,965,105		-	8,965,105
Net cash used in financing and investing activities		(1,218,613)		-	(1,218,613)
Net increase in cash and cash equivalents	\$	11,699,656	\$	-	\$ 11,699,656

In addition, ChildFund elected the net asset release policy option for contributions with donor restrictions that were initially conditional contributions. As part of this election, ChildFund reports contributions restricted by donors (that were conditional in nature) as increases in net assets without donor restrictions if the restrictions expire in the reporting period in which the revenue is recognized. ChildFund has not changed its policy for unconditional contributions such that ChildFund reports contributions restricted by donors (that were unconditional in nature) as increases in net assets with donor restrictions. When the donor restriction expires on an unconditional contribution, the release is reported as net assets released from donor restrictions in the consolidated statements of activities.

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Notes to the Consolidated Financial Statements

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities*. The update affects the accounting for equity investments and financial liabilities under the fair value option, as well as the presentation and disclosure requirements for financial instruments. The guidance is effective for ChildFund's year ending June 30, 2020. The adoption of this update did not have a material effect on ChildFund's financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230)*. The update standardizes how certain transactions should be classified in the statement of cash flows. The guidance is effective for ChildFund's year ending June 30, 2020. The adoption of this update did not have a material effect on ChildFund's financial statements.

In March 2017, the FASB issued ASU 2017-17, *Compensation - Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The update affects the presentation over Net periodic Pension Costs. The guidance is effective for ChildFund's year ending June 30, 2020. The adoption of this update did not have a material effect on ChildFund's financial statements.

New Accounting Pronouncements to be Adopted

In February 2016, the FASB issued ASU 2016-02, *Leases*. The update requires a lessee to recognize a right-of use asset and lease liability, initially measured at the present value of the lease payments, in its statement of financial position. The guidance also expands the required quantitative and qualitative lease disclosures. The guidance is effective for ChildFund's year ending June 30, 2023. Management continues to evaluate the potential impact of this update on ChildFund's 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 \$1,604,513 as of June 30, 2020.

4. Grants Receivable

The amounts due from grants receivable, as of June 30, 2020, consist of the following:

	2020
Grants receivable within one year	\$ 8,005,631
Grants receivable due in excess of one to five years	1,749,226
Grants receivable, net	<u>\$ 9,754,857</u>

Grants receivable are discounted to their present value if their due date extends beyond one year. The discount related to the long-term portion of the grants receivable balance was not considered material by management and therefore there was no discount applied as of June 30, 2020. Allowance for doubtful accounts is provided based upon management's judgement including such

ChildFund International, USA

Notes to the Consolidated Financial Statements

factors as prior collection history. Based on management's assessment, there are no allowances for the year ended June 30, 2020.

5. Investments

Investments, at fair value, as of June 30, 2020, are summarized as follows:

	2020
Corporate and other obligations	\$ 55,501
Time deposits	17,029,401
Mutual funds	36,298,833
Real estate funds	2,416,638
Alternative investments	5,793,711
	<hr/>
	\$ 61,594,084

Investment return is summarized for the year ended June 30, 2020, as follows:

	2020
Interest and dividends	\$ 336,358
Currency transaction gains, net	688,992
Investment expenses	(98,676)
	<hr/>
	\$ 926,674
	<hr/>
Realized gains on investments, net	\$ 1,170,050
Unrealized losses on investments, net	(785,541)
	<hr/>
	\$ 384,509

ChildFund International, USA

Notes to the Consolidated Financial Statements

The following table presents ChildFund's fair value hierarchy for assets measured at fair value on a recurring basis as of June 30, 2020:

	Total	Level 1	Level 2	Level 3	At NAV
Investments:					
Corporate and other obligations	\$ 55,501	\$ -	\$ 55,501	\$ -	\$ -
Time deposits (at cost)	17,029,401	17,029,401	-	-	-
Mutual funds	36,298,833	36,298,833	-	-	-
Real estate funds	2,416,638	2,416,638	-	-	-
Alternative investments:					
Absolute return	4,359,870	-	-	-	4,359,870
Global equity	1,360,331	-	-	-	1,360,331
Other	73,510	-	-	-	73,510
	\$ 61,594,084	\$ 55,744,872	\$ 55,501	\$ -	\$ 5,793,711
Beneficial interests in trusts					
	9,611,857	-	-	9,611,857	-
	\$ 71,205,941	\$ 55,744,872	\$ 55,501	\$ 9,611,857	\$ 5,793,711

*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.

The following table summarizes changes in Level 3 beneficial interests in trusts measured at fair value on a recurring basis:

Beginning balance, July 1, 2019	\$ 9,554,112
Change in fair value of beneficial interest in trusts	57,745
Ending balance, June 30, 2020	\$ 9,611,857

There were no material transfers of investments between levels in the fair value hierarchy during the year ended June 30, 2020. There were no assets or liabilities measured at fair value on a nonrecurring basis as of June 30, 2020.

ChildFund International, USA

Notes to the Consolidated Financial Statements

The following table summarizes information about the attributes of investments measured at NAV, as a practical expedient, by major class as of June 30, 2020:

	2020	Redemption frequency	Redemption notice period
Investments measured at NAV:			
Absolute return (a)	\$ 4,359,870	Quarterly	Quarterly
Global equity (b)	1,360,331	Monthly	Monthly
Other	73,510	N/A	N/A
	\$ 5,793,711		

(a) Absolute return funds invest 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".

(b) 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, 2020.

6. 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, 2020 totaled \$1,597,523 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 Pri-2012 White Collar Mortality Table with the MP-2019 mortality improvement scale and Internal Revenue Service

ChildFund International, USA

Notes to the Consolidated Financial Statements

interest rates as of the date of agreement which range from 1.2% to 6.2% as of June 30, 2020. The liability amounts are included in accounts payable and accrued expenses on the consolidated statement of financial position as of June 30, 2020 and total \$1,143,397.

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, 2020 was \$8,741,086. A net increase of \$67,690 related to changes in fair values of these trusts for the year ended June 30, 2020 was reported in changes in net assets with donor restrictions on the accompanying consolidated statement of activities. There were no perpetual trusts provided to ChildFund during the year ended June 30, 2020.

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, 2020 were \$870,771. A net decrease of \$9,945 related to changes in fair values of these trusts for the year ended June 30, 2020 was reported in changes in net assets with donor restrictions on the accompanying consolidated statement of activities. There were no new charitable remainder trusts provided to nor terminated trusts during the year ended June 30, 2020.

7. Property, Plant and Equipment

Property, plant, and equipment at June 30, 2020 is summarized as follows:

	2020
Land	\$ 1,146,129
Buildings and improvements	20,269,030
Data processing	31,107,359
Furniture, fixtures and equipment	6,800,266
Construction in progress	551,832
	<hr/> \$ 59,874,616
Accumulated depreciation	<hr/> (30,643,416)
Total	<hr/> \$ 29,231,200

Depreciation expense was \$3,585,281 for the year ended June 30, 2020.

ChildFund International, USA

Notes to the Consolidated Financial Statements

8. 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, 2020 (the latest actuarial valuation date), and the amount of accrued pension cost for the year then ended:

	2020
Projected and accumulated benefit obligation	\$ 29,788,702
Benefit obligation	(29,788,702)
Fair value of plan assets	21,852,766
Funded status	(7,935,936)
Accrued pension benefit liability	\$ 7,935,936

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

	2020
Benefit obligation discount rate	2.50%
Net periodic pension cost discount rate	3.25%
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, 2020 was \$1,753,924.

Expected future benefit payments of the Pension Plan as of June 30, 2020 are as follows:

Years ending June 30,

2021	\$ 1,858,921
2022	1,829,584
2023	1,844,721
2024	1,827,811
2025	1,780,074
2026-2030	8,492,832

Employer contributions made by ChildFund to the Pension Plan was \$831,450 during the year ended June 30, 2020. The estimated contribution for the year ending June 30, 2021 is \$819,143. At June 30, 2020, the unrecognized net actuarial loss was \$15,956,215. Amortization of the unrecognized net actuarial loss for the year ending June 30, 2020 will be \$1,415,479. The change in accrued pension benefit liability other than net periodic costs was \$3,261,569 during the year ended June 30, 2020.

ChildFund International, USA

Notes to the Consolidated Financial Statements

Year ended June 30,	2020
Net periodic pension cost:	
Interest cost	\$ 873,148
Expected return on plan assets	(1,481,991)
Amortization of net actuarial loss	1,054,173
	\$ 445,330

Pension costs are determined using the service prorated 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, 2020 by asset category are as follows:

	2020
Investments:	
Separate accounts:*	
Cash and cash equivalents	\$ 135,354
Mutual funds - equity	14,239,076
Mutual funds - fixed income	7,478,336
Total	\$ 21,852,766

* 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.

ChildFund International, USA

Notes to the Consolidated Financial Statements

The target allocation and the asset allocation for the Pension Plan at June 30, 2020 are as follows:

	Target allocation 2020	Percentage of plan assets 2020
Equity	60.0%	65.2%
Fixed	40.0	34.2
Other	-	0.6
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, 2020 related to the 403(b) Plan was \$1,034,280.

9. 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, 2020, there was no outstanding balance 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, 2020. As of June 30, 2020, the outstanding loan balance was \$5,145,833.

Interest expense on the above debt was \$219,886 for the year ended June 30, 2020.

ChildFund International, USA

Notes to the Consolidated Financial Statements

The future principal payments on the commercial note at June 30, 2020, are due as follows:

Years ending June 30,

2021	\$ 1,625,000
2022	1,625,000
2023	1,625,000
2024	270,833
	<hr/>
	\$ 5,145,833

Proceeds from the PPP loan were received on April 21, 2020 and totaled \$3,233,600. ChildFund currently believes it has spent the PPP loan proceeds in accordance with the provisions of the PPP as required by the Small Business Administration (“SBA”) and expects the loan to be forgiven. If the PPP loan is not forgiven, the unforgiven portion will be payable over five years at an interest rate of 1.00%, with a deferral of payments until forgiveness amount remitted to lender by SBA.

10. Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes as of:

<i>June 30,</i>	<i>2020</i>
Subject to expenditure for a specified purpose:	
Subsidies and gifts for children	\$ 22,645,597
Child development grants	15,216,821
Appeal funded programs	5,890,416
Gifts-in-kind - not yet distributed	3,142,187
Local programs and other	3,830,885
	<hr/>
Subject to the passage of time:	
Assets held in charitable remainder trusts	870,771
	<hr/>
Perpetual in nature:	
Beneficial interest in perpetual trusts	8,741,086
Gifts to perpetual endowments	10,048,205
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Total Net Assets with Donor Restrictions	\$ 70,385,968

ChildFund International, USA

Notes to the Consolidated Financial Statements

11. Releases from Net Assets with Donor Restrictions

During 2020, net assets were released from donor restrictions by ChildFund incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors as follows:

	2020
Subject to expenditure for a specified purpose:	
Subsidies and gifts for children	\$ 132,558,886
Appeal funded programs	959,561
Gifts in kind - distributed	18,701,303
Local programs and other	289,765
Total net assets released from restrictions	\$ 152,509,515

12. 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, 2020 and are summarized by country in the accompanying table. As of June 30, 2020, ChildFund has sponsorship receivables from these autonomous organizations totaling \$1,176,001. 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 statement of activities for the year ended June 30, 2020 of \$810,068 which is included in service fees and other on the Consolidated Statement of Activities. 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.

ChildFund International, USA

Notes to the Consolidated Financial Statements

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, 2020, and are summarized in the accompanying table.

	Sponsorships	Special gifts for children	General contributions	Total 2020
Autonomous organizations:				
Australia	\$ 6,265,466	\$ 334,812	\$ 27,180	\$ 6,627,458
Denmark	1,489,230	181,327	-	1,670,557
France	1,640,914	52,583	75,641	1,769,138
Germany	3,691,267	172,572	275,482	4,139,321
Ireland	385,050	77,007	-	462,057
Japan	108,054	-	-	108,054
Korea	4,015,698	47,368	147,353	4,210,419
New Zealand	2,351,077	273,640	119,276	2,743,993
Sweden	3,735,936	547,356	17,030	4,300,322
Taiwan	4,638,698	444,585	53,614	5,136,897
Total autonomous organizations	\$ 28,321,390	\$ 2,131,250	\$ 715,576	\$ 31,168,216
Consolidated operations:				
Brazil	\$ 1,616,230	\$ 175,903	\$ 114,566	\$ 1,906,699
Mexico	671,288	26,784	7,887	705,959
Thailand	8,814,523	58,230	1,376,283	10,249,036
Other	125,395	-	-	125,395
Total consolidated operations	\$ 11,227,436	\$ 260,917	\$ 1,498,736	\$ 12,987,089
Total international sponsors	\$ 39,548,826	\$ 2,392,167	\$ 2,214,312	\$ 44,155,305

13. Total Public Support

Public support is summarized for the year ended June 30, 2020, as follows:

	2020
United States	\$ 175,712,912
Autonomous organizations, support from sponsors	28,321,390
Autonomous organizations, other support	2,846,826
Consolidated operations, support from sponsors	11,227,436
Consolidated operations, other support	1,759,653
	\$ 219,868,217

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Notes to the Consolidated Financial Statements

14. 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 provided accounting services to ChildFund Alliance that totaled approximately \$41,500 for the year ended June 30, 2020.

15. Contingencies

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

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 consolidated financial statements.

Other Matters

The COVID-19 pandemic has developed rapidly in 2020. The resulting impact of the virus on the operations and measures taken by various governments to contain the virus have negatively affected ChildFund's results in the reporting period.

The currently known impacts of COVID-19 on ChildFund are a decline in acquisition of new sponsors, volatility in investments, increase in pension liability and decline in planned programming activities through our local partners.

In response to these matters, the entity has taken the following actions: We have launched a global COVID-19 response campaign, shifted programming dollars to direct cash payments, implemented more digital campaign activities and obtained the PPP loan as discussed in Note 9.

Management has determined that these actions that it has taken are sufficient to mitigate the uncertainty as of the date of this report. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the ChildFund's financial condition, liquidity, and future results of operations. Management is actively monitoring the impact of the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, ChildFund is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2021.

16. Endowment Funds

FASB ASC 958-205-45, *Not-For-Profit Entities - Presentation of Financial Statements*, provides guidance on the net asset classification of donor restricted endowment funds for a not-for-profit

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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.

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

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. At June 30, 2020 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)

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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 non-sponsorship 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 non-sponsorship 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.

Endowment net assets consist of the following at June 30, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donors	\$ -	\$ 10,048,205	\$ 10,048,205
Accumulated investment gains	-	2,660,072	2,660,072
Board-designated quasi-endowment funds	5,523,200	-	5,523,200
Total endowment net assets	\$ 5,523,200	\$ 12,708,277	\$ 18,231,477

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, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, July 1, 2019	\$ 5,360,603	\$ 11,632,903	\$ 16,993,506
Total investment return, net	237,414	110,953	348,367
Contributions	-	964,421	964,421
Appropriation of endowment assets for expenditure	(74,817)	-	(74,817)
Endowment net assets, June 30, 2020	\$ 5,523,200	\$ 12,708,277	\$ 18,231,477

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Liquidity and Availability of Resources

The following reflects assets as of the consolidated statement of position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the consolidated statement of financial position date.

June 30,	2020
Cash	\$ 26,602,570
Receivable from affiliates	1,176,001
Grants receivable	9,754,857
Accounts receivable and other assets	6,420,703
Investments	61,594,084
Beneficial interests in trusts	9,611,857
	<hr/>
	115,160,072
Less amount unavailable for general expenditures within one year, due to:	
Restricted by donors with purpose and time restrictions	(70,385,968)
Grants receivable due in excess of one year	(1,749,226)
Investments related to charitable gift annuities	(1,143,397)
Board-designated quasi-endowment fund	(5,523,200)
	<hr/>
Financial assets available to meet cash needs for general expenditures within one year	\$ 36,358,281

As part of ChildFund's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. ChildFund maintains a liquidity position through leveraging cash, investments and line of credit.

17. Subsequent Events

ChildFund has evaluated subsequent events for potential recognition and/or disclosure in the June 30, 2020 consolidated financial statements through November 30, 2020, the date the consolidated financial statements were issued.