ChildFund Alliance

AUDIT WRAP UP

June 30, 2019

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 Finance Committee) and, if appropriate, management of ChildFund Alliance and is not intended and should not be used by anyone other than these specified parties.

BDO

Tel: 703-893-0600
Fax: 703-893-2766
www.bdo.com

8401 Greensboro Drive Suite 800
McLean, VA 22102

October 21, 2019

Mr. James Tuite, Co-Chair, Finance Committee
Ms. Meg Gardinier, Secretary-General
ChildFund Alliance
545 Fifth Avenue, Suite 1205
New York, New York 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 presented an overview of our plan for the audit of the financial statements of ChildFund Alliance as of and for the year ended June 30, 2019, 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 ChildFund Alliance'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 ChildFund Alliance and look forward to meeting with you to discuss our audit findings, 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

Status of Our Audit

We have completed our audit of the financial statements as of and for the year ended June 30, 2019. 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 plan to issue an unmodified opinion on the financial statements pending completion of the board meeting on October 16, 2019.
- Our responsibility for other information in documents containing 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 ChildFund Alliance 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. We have not identified any material inconsistencies or concluded there are any material misstatements of facts in the other information that management has chosen not to correct.
- All records and information requested by BDO were freely available for our inspection.
- Management's cooperation was excellent. 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, AND ESTIMATES

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

ChildFund Alliance'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 ChildFund Alliance's financial statements. Please note these are more fully described in the Appendix of this presentation.
  - Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606)
  - FASB ASU 2016-02, *Leases* (Topic 842)
  - FASB ASU 2018-08, Not-for-Profit Entities (Topic 958) - *Accounting Guidance for Contributions Received and Contributions Made*
- ChildFund Alliance adopted FASB ASU 2016-14, Not-for-Profit Entities (Topic 958), *Presentation of Financial Statements of Not-for-Profit Entities* for the year ended December 31, 2018. This ASU amends the reporting model for nonprofit organizations and enhances their required disclosures. The major changes include:
  - Requiring the presentation of only two classes of net assets now titled "net assets without donor restrictions" and "net assets with donor restrictions" – *See changes on statement of financial position, statement of activities and various footnotes.*
  - Requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources– *see Note 7.*
  - Requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities and changes in net assets, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs– *see statement of functional expenses and Note 2 (describing allocation methodology).*

  ChildFund Alliance has adopted the ASU and has adjusted the presentation of the financial statements accordingly. There was no effect of the change in net assets reported at June 30, 2018.
- There were no changes in significant accounting policies and practices during the year ended June 30, 2019.

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. ChildFund Alliance'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.

Results of Our Audit

CORRECTED AND UNCORRECTED MISSTATEMENTS

There were three corrected misstatements identified which are identified below.

Corrected Misstatements

Item #	Account Name and Adjustment Description	Debit	Credit
1	Accrued expenses		$ 1,031
	Expenses	$ 1,031	
2	Grant receivable	154,665	
	Grant payable	164,803	
	Grant Revenue		319,468
3	Contribution revenue	48,600	
	Membership revenue		48,600

Description of Corrected Disclosure Misstatements
1. To correct accrued expenses at year end for expenses incurred in FY 2019 but initially recorded in FY2020.
2. To recognize grant revenue for the year based on contractual agreement guidelines.
3. To reclass revenue related to *Small Voices Big Dreams* project to membership revenue. No impact on reported change in net assets.

There were no uncorrected misstatements, other than those that were clearly trivial, related to accounts and/or disclosures that we presented to management.

Results of Our Audit

QUALITY OF CHILDFUND ALLIANCE'S FINANCIAL REPORTING

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

- Qualitative aspects of significant accounting policies and practices
  - *There were no issues to address regarding the qualitative aspect of ChildFund Alliance's financial reporting.*
- Our conclusions regarding significant accounting estimates
  - *As noted previously, accounting estimates at ChildFund Alliance 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 (ASU 2016-14) had a significant impact on ChildFund Alliance's financial statements for the year ended June 30, 2019. Future pronouncements that could impact ChildFund Alliance'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 ChildFund Alliance's financial statements.*

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered ChildFund Alliance'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 ChildFund Alliance's internal control. Accordingly, we do not express an opinion on the effectiveness of ChildFund Alliance'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 ChildFund Alliance'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 one material weakness related to grant revenue recognition which resulted in an adjustment of approximately $319,000. Please see the management letter.

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 ChildFund Alliance'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 ChildFund Alliance'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 ChildFund Alliance'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 ChildFund Alliance'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 ChildFund Alliance'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 April 15, 2019 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 ChildFund Alliance. 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 Audit Committee 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.

We remind Audit Committees, with respect to implementation and the adoption of new significant accounting standards, to ensure not only proper application of the accounting principles and preparation of thorough, new disclosures upon adoption, but also to ensure transparent disclosure of the process is provided by management so that the resulting financial information is easily understood by your donors and other parties. Consideration of the controls that support the accounting is as important as the reporting for these new standards.

For updates on newly released guidance please see BDO's Significant Accounting and Reporting Matters and BDO's 2019 Quarterly Technical Update Series

New Revenue Recognition Standard

OVERVIEW

Summary: In May 2014, the FASB issued 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.

New Lease Standard

OVERVIEW

Summary: In 2016, the FASB issued 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.

ASU 2016-02 was updated by ASUs 2018-01, 2018-10 and 2018-11.

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

The Audit Committee have a responsibility to hold management accountable for implementation plans and sufficient timelines to ensure that accounting, internal control, operational, and reporting considerations are being met and that expected disclosures, prior to adoption, are adequate in describing the anticipated impact of the new lease standard.

To aid in this effort, BDO encourages the Audit Committee to review the Center for Audit Quality's (CAQ) *Preparing for the New Leases Accounting Standard – A Tool for Audit Committees.* **The tool provides guidance and sample questions for consideration during the implementation process.** The implementation of the new standard will take significant effort, will affect multiple functional areas, and comes on the heels of the extensive requirements of the adoption of the new nonprofit financial statement standard and the new revenue recognition standard.

Management and the Audit Committee are encouraged to review recommended resources including the following to keep current on developments with respect to the lease standard implementation:

- **BDO Knows: Topic 842, Leases**
- **BDO Knowledge Program: The New Leasing Standard – Are You Ready?**
- **CAQ Tool: Preparing for the Leases Accounting Standard: A Tool for Audit Committees**
- **FASB Issues Targeted Improvements to Leases Standard**
- **FASB Issues Clarifications to Leases Standard**

Other Significant New FASB Accounting Standards

ASU 2018-08, NOT-FOR-PROFIT ENTITIES (TOPIC 958): CLARIFYING THE SCOPE AND THE ACCOUNTING GUIDANCE FOR CONTRIBUTIONS RECEIVED AND CONTRIBUTIONS MADE

Summary: This ASU was issued to standardize how grants and other contracts are classified across the sector resource recipients and resource providers. The standard will assist these types of entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange transactions (reciprocal transactions) subject to other guidance and (2) determining whether a contribution is conditional.

Effective date: The effective date varies based on whether you are a resource recipient or a resource provider as noted below.

Resource Recipients: For transactions in which an entity is either a public business entity or an NFP that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market and serves as a resource recipient, the entity should apply the amendments in this ASU on contributions received to annual periods beginning after June 15, 2018, including interim periods within those annual periods.

All other entities should apply the provisions of the ASU for transactions in which the entity serves as the resource recipient to annual periods beginning after December 15, 2018 and interim periods within annual periods beginning after December 15, 2019.

Resource Providers: For transactions in which an entity is either a public business entity or an NFP that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market and serves as a resource provider, the entity should apply the amendments in this ASU on contributions made to annual periods beginning after December 15, 2018, including interim periods within those annual periods.

All other entities should apply the provisions of the ASU for transactions in which the entity serves as the resource provider to annual periods beginning after December 15, 2019 and interim periods within annual periods beginning after December 15, 2020.

Early adoption of the ASU is permitted.

ASU 2016-15, CLASSIFICATION OF CERTAIN CASH RECEIPTS AND CASH PAYMENTS (TOPIC 230)

Summary: This ASU was issued to address the diversity in practice with regard to how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The ASU addresses the following eight types of cash flow issues: (1) debt prepayment or debt extinguishment costs, (2) settlement of zero-coupon debt, (3) contingent consideration related to a business combination, (4) proceeds from the settlement of insurance claims, (5) proceeds from settlement of corporate-owned life insurance policies, (6) distributions received from equity method investments, (7) beneficial interests in securitization transactions, and (8) classification of cash receipts and payments that have aspects of more than one class of cash flows.

Effective Date: The ASU is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted but the entity must adopt all the amendments at that date. The amendments in this ASU should be applied using a retrospective transition method to each period presented. If it is impracticable to do so for certain of these items, the amendments for those issues would be applied prospectively as of the earliest date practicable.

Other Significant New FASB Accounting Standards

ASU 2016-18, STATEMENT OF CASH FLOWS: RESTRICTED CASH (TOPIC 230)

Summary: This ASU was issued to address diversity in practice with regard to the classification and presentation of changes in restricted cash on the statement of cash flows. The provisions of the ASU require that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash and restricted cash equivalents. To meet this requirement amounts generally described as restricted cash or restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows.

Effective Date: The ASU is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted and should be applied on a retrospective transition method to each period presented.

BDO's Audit Quality Report

At BDO, we believe that audit quality is the cornerstone of trust in financial reporting and financial markets. As such, our approach to audit quality is something we take seriously. It is our intent and commitment to deliver high quality audits and provide our clients with deep insights and value.

Our recently published **2019 Audit Quality Report - Delivering Sustained Audit Qaulity** details all of the ways BDO is proactively working to carry out and deliver on our audit quality intent.

Source: **BDO's 2019 Audit Quality Report**

BDO Institute for Nonprofit Excellence℠ Resource Center

THE MUST HAVE RESOURCE FOR NONPROFIT ENTITIES

The BDO Institute for Nonprofit Excellence℠ 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

Our *2019 BDO Nonprofit Benchmarking Survey* is live! Download the report for the latest data on #nonprofit financial management, governance and more: **http://bit.ly/2R2Xx7Y**

For more information about BDO's Institute for Nonprofit Excellence℠ 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.

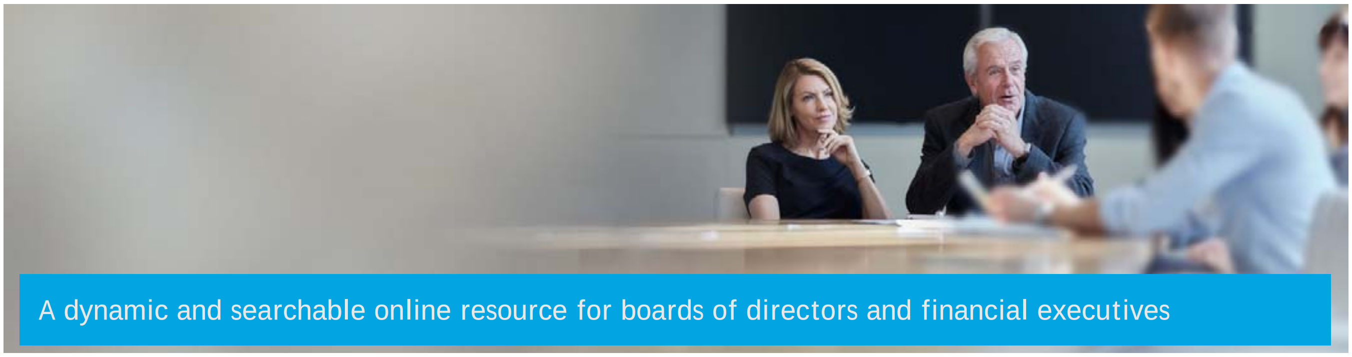
If you already have an account on BDO's website, visit the My Profile page to login and manage your account preferences **https://www.bdo.com/member/my-profile**.

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.

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.

The BDO Center for Corporate Governance and Financial Reporting

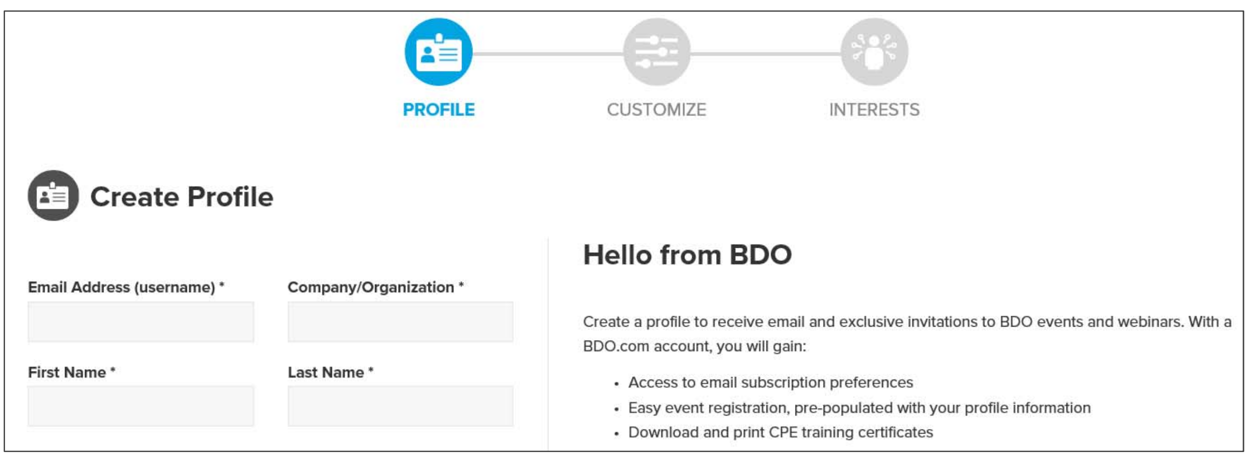


AN INCREDIBLE RESOURCE AT YOUR FINGERTIPS

The BDO Center for Corporate Governance and Financial Reporting was born from the need to have a comprehensive, online, and easy-to-use resource for topics relevant to boards of directors 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:

- Thought leadership, practice aids, tools, and newsletters
- Technical updates and insights on emerging business issues
- Three-pronged evolving curriculum consisting of upcoming webinars and archived self-study content
- Opportunities to engage with BDO thought leaders
- External governance community resources



To begin receiving email notifications regarding BDO publications and event invitations (live and web-based), visit 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 at www.bdo.com/member/my-profile.

Get to Know BDO

A FIRM BUILT ON VALUES

BDO's culture and values establish a set of standards embodied by our work, our relationships and our professionals. We are guided by our core values: put people first; be exceptional every day, every way; embrace change; empowerment through knowledge; and choose accountability.

What we are proud of:

- Alfred P. Sloan Awards for Business Excellence in Workplace Flexibility (winner, multiple locations, and multiple years)
- Alliance for Work-Life Progress, Work-Life Seal of Distinction (multiple years)
- BDO Counts! And 100 Good Deeds Volunteerism Programs
- Best and Brightest Companies to Work For (multiple years)
- Best Places to Work for Recent Grads, Experience, Inc.
- Diversity Leader, named by *Profiles in Diversity Journal*
- Nation's Best & Brightest Companies and Best & Brightest in Wellness
- Tax Adviser of the Year, *International Accounting Bulletin* (multiple years)
- Top Entry Level Employer by collegegrad.com
- Vault Accounting 50 List
- Working Mother 100 Best Company (multiple years)

Get to Know BDO

BDO'S GLOBAL REACH

BDO's strength is derived from our structure as a cohesive global network and dedication to internal integration and seamless client service - when and where our clients need us. In each country, BDO Member Firms are composed of people who are knowledgeable about national laws, business customs, and local and international business methods. As our clients expand globally, their access to our international network can help them better reach their business and financial goals.

As our clients expand globally, our access to our international network can help them do business with a depth of experience in international matters, significant resources and international client service capabilities.

Statistics as of and for the year ended 9-30-18