KPMG

CHILDFUND INTERNATIONAL, USA

Consolidated Financial Statements

June 30, 2017

(With Independent Auditors' Report Thereon)

CHILDFUND INTERNATIONAL, USA

Table of Contents

	Page
Independent Auditors’ Report	1
Consolidated Financial Statements:	
Consolidated Statement of Financial Position – June 30, 2017	3
Consolidated Statement of Activities – Year ended June 30, 2017	4
Consolidated Statement of Cash Flows – Year ended June 30, 2017	5
Consolidated Statement of Functional Expenses – Year ended June 30, 2017	6
Notes to Consolidated Financial Statements	7

KPMG LLP
Suite 2000
1021 East Cary Street
Richmond, VA 23219-4023

Independent Auditors' Report

The Board of Directors
ChildFund International, USA:

We have audited the accompanying consolidated financial statements of ChildFund International, USA, (ChildFund), which comprise the consolidated statement of financial position as of June 30, 2017, 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 Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; 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 organization'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 organization'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 as of June 30, 2017, and the changes in their net assets, their cash flows, and their functional expenses for the year then ended in accordance with U.S. generally accepted accounting principles.

KPMG

Report on Summarized Comparative Information

We have previously audited ChildFund International, USA's 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated November 22, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

KPMG LLP

November 21, 2017

CHILDFUND INTERNATIONAL, USA

Consolidated Statement of Financial Position

June 30, 2017
(with summarized financial information as of June 30, 2016)

Assets		**2017**	**2016**
Cash and cash equivalents (note 3)	$	23,239,350	21,539,066
Receivable from affiliates (note 11)		1,544,149	2,000,589
Grants receivable		2,292,217	3,005,294
Accounts receivable and other assets		12,497,103	11,277,166
Investments (notes 4 and 5)		52,900,139	54,804,239
Beneficial interests in trusts (notes 4 and 5)		9,069,618	8,712,819
Property, plant and equipment, net (note 6)		28,487,150	23,579,314
Total assets	$	130,029,726	124,918,487
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses (note 5)	$	17,102,081	19,722,916
Accrued pension benefit liability (note 7)		7,499,575	11,279,337
Debt (note 8)		10,020,833	11,645,834
Total liabilities		34,622,489	42,648,087
Net assets:			
Unrestricted (note 16)		40,719,905	27,395,413
Temporarily restricted (notes 9 and 16)		37,472,401	38,002,155
Permanently restricted (notes 5, 10 and 16)		17,214,931	16,872,832
Total net assets		95,407,237	82,270,400
Contingencies (notes 8 and 15)		—	—
Total liabilities and net assets	$	130,029,726	124,918,487

See accompanying notes to consolidated financial statements.

CHILDFUND INTERNATIONAL, USA

Consolidated Statement of Activities

Year ended June 30, 2017
(with summarized financial information for the year ended June 30, 2016)

	Unrestricted	Temporarily restricted	Permanently restricted	Total 2017	Total 2016
Public support (note 12):					
Sponsorships (note 11):					
U.S. sponsors	$ —	79,568,166	—	79,568,166	77,399,881
International sponsors	—	47,302,789	—	47,302,789	48,447,139
Special gifts from sponsors for children	—	11,541,825	—	11,541,825	12,147,711
Total sponsorships	—	138,412,780	—	138,412,780	137,994,731
Contributions:					
General contributions (note 11)	8,047,472	7,876,193	180	15,923,845	15,766,693
Major gifts and bequests	2,841,372	—	—	2,841,372	2,025,086
Gifts in kind	30,528,759	13,463,984	—	43,992,743	42,284,204
Total contributions	41,417,603	21,340,177	180	62,757,960	60,075,983
Grants:					
Grants and contracts	28,691,678	—	—	28,691,678	35,512,121
Total public support	70,109,281	159,752,957	180	229,862,418	233,582,835
Revenue:					
Investment income and currency transactions, net (note 4)	2,325,713	126,656	—	2,452,369	609,863
Service fees and other (note 11)	1,599,447	—	—	1,599,447	1,221,882
Total revenue	3,925,160	126,656	—	4,051,816	1,831,745
Net assets released from restrictions:					
Satisfaction of program and time restrictions	161,087,992	(161,087,992)	—	—	—
Total public support and revenue	235,122,433	(1,208,379)	180	233,914,234	235,414,580
Expenses:					
Program:					
Basic education	69,585,519	—	—	69,585,519	76,408,957
Health and sanitation	31,561,589	—	—	31,561,589	42,273,365
Nutrition	11,114,409	—	—	11,114,409	15,536,619
Early childhood development	21,727,691	—	—	21,727,691	22,852,848
Micro enterprise	30,991,942	—	—	30,991,942	25,008,078
Emergencies	21,788,252	—	—	21,788,252	14,831,982
Total program	186,769,402	—	—	186,769,402	196,911,849
Supporting services:					
Fund raising	24,831,154	—	—	24,831,154	21,110,581
Management and general	17,308,052	—	—	17,308,052	17,676,906
Total supporting services	42,139,206	—	—	42,139,206	38,787,487
Total expenses for operations	228,908,608	—	—	228,908,608	235,699,336
Change in net assets from operations	6,213,825	(1,208,379)	180	5,005,626	(284,756)
Nonoperating (losses) gains:					
Realized gains (losses) on investments, net (note 4)	979,345	191,553	—	1,170,898	(195,147)
Unrealized gains (losses) on investments, net (note 4)	2,533,668	472,192	—	3,005,860	(784,456)
Change in fair value of trusts (note 5)	—	14,880	341,919	356,799	(528,287)
Change in accrued pension benefit liability other than net periodic costs (note 7)	3,597,654	—	—	3,597,654	(5,034,528)
Total nonoperating gains (losses)	7,110,667	678,625	341,919	8,131,211	(6,542,418)
Addition of newly controlled entity (note 2)	—	—	—	—	2,517,522
Change in net assets	13,324,492	(529,754)	342,099	13,136,837	(4,309,652)
Net assets at beginning of year	27,395,413	38,002,155	16,872,832	82,270,400	86,580,052
Net assets at end of year	$ 40,719,905	37,472,401	17,214,931	95,407,237	82,270,400

See accompanying notes to consolidated financial statements.

CHILDFUND INTERNATIONAL, USA

Consolidated Statement of Cash Flows

Year ended June 30, 2017
(with summarized financial information for the year ended June 30, 2016)

		2017	2016
Cash flows from operating activities:			
Change in net assets	$	13,136,837	(4,309,652)
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation		2,136,545	2,447,928
Change due to addition of newly controlled entity		—	346,059
Realized (gains) losses on investments, net		(1,170,898)	195,147
Unrealized (gains) losses on investments, net		(3,005,860)	784,456
Proceeds from termination of charitable remainder trusts		—	10,000
Change in gifts in kind not distributed		(1,894,456)	(2,551,061)
Change in fair value of trusts		(356,799)	528,287
Gain on sale of property, plant and equipment		(257,766)	(81,360)
Contributions restricted for long-term investment		180	80,460
Change in accrued pension benefit liability other than net periodic costs		(3,597,654)	5,034,528
Changes in operating assets and liabilities:			
Grants receivable		713,077	1,660,771
Receivable from affiliates		456,440	(154,957)
Accounts receivable and other assets		674,519	1,004,708
Accounts payable and accrued expenses		(3,531,981)	(347,447)
Accrued pension benefit liability		(182,108)	(778,458)
Net cash provided by operating activities		3,120,076	3,869,409
Cash flows from investing activities:			
Purchases of property, plant and equipment		(6,210,422)	(4,986,449)
Proceeds from sales of property, plant and equipment		334,953	81,360
Proceeds from sales of investments		9,661,847	7,952,995
Purchases of investments		(3,580,989)	(11,644,762)
Net cash provided by (used in) in investing activities		205,389	(8,596,856)
Cash flows from financing activities:			
Proceeds from borrowings of debt		—	9,000,000
Payment of debt		(1,625,001)	(1,354,166)
Payment of line of credit		(2,660,000)	(621,000)
Proceeds from borrowings of line of credit		2,660,000	621,000
Contributions restricted for long-term investment		(180)	(80,460)
Net cash (used in) provided by financing activities		(1,625,181)	7,565,374
Net increase in cash and cash equivalents		1,700,284	2,837,927
Cash and cash equivalents at beginning of year		21,539,066	18,701,139
Cash and cash equivalents at end of year	$	23,239,350	21,539,066
Supplemental cash flow information:			
Interest paid	$	419	59
Supplemental disclosures of noncash transactions:			
Gifts in kind	$	42,410,639	42,284,204
Purchases of property, plant and equipment funded by accounts payable and accrued expenses		911,146	1,091,729
Changes in operating accounts due to addition of newly controlled entity:			
Grants receivable		—	(20,793)
Accounts receivable and other assets		—	(29,815)
Accounts payable and accrued expenses		—	396,667

See accompanying notes to consolidated financial statements.

CHILDFUND INTERNATIONAL, USA

Consolidated Statement of Functional Expenses

Year ended June 30, 2017
(with summarized financial information for the year ended June 30, 2016)

	Program services							Supporting services			Program and supporting services	
	Basic education	Health and sanitation	Nutrition	Early childhood development	Micro enterprise	Emergencies	Total program services	Fund raising	Management and general	Total supporting services	2017	2016
Subsidies for children	$ 43,604,801	11,008,932	4,975,823	9,446,115	12,153,739	4,510,729	85,700,139	—	—	—	85,700,139	89,741,284
Program grants	16,132,829	16,085,996	4,565,652	9,206,629	14,452,160	14,194,003	74,637,269	—	—	—	74,637,269	79,223,364
Supplies	84,388	38,276	13,479	26,350	37,585	26,423	226,501	66,563	307,910	374,473	600,974	641,296
Occupancy	473,723	214,864	75,664	147,917	210,986	148,330	1,271,484	250,369	229,327	479,696	1,751,180	1,794,265
Professional services	101,586	46,076	16,226	31,720	45,244	31,808	272,660	815,298	281,339	1,096,637	1,369,297	537,758
Contract services	690,198	313,050	110,240	215,510	307,400	216,111	1,852,509	8,133,889	2,790,222	10,924,111	12,776,620	10,665,470
Travel	436,353	197,914	69,696	136,249	194,342	136,628	1,171,182	536,616	307,227	843,843	2,015,025	1,792,534
Conferences and meetings	248,758	112,828	39,732	77,673	110,792	77,890	667,673	38,716	81,131	119,847	787,520	899,333
Automobile and truck expense	92,774	42,079	14,818	28,968	41,319	29,049	249,007	21,513	23	21,536	270,543	282,836
Advertising and public education	9,496	4,307	1,517	2,965	4,229	2,973	25,487	8,356,142	210,915	8,567,057	8,592,544	9,718,864
Equipment purchases and rentals	145,861	66,158	23,297	45,544	64,964	45,671	391,495	70,802	128,059	198,861	590,356	539,538
Telephone and cables	143,861	65,250	22,978	44,920	64,073	45,045	386,127	51,299	181,499	232,798	618,925	628,676
Postage and freight	59,785	27,117	9,549	18,668	26,627	18,720	160,466	743,466	611,536	1,355,002	1,515,468	1,544,638
Publication and printing costs	—	—	—	—	—	—	—	—	9,854	9,854	9,854	14,589
Staff training	19,109	8,667	3,052	5,967	8,511	5,983	51,289	9,909	20,289	30,198	81,487	111,925
Miscellaneous expenses	101,874	46,206	16,272	31,809	45,372	31,899	273,432	374,916	2,172,436	2,547,352	2,820,784	2,857,817
Total expenses before personnel costs and other expenses	62,345,396	28,277,720	9,957,995	19,467,004	27,767,343	19,521,262	167,336,720	19,469,498	7,331,767	26,801,265	194,137,985	200,994,187
Personnel costs	6,681,668	3,030,573	1,067,216	2,086,313	2,975,875	2,092,129	17,933,774	5,166,980	9,532,905	14,699,885	32,633,659	32,257,162
Depreciation and interest	558,455	253,296	89,198	174,374	248,724	174,861	1,498,908	194,676	443,380	638,056	2,136,964	2,447,987
Total expenses from operations	$ 69,585,519	31,561,589	11,114,409	21,727,691	30,991,942	21,788,252	186,769,402	24,831,154	17,308,052	42,139,206	228,908,608	235,699,336

See accompanying notes to 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 514,000 enrolled children in ChildFund's programs. Of these children, approximately 440,000 are sponsored children who are supported through monthly contributions.

Most of the sponsorships – more than 233,000 – 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.

(2) Summary of Significant Accounting Policies

ChildFund's accounting policies are summarized as follows:

(a) Basis of Accounting

The accompanying consolidated financial statements have been prepared using the accrual method of accounting in accordance with U.S. generally accepted accounting principles.

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.

(b) Principles of Consolidation

The accompanying consolidated financial statements include the accounts and operations of the ChildFund international office, national offices, and fundraising offices. 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 India Society (the Society) in 1984. The Society is registered under the Societies Registration Act of 1860 and exists under the laws of India. In December 2015, the Society's governing body took action which gave ChildFund majority voting power of the governing body and therefore, ChildFund began consolidating the Society. The financial impact of the consolidation as of June 30, 2016 resulted in approximately $2,900,000 in cash, $51,000 in receivables, $397,000 in payables, and $2,517,000 temporarily restricted net assets being recorded by ChildFund.

(c) Use of Estimates

The preparation of the consolidated financial statements, in conformity with U.S. generally accepted accounting principles, 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. Significant accounting estimates and management judgments reflected in the consolidated financial statements include valuation of investments measured at net asset value (NAV) and beneficial interests in trusts and accrued pension benefit liability.

(d) 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.

(Continued)

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 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 losses 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.

(e) 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

FDIC limits 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.

(f) Accounts Receivable and Other Assets

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

(g) 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. 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.

(h) Revenue Recognition

Revenue is recognized during the period it is earned. Donated or contributed property, plant and equipment, investments, services and gifts-in-kind are recorded at fair value when received. The majority 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 $12,285,545 and $8,290,714 of gifts-in-kind shoes during the years ended June 30, 2017 and 2016, respectively. $9,024,354 and $5,209,002 of gifts-in-kind shoes yet to be distributed was included in accounts receivable and other assets at June 30, 2017 and 2016, respectively. ChildFund received $30.434,093 and $27,998,211 of in-kind media and broadcast time in the form of public service announcements during the years ended June 30, 2017 and 2016, respectively. During the year ended June 30, 2017, ChildFund received $28,851,989 in the United States and $1,582,104 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.

Government grant revenue is recognized as earned, which is generally when costs 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.

(i) Expenses

Expenses are recognized during the period in which they are incurred. Expenses paid in advance primarily include insurance, advertising, postage and software maintenance and are deferred to the applicable period. The cost of providing various programs and supporting services have been summarized on a functional basis in the consolidated statement of activities.

(j) Definition of Operations

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

(k) Foreign Currency Translation

All cash balances in foreign banks have been translated at foreign exchange rates in effect as of year- end. No other assets or liabilities of ChildFund are subject to foreign currency translation. All foreign office revenue and expense amounts are converted at the rate of exchange in effect at approximately the date of transaction.

(l) Summarized Comparative Information

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with ChildFund's consolidated financial statements for the year ended June 30, 2016, from which the summarized information was derived.

(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 $5,331,678 and $6,177,228 as of June 30, 2017 and 2016, respectively.

(4) Investments and Investment Return

Investments, at fair value, as of June 30, 2017 and 2016 are summarized as follows:

		2017	2016
Corporate and other obligations	$	72,020	73,971
Exchange traded funds		778,566	2,087,963
Time deposits		10,137,616	14,346,651
Mutual funds		33,900,536	31,859,340
Real estate funds		811,357	730,488
Funds of funds		7,200,044	5,705,826
Total	$	52,900,139	54,804,239

Investment return is summarized for the years ended June 30, 2017 and 2016, as follows:

		2017	2016
Interest and dividends	$	1,604,736	1,200,816
Currency transaction gains (losses), net		938,453	(524,270)
Investment expense		(90,820)	(66,683)
Total investment income and currency transactions, net		2,452,369	609,863
Realized gains (losses) on investments, net		1,170,898	(195,147)
Unrealized gains (losses) on investments, net		3,005,860	(784,456)
Total investment return, net	$	6,629,127	(369,740)

The following table presents ChildFund's fair value hierarchy for assets measured at fair value on a recurring basis as of June 30, 2017:

		Total	Level 1	Level 2	Level 3
Investments:					
Corporate and other obligations	$	72,020	—	72,020	—
Exchange traded funds		778,566	778,566	—	—
Time deposits		10,137,616	10,137,616	—	—
Mutual funds:					
Long term equity		24,582,631	24,582,631	—	—
Long term fixed		9,317,905	9,317,905	—	—
Investments measured at NAV *		8,011,401	—	—	—
Total investments		52,900,139	44,816,718	72,020	—
Beneficial interests in trusts		9,069,618	—	—	9,069,618
Total assets	$	61,969,757	44,816,718	72,020	9,069,618

* 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 presents ChildFund's fair value hierarchy for assets measured at fair value on a recurring basis as of June 30, 2016:

	Total	Level 1	Level 2	Level 3
Investments:				
Corporate and other obligations	$ 73,971	—	73,971	—
Exchange traded funds	2,087,963	2,087,963	—	—
Time deposits	14,346,651	14,346,651	—	—
Mutual funds:				
Long term equity	22,841,555	22,841,555	—	—
Long term fixed	9,017,785	9,017,785	—	—
Investments measured at NAV *	6,436,314	—	—	—
Total investments	54,804,239	48,293,954	73,971	—
Beneficial interests in trusts	8,712,819	—	—	8,712,819
Total assets	$ 63,517,058	48,293,954	73,971	8,712,819

* 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 for the periods ended June 30, 2017 and 2016:

	2017	2016
Beginning balance	$ 8,712,819	9,251,106
Proceeds from terminated charitable remainder trusts	—	(10,000)
Change in fair value of beneficial in trusts	356,799	(528,287)
Ending balance	$ 9,069,618	8,712,819

There were no significant transfers of investments between levels in the fair value hierarchy during the years ended June 30, 2017 and 2016. There were no assets or liabilities measured at fair value on a nonrecurring basis as of June 30, 2017 and 2016.

The following table summarizes information about the attributes of investments measured at NAV, as a practical expedient, by major class as of June 30, 2017 and 2016:

		2017	2016	Redemption frequency	Redemption notice period
Investments measured at NAV:					
Real estate	$	811,357	730,488	N/A	N/A
Absolute return, security selection, and hedging		4,527,428	4,215,493	Quarterly	100 days
Global equity		2,599,106	1,416,823	Monthly	30 days
Other		73,510	73,510	N/A	N/A
Total investments measured at NAV	$	8,011,401	6,436,314		

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, 2017 and 2016.

(5) Split Interest Agreements

(a) 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(d).

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, 2017 and 2016 totaled $2,252,672 and $2,234,213, respectively, 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 6.5% as of June 30, 2017 and 2016. The liability amounts are included in accounts payable and accrued expenses on the consolidated statement of financial position as of June 30, 2017 and 2016 and total $1,500,803 and $1,518,627, respectively.

(b) Perpetual Trusts

ChildFund is the beneficiary of approximately 10 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, 2017 and 2016 were $8,700,164 and $8,358,245, respectively. Net increase of $341,919 and decrease of $506,845 related to changes in fair values of these trusts for the years ended June 30, 2017 and 2016, respectively, were reported in changes in permanently restricted net assets on the accompanying statement of activities. There were no perpetual trusts given to ChildFund during the years ended June 30, 2017 and 2016.

(c) Charitable Remainder Trusts

ChildFund is the beneficiary of 6 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, 2017 and 2016 were $369,454 and $354,574. Net increase of $14,880 and decrease of $21,442 related to changes in fair values of these trusts for the years ended June 30, 2017 and 2016, respectively, were reported in changes in temporarily restricted net assets on the accompanying statement of activities. Charitable remainder trusts terminated during the years ended June 30, 2017 and 2016 totaling $0 and $10,000, respectively.

(6) Property, Plant and Equipment

Property, plant, and equipment at June 30, 2017 and 2016 is summarized as follows:

		2017	2016
Land	$	1,146,128	1,146,128
Buildings and improvements		16,819,077	16,809,944
Data processing		19,996,327	19,757,784
Furniture, fixtures and equipment		8,125,776	9,586,421
Construction in progress		14,683,825	8,357,821
		60,771,133	55,658,098
Accumulated depreciation		(32,283,983)	(32,078,784)
Total	$	28,487,150	23,579,314

(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.

(a) Pension Plan

The following table summarizes the Pension Plan funded status. The RP-2014 Mortality Table, adjusted to 2006 with full generational mortality improvement using the MP2016 table and MP2015, was used for the year ended June 30, 2017 and 2016 respectively. The organization reviewed the impact of the MP2017 table and determined the impact to the funded status to be immaterial.

		2017	2016
Projected and accumulated benefit obligation	$	29,630,619	31,759,610
Benefit obligation		(29,630,619)	(31,759,610)
Fair value of plan assets		22,131,044	20,480,273
Funded status		(7,499,575)	(11,279,337)
Accrued pension benefit liability	$	7,499,575	11,279,337

(Continued)

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

	2017	2016
Benefit obligation discount rate	3.50%	3.25%
Net periodic pension cost discount rate	3.25	4.00
Expected return on plan assets	6.50	7.50
Rate of compensation increase	N/A	N/A

The Pension Plan utilizes a measurement date of June 30. The amount of benefit payments from the Pension Plan for the years ended June 30, 2017 and 2016 were $1,814,075 and $1,875,109, respectively.

Expected future benefit payments of the Pension Plan as of June 30, 2017 are as follows:

2018	$	1,919,688
2019		1,889,233
2020		1,866,581
2021		1,840,143
2022		1,809,455
2023–2027		8,824,833

Employer contributions made by ChildFund to the Pension Plan were $1,103,703 and $1,298,869 during the years ended June 30, 2017 and 2016, respectively. The estimated contribution for the year ending June 30, 2018 is $721,758. At June 30, 2017 and 2016, the unrecognized net actuarial loss was $13,619,863 and $17,217,517, respectively. Amortization of the unrecognized net actuarial loss for the year ending June 30, 2018 will be $1,041,740. The change in accrued pension benefit liability other than net periodic costs was $3,597,654 and ($5,034,528) during the years ended June 30, 2017 and 2016, respectively.

		2017	2016
Net periodic pension cost:			
Interest cost	$	999,119	1,110,938
Expected return on plan assets		(1,390,492)	(1,630,427)
Amortization of net actuarial loss		1,312,968	1,039,900
Net periodic pension cost	$	921,595	520,411

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, 2017 and 2016 by asset category are as follows:

		2017	2016
Investments:			
Separate accounts:*			
Cash and cash equivalents	$	168,414	21,009
Receivable for securities sold		507,830	738,291
Mutual funds – equity		14,323,314	12,589,142
Mutual funds – fixed income		7,131,486	7,131,831
Total	$	22,131,044	20,480,273

* 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 asset allocation for the Pension Plan at June 30, 2017 and 2016 and the target allocation for fiscal year 2017 by asset category are as follows:

	Target allocation	Percentage of plan assets at year end	
	2017	2017	2016
Equity	60.0%	64.4%	60.9%
Fixed	40.0	33.8	37.2
Other	—	1.8	1.9
Total	100.0%	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%.

(b) 403(b) Plan

All employees are eligible to participate in the 403(b) Plan. ChildFund contributed a nonvoluntary 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 years ended June 30, 2017 and 2016 related to the 403(b) Plan was $893,793 and $701,755, respectively.

(8) Debt

At both June 30, 2017 and 2016, ChildFund had a $10,000,000 revolving line of credit. The line of credit payable was originally due and payable on February 2017, however ChildFund entered into agreements to extend to October 2017. Interest expense is based on daily one month LIBOR + 95 basis points and is due and payable in consecutive monthly payments until fully paid. The line of credit is collateralized by ChildFund's corporate headquarters building located in Richmond, Virginia. At both June 30, 2017 and 2016, no amounts were outstanding on the line of credit.

On August 9, 2013 ChildFund entered into 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 that must be adhered to by ChildFund. ChildFund was in compliance with all debt covenants during the years ended June 30, 2017 and 2016. As of June 30, 2017 and 2016, the outstanding loan balance was $10,020,833 and $11,645,834, respectively.

(9) Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2017 and 2016 were available for the following purposes:

		2017	2016
Subsidies and gifts for children	$	16,173,778	19,228,152
Appeal funded programs		7,476,154	7,767,304
Gifts in kind not distributed		9,047,548	7,153,092
Time restricted		369,454	354,574
Local programs and other		4,405,467	3,499,033
Total	$	37,472,401	38,002,155

(10) Permanently Restricted Net Assets

Permanently restricted net assets were $17,214,931 and $16,872,832 at June 30, 2017 and 2016, respectively. 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.

(a) 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 years ended June 30, 2017 and 2016 and are summarized by country in the accompanying table. As of June 30, 2017 and 2016, ChildFund has sponsorship receivables from these autonomous organizations totaling $1,544,149 and $2,000,589, respectively. 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 years ended June 30, 2017 and 2016 of $1,027,683 and $1,094,826, respectively. 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.

(b) 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 years ended June 30, 2017 and 2016, and are summarized in the accompanying table.

	Sponsorships	Special gifts for children	General contributions	Total 2017	2016
Autonomous organizations:					
Australia	$ 11,497,842	520,035	204,861	12,222,738	12,017,992
Canada	—	—	6,580	6,580	—
Denmark	2,242,741	210,526	—	2,453,267	2,769,073
Educo	—	—	—	—	30,000
France	1,493,962	61,698	94,757	1,650,417	1,635,632
Germany	3,776,756	192,960	245,050	4,214,766	4,530,883
Ireland	515,213	87,919	17,873	621,005	730,839
Japan	108,543	—	10,000	118,543	111,931
Korea	3,369,111	49,874	635,154	4,054,139	3,865,843
New Zealand	4,142,238	424,458	153,163	4,719,859	4,681,437
Sweden	3,635,986	527,674	309,590	4,473,249	4,988,220
Taiwan	5,764,097	524,299	10,000	6,298,396	6,933,628
Total autonomous organizations	36,546,488	2,599,443	1,687,028	40,832,959	42,295,478
Consolidated operations:					
Brazil	1,810,261	401,898	145,506	2,357,665	1,997,101
Mexico	726,504	28,948	381,005	1,136,457	1,229,170
Thailand	8,214,590	139,853	2,116,740	10,471,183	10,835,217
Other	4,946	—	—	4,946	3,084
Total consolidated operations	10,756,301	570,699	2,643,251	13,970,251	14,064,572
Total international sponsors	$ 47,302,789	3,170,142	4,330,279	54,803,210	56,360,050

(12) Total Public Support

Public support is summarized for the years ended June 30, 2017 and 2016, as follows:

		2017	2016
United States	$	153,035,557	155,462,403
Autonomous organizations, support from sponsors (note 11)		39,145,931	40,544,488
Autonomous organizations, other support		22,121,742	23,499,274
Consolidated operations, support from sponsors (note 11)		11,327,000	11,214,172
Consolidated operations, other support		4,232,188	2,862,498
Total public support	$	229,862,418	233,582,835

(13) Income Taxes

ChildFund has been granted exemption by the Internal Revenue Service (IRS) from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is an exempt organization in the Commonwealth of Virginia. In addition, the IRS has determined that ChildFund is not a “private foundation and is a public charity”. ChildFund recognizes an uncertain tax position in its financial statements if it is “more likely than not” that the position will be sustained. ChildFund does not believe its consolidated financial statements include or reflect any uncertain tax positions. No provision for income taxes has been recorded for the years ended June 30, 2017 and 2016.

(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 does provide accounting services to ChildFund Alliance for approximately $38,400 and $24,000 for the years ended June 30, 2017 and 2016 respectively.

(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.

(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 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.

(Continued)

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.

(a) 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:

1. The duration and preservation of the fund
2. The purposes of ChildFund and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of ChildFund
7. The investment policies of ChildFund

Endowment net assets consist of the following at June 30, 2017:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	—	1,542,677	8,514,767	10,057,444
Board-designated endowment funds		4,480,572	—	—	4,480,572
Total endowment net assets	$	4,480,572	1,542,677	8,514,767	14,538,016

Endowment net assets consist of the following at June 30, 2016:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	—	769,095	8,514,587	9,283,682
Board-designated endowment funds		3,619,999	—	—	3,619,999
Total endowment net assets	$	3,619,999	769,095	8,514,587	12,903,681

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, 2017:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2016	$	3,619,999	769,095	8,514,587	12,903,681
Investment return:					
Investment income		126,918	109,837	—	236,755
Net appreciation		765,476	663,745	—	1,429,221
Total investment return		892,394	773,582	—	1,665,976
Contributions		—	—	180	180
Appropriation of endowment assets for expenditure		(31,821)	—	—	(31,821)
Endowment net assets, June 30, 2017	$	4,480,572	1,542,677	8,514,767	14,538,016

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, 2016:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2015	$	3,686,220	782,501	8,434,127	12,902,848
Investment return:					
Investment income		134,203	133,630	—	267,833
Net depreciation		(167,934)	(147,036)	—	(314,970)
Total investment return		(33,731)	(13,406)	—	(47,137)
Contributions		—	—	80,460	80,460
Appropriation of endowment assets for expenditure		(32,490)	—	—	(32,490)
Endowment net assets, June 30, 2016	$	3,619,999	769,095	8,514,587	12,903,681

(b) 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 both June 30, 2017 and 2016, there were no deficiencies of this nature.

(c) 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%.

(d) 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.

(Continued)

(e) 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.

(17) Subsequent Events

ChildFund has evaluated subsequent events for potential recognition and/or disclosure in the June 30, 2017 consolidated financial statements through November 21, 2017, the date the consolidated financial statements were issued.