

AUDIT WRAP UP

June 30, 2018



The following communication was prepared as part of our audit, has consequential limitations, and is intended solely for the information and use of those charged with governance (e.g., Board of Directors and Audit Committee) and, if appropriate, management of the entity and is not intended and should not be used by anyone other than these specified parties.

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November 9, 2018

Mr. James Tuite, Co-Chair, Finance Committee
Ms. Meg Gardinier, Secretary-General
ChildFund Alliance
545 Fifth Avenue, Suite 1205
New York, NY 10017

Professional standards require us to communicate with you regarding matters related to the audit, that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. We discussed an overview of our plan for the audit of the financial statements of ChildFund Alliance (the Organization) as of and for the year ended June 30, 2018, including a summary of our overall objectives for the audit, and the nature, scope, and timing of the planned audit work.

This communication is intended to elaborate on the significant findings from our audit, including our views on the qualitative aspects of the Organization's accounting practices and policies, management's judgments and estimates, financial statement disclosures, and other required matters.

We are pleased to be of service to the Organization and look forward to meeting with you to discuss our audit results, as well as other matters that may be of interest to you, and to answer any questions you might have.

Respectfully,

BDO USA, LLP

Discussion Outline

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Status of Our Audit

We have completed our audit of the financial statements as of and for the year ended June 30, 2018. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America. This audit of the financial statements does not relieve management or the Finance Committee of their responsibilities.

- ▶ The objective of our audit was to obtain reasonable - not absolute - assurance about whether the financial statements are free from material misstatements.
- ▶ The scope of the work performed was substantially the same as that described to you in our earlier Audit Planning communications.
- ▶ We have issued an unmodified opinion on the financial statements.
- ▶ Our responsibility for other information in documents containing the ChildFund Alliance's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform procedures to corroborate such other information. However, in accordance with professional standards, we will read the information included by the Organization and consider whether such information, or the manner of its presentation, is materially inconsistent with its presentation in the financial statements. Our responsibility also includes calling to management's attention any information that we believe is a material misstatement of fact.
- ▶ All records and information requested by BDO were freely available for our inspection.
- ▶ We received full access to all information that we requested while performing our audit, and we acknowledge the full cooperation extended to us by all levels of ChildFund Alliance's personnel throughout the course of our work.

Results of Our Audit

ACCOUNTING PRACTICES, POLICIES, ESTIMATES

The following summarizes the more significant required communications related to our audit concerning the Organization’s accounting practices, policies and estimates:

The Organization’s significant accounting practices and policies are those included in Note 2 to the financial statements. These accounting practices and policies are appropriate, comply with generally accepted accounting principles and industry practice, were consistently applied, and are adequately described within the financial statements.

- ▶ A summary of recently issued accounting pronouncements is included in Note 2 to the Organization’s financial statements.
- ▶ There were no changes in significant accounting policies and practices during fiscal year 2018.

Significant estimates are those that require management’s most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain.

The Organization’s significant accounting estimates, including a description of management’s processes and significant assumptions used in development of the estimates, are disclosed in Note 2 of the financial statements. The significant estimates include:

Significant Estimate	Comment
Useful lives of fixed assets	Guidelines are provided as per standard industry practice; however facts and circumstances could challenge generally used useful lives.

Management did not make any significant changes to the processes or significant assumptions used to develop the significant accounting estimates in fiscal year 2018.

CORRECTED AND UNCORRECTED MISSTATEMENTS

There were no corrected misstatements, other than those that were clearly trivial, related to accounts and/or disclosures that we brought to the attention of management.

There were no uncorrected misstatements, except the reversal of prior year’s uncorrected misstatement in the amount of \$2,596, related to accounts and/or disclosures.

Results of Our Audit

QUALITY OF THE ORGANISATION'S FINANCIAL REPORTING

A discussion was held regarding the quality of the Organization's financial reporting, which included the following:

- ▶ Qualitative aspects of significant accounting policies and practices
 - *There were no issues to address in regard to qualitative aspect of the Organization's financial reporting.*
- ▶ Our conclusions regarding significant accounting estimates
 - *As noted previously, accounting estimates at the Organization do not have a significant material impact on financial reporting.*
- ▶ Significant unusual transactions
 - *No such transactions were identified during the performance of our audit*
- ▶ Financial statement presentation
 - *The financial statements comply with disclosure requirements required for not-for-profit organizations.*
- ▶ New accounting pronouncements
 - *New accounting pronouncements did not have a significant impact on the Organization's financial statements for the year ended June 30, 2018. Future pronouncements that could impact the Organization's financial statements have been disclosed within Note 2 of the financial statements.*
- ▶ Alternative accounting treatments
 - *No alternative accounting treatments were discussed or used in the Organization's financial reporting.*

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization’s internal control.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

We are required to communicate, in writing, to the Finance Committee all material weaknesses and significant deficiencies that have been identified in the Organization’s internal controls over financial reporting. The definitions of control deficiency, significant deficiency and material weakness follow:

Category	Definition
Deficiency in Internal Control	A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.
Significant Deficiency	A deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
Material Weakness	A deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Nonprofit’s financial statements will not be prevented, or detected and corrected on a timely basis.

In conjunction with our audit of the financial statements, we noted no material weaknesses.

Other Required Communications

Following is a summary of those required items, along with specific discussion points as they pertain to ChildFund Alliance:

Requirement	Discussion Points
Significant changes to planned audit strategy or significant risks initially identified	There were no significant changes to the planned audit strategy or significant risks initially identified and previously communicated to those charged with governance as part of our Audit Planning communications.
Obtain information from those charged with governance relevant to the audit	There were no matters noted relevant to the audit, including, but not limited to: violations or possible violations of laws or regulations; risk of material misstatements, including fraud risks; or tips or complaints regarding the Organization's financial reporting that we were made aware of as a result of our inquiry of those charged with governance.
Nature and extent of specialized skills or knowledge needed related to significant risks	There were no specialized skills or knowledge needed, outside of the core engagement team, to perform the planned audit procedures or evaluate audit results related to significant risks.
Consultations with other accountants	We are not aware of any consultations about accounting or auditing matters between management and other independent public accountants. Nor are we aware of opinions obtained by management from other independent public accountants on the application of generally accepted accounting principles.
Significant findings and issues arising during the audit in connection with the Organization's related parties	We have evaluated whether the identified related party relationships and transactions have been appropriately identified, accounted for, and disclosed and whether the effects of the related party relationships and transactions, based on the audit evidence obtained, prevent the financial statements from achieving fair presentation.
Disagreements with management	There were no disagreements with management about matters, whether or not satisfactorily resolved, that individually or in aggregate could be significant to the Organization's financial statements or to our auditor's report.
Significant difficulties encountered during the audit	There were no significant difficulties encountered during the audit.
Other matters significant to the oversight of the Organization's financial reporting process, including complaints or concerns regarding accounting or auditing matters	There are no other matters that we consider significant to the oversight of the Organization's financial reporting process that have not been previously communicated.
Representations requested from management	Please refer to the management representation letter.

Independence Communication

Our engagement letter to you dated July 20, 2018 describes our responsibilities in accordance with professional standards and certain regulatory authorities with regard to independence and the performance of our services. This letter also stipulates the responsibilities of ChildFund Alliance with respect to independence as agreed to by the organization. Please refer to that letter for further information.

Significant New FASB Accounting Standards

The Financial Accounting Standards Board (FASB) issued several significant new accounting standards with fast-approaching effective dates, covering complexities around the presentation of nonprofit financial statements, revenue recognition, reporting of leases, financial instruments, consolidation issues, and other. These standards are prompting stakeholder questions and requiring entities to be forward thinking and take action sooner rather than later in terms of how they are preparing for the implementation and execution of these new standards.

The following section summarizes effective dates of the new standards and related resources for the Organization to consider.

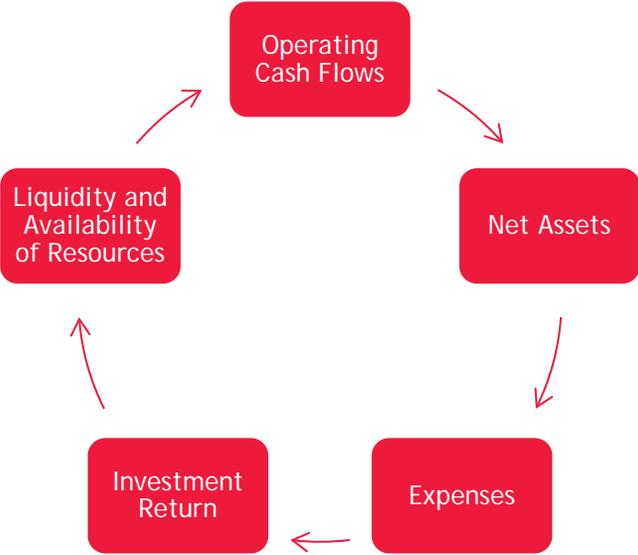
The three major Accounting Standards Updates (ASU) address nonprofit financial statements, revenue recognition, and leases and are often referred to as the trifecta. These are addressed together and then other ASUs issued that address other issues are detailed.

New Presentation of Financial Statements Standard

OVERVIEW

Summary: ASU 2016-14 *Presentation of Financial Statements of Not-For-Profit Entities* improves the presentation of financial statements of not-for-profit entities. The key qualitative and quantitative changes in the ASU address the following: net asset classification, information presented about a not-for-profit entity's liquidity and availability of resources, investment return presentation, expense allocation methodology disclosure and presentation in the financial statements, and the presentation of the statement of cash flows. The standard is effective for fiscal years beginning after December 15, 2017, so calendar year 2018 year ends and fiscal year 2019 year ends. Early adoption is permitted. The changes in this standard should generally be applied on a retrospective basis in the year that it is first applied.

Summary of Main 5 Components for the Preparation and Implementation of the New Presentation of Financial Statements Standard



New Presentation of Financial Statements Standard

Ways to Prepare for and Implement the New Standard:

1. Become familiar with the new standard, discuss the new standard with your accounting advisors and evaluate the impact the standard will have on your organization's recordkeeping and financial statements.
2. Examine the methodologies for recording the various components of investment return in your organization and make sure these are modified to accumulate data required under the ASU.
3. Assess your organization's preferred presentation method for the statement of cash flows and ensure that the accounting system can provide the data needed for the method of presentation selected.
4. Determine if you have any adjustments to the financial statements as a result of the requirement to utilize the placed in service approach in the absence of explicit donor stipulations for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset.
5. Assess your organization's method of managing liquidity and monitoring the availability of resources.
6. Review the expense allocation examples in the ASU and assess your organization's allocation methods to determine if there are any changes required.
7. Revise the presentation for underwater endowment funds and the additional disclosures.
8. Review the disclosures that will need to be updated or added as a result of the ASU including enhanced disclosures for governing board designations, composition of net assets with donor restrictions, and the methods used to allocate costs among program and supporting activities.
9. You may want to consider preparing draft financial statements to understand the impact the new standard may have on the financial statements and present the new classes of net assets.

Management and the **[Name of Those Charged with Governance]** are encouraged to review recommended resources including the following to keep current on developments with respect to the new nonprofit financial statement guidance by accessing BDO's [Nonprofit Financial Reporting Resource Center](#).

New Revenue Recognition Standard

OVERVIEW

Summary: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue Recognition with Customers (Topic 606)* which is a comprehensive new revenue recognition standard that will supersede existing revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The five basic steps to accomplish this objective are:

- ▶ Identify the contract with the customer
- ▶ Identify the performance obligations in the contract
- ▶ Determine the transaction price
- ▶ Allocate the transaction price to the performance obligations in the contract
- ▶ Recognize revenue when (or as) the entity satisfies a performance obligation

FASB issued ASU 2015-14 that deferred the effective date of ASU 2014-09 until annual periods beginning after December 15, 2018 for the majority of nonprofit organizations.

Entities must consider whether certain arrangements are fully or partially subject to Topic 606. Examples include, but are not limited to memberships, subscriptions, products and services, royalty agreements, sponsorships, conferences and seminars, tuition and housing, advertising, licensing, and federal and state grants and contracts.

Further, judgment is required to bifurcate transactions between contribution and exchange components.

Ways to Prepare for and Implement the New Standard:

1. Become familiar with the new standard, discuss the new standard with your accounting advisors and evaluate the impact the standard will have on all facets of your organization's revenue streams.
 2. Inventory all current revenue streams and evaluate whether there are differences between current practices and the new standard. Organizations should also consider the potential effect of these differences on their financial statements.
 3. Evaluate whether there are differences between current practices and the new standard on how you address contract modifications.
 4. Reconsider whether revenue will be recognized over time or at a point in time based on both the new criteria and specific guidance for licenses or other multi-year contracts. Systems, processes and controls may need to be updated as a result of the new criteria and any changes in the timing of revenue recognition.
 5. Historically, many nonprofits have not tracked costs to acquire a contract, namely because they have been expensed as incurred. To maintain compliance with the new standard, nonprofits will need to consider necessary resources for accumulating costs incurred that need to be capitalized.
 6. Identify data gaps between what is presently available and what will be needed for the required disclosures in the new standard.
 7. You may want to consider preparing draft financial statements to understand the impact the new standard may have on the financial statements.
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New Lease Standard

OVERVIEW

Summary: In 2016, the Financial Accounting Standards Board (FASB) issued its highly-anticipated leasing standard in ASU 2016-02, *Leases (ASC Topic 842)* for both lessees and lessors. Under its core principle, a lessee will recognize right-of-use (“ROU”) assets and related lease liabilities on the balance sheet/statement of financial position for all arrangements with terms longer than 12 months. The pattern of expense recognition in the income statement/statement of activities will depend on a lease’s classification.

Lessor accounting remains largely consistent with previous U.S. GAAP, but has been updated for consistency with the new lessee accounting model and with the new revenue standard, ASC 606.

For nonprofit organizations, the standard takes effect for fiscal years beginning after December 15, 2019.

Ways to Prepare for and Implement the New Standard:

1. Identify and classify all leases based on the criteria in the ASU.
2. Prepare draft financial statements based on the guidance in the ASU and determine if your organization has any potential issues with meeting current debt covenants as a result of recording these leases on the statement of financial position.
3. Review current lease disclosures and update to meet the criteria of the ASU

Management is encouraged to review recommended resources including the following to keep current on developments with respect to the new leasing guidance, including practical examples to assist practitioners:

- ▶ BDO Knowledge Webinar: [The New Lease Accounting Standard](#)
- ▶ BDO Newsletter: [Topic 842, Leases](#)
- ▶ [BDO Lease Accounting Services](#)

BDO Institute for Nonprofit ExcellenceSM Resource Center

A dynamic and searchable on-line resource for nonprofit governing board members and financial executives



AN INCREDIBLE RESOURCE AT YOUR FINGERTIPS

The BDO Institute for Nonprofit ExcellenceSM Resource Center was born from the need to have a comprehensive, online, and easy-to-use resource for topics relevant to nonprofit governing boards and financial executives. We encourage you to visit the Center often for up-to-date information and insights you can rely on.

What you will find includes:

- ▶ Guidance and best practices related to the unique regulatory, economic, accounting, reporting and auditing aspects for nonprofits
- ▶ Thought leadership, blog posts, tools, and newsletters
- ▶ Technical updates and insights on emerging nonprofit issues
- ▶ Opportunities to engage with BDO thought leaders
- ▶ Events and webinars geared toward the unique issues affecting nonprofit organizations

For more information about BDO's Institute for Nonprofit ExcellenceSM Resource Center please go to <https://www.bdo.com/resource-center/institute-for-nonprofit-excellence>.

To begin receiving email notifications regarding BDO publications and event invitations (live and web-based), visit <https://www.bdo.com/member/registration> and create a user profile.

If you already have an account on BDO's website, visit the My Profile page to login and manage your account preferences <https://www.bdo.com/member/my-profile>.

To subscribe to receive posts from our Nonprofit Standard Blog, please go to <https://www.bdo.com/blogs/nonprofit-standard> and fill out the subscription form on the right-hand side of the page.

Get to Know BDO

NONPROFIT AND EDUCATION INDUSTRY EXPERTISE

BDO presents innovative solutions to nonprofit organizations, helping clients position their organizations to obtain proper funding in an intensely competitive environment. We work year round with management and governing bodies in developing sound strategies to help them adapt to a landscape altered by changes in regulations and funding models. BDO advises on a wide range of issues, including:

- ▶ Proper organizational structures for new revenue streams
- ▶ Financial modeling in a changing funding environment
- ▶ Complex compliance issues impacting organizations
- ▶ [Updates on the impacts of Federal grant funding and audit results](#)
- ▶ Fiduciary responsibilities of nonprofit boards
- ▶ [Proper governance practices](#)
- ▶ [Form 990 - A public window into your nonprofit](#)
- ▶ [Comprehensive nonprofit tax services](#)
- ▶ Compensation and benefits strategies

BDO INSTITUTE FOR NONPROFIT EXCELLENCESM - OUR CONTINUED COMMITMENT TO THE NONPROFIT INDUSTRY

BDO is one of the only national accounting firms with a strategic commitment to the nonprofit industry. This commitment is perhaps best embodied by The BDO Institute for Nonprofit ExcellenceSM (Institute). Since the development of the Institute in 2001, we have been helping nonprofits thrive by specializing in meeting the needs of the nation's nonprofit sector. Based in our Greater Washington, D.C. Metro Office, the Institute's dedicated team of assurance, tax and consulting professionals supports and collaborates with BDO offices and nonprofit organizations around the country to develop innovative accounting and operational strategies for tax-exempt organizations.

The Institute provides BDO professionals, clients and the nonprofit industry at-large with practical, transformative [thought leadership](#) and educational resources that can help organizations navigate this dynamic and challenging industry. We produce numerous publications, including a newsletter as well as our [blog](#), The Nonprofit Standard. BDO also regularly sponsors [educational seminars](#) on a variety of industry-specific accounting and management issues.

Get to Know BDO

NONPROFIT INDUSTRY RESOURCES

NONPROFIT FINANCIAL REPORTING RESOURCE CENTER

For the past two years, we have been closely monitoring updates from the Financial Accounting Standards Board (FASB) regarding the organization's Not-for-Profit Financial Statement Reporting Project.

On August 18, 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance simplifies and improves how not-for-profit entities classify net assets as well as the information presented in financial statements and notes about liquidity, financial performance, and cash flows. Read the full [Accounting Standards Update](#).

To assist organizations in understanding the ASU and its impacts, we have compiled a full list of resources surrounding the FASB's project and nonprofit financial reporting.

Visit the [Nonprofit Financial Reporting Resource Center](#) for more information.

BDO has authored a book entitled, *How to Read Nonprofit Financial Statements: A Practical Guide*, which is an invaluable resource for anyone who works with these all-important documents. Written by Andrew S. Lang, LangCPA Consulting, [William Eisig](#), [Lee Klumpp](#), and [Tammy Ricciardella](#), this guide incorporates the extensive experience and deep industry knowledge of professionals in the top of their field. Whether you're a nonprofit executive unfamiliar with the language of financial statements or a seasoned pro, *How to Read Nonprofit Financial Statements: A Practical Guide, 3rd Edition* is a key resource that will help you read, interpret, and use nonprofit financial statements, including everything you need to know about ASU 2016-14.

EXECUTIVE REVIEW GUIDELINES FOR THE IRS FORM 990

This [manual](#) provides IRS guidelines and helpful suggestions to assist in the review of the 990, including ways to analyze the overall health of an organization, industry standards, best practices for policies and procedures, and supplementary checklists.

Get to Know BDO

EFFECTIVE AUDIT COMMITTEES FOR NONPROFIT ORGANIZATIONS

The focus of BDO's governance initiatives is to provide those charged with governance with essential, relevant information through clear and concise executive summary-type communications. In this spirit, we have created the [Effective Audit Committees For Nonprofit Organizations](#) publication as a practical guide to forming and running an effective audit committee. Within this publication, we provide answers to certain frequently asked questions (FAQs) centering on the WHYs, WHOs, WHATs, WHENs and HOWs of audit committees. More specifically, these FAQs summarize the common functions and responsibilities of audit committees to help you and your organization form and maintain an effective audit committee and set an appropriate agenda for its ongoing activities.

Audit committees are vital to the health of any nonprofit, be it large or small. The audit committee and its individual members are crucial partners in the safeguarding of integrity, mission and, ultimately, success.

Throughout this publication, we focus on some of the more challenging aspects facing audit committees. To that end, in addition to our commentary, we have included links and references to other relevant BDO practice aids and tools as well as certain valuable external resources.

BDO PROGRAMMING AND INSIGHTS

BDO commits significant resources to keep our professionals and our clients up to date on current and evolving technical, governance, industry, and reporting developments. Our thought leadership consists of publications, webinars, surveys, practice aids, and tools that span a broad spectrum of topics that impact financial reporting, as well as nonprofit governance. Our focus is not simply to announce changes in technical guidance, regulations or emerging business trends, but rather expound on how such changes may impact our clients' businesses.

Through our complimentary BDO Knowledge webinars, podcasts and self-study courses, we reach a broad audience and provide brief, engaging, just-in-time training designed to assist those charged with governance (e.g., Audit Committees) and financial executives in keeping up to date on the latest nonprofit governance, risk management, financial reporting, and tax developments.

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