KPMG

SAVE THE CHILDREN FEDERATION, INC. AND RELATED ENTITIES

Consolidated Financial Statements

December 31, 2019
(With summarized comparative financial information as of and
for the year ended December 31, 2018)

(With Independent Auditors' Report Thereon)

KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Independent Auditors' Report

The Board of Trustees
Save the Children Federation, Inc.:

We have audited the accompanying consolidated financial statements of Save the Children Federation, Inc. and related entities, which comprise the consolidated statement of financial position as of December 31, 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with 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 financial position of Save the Children Federation, Inc. and related entities as of December 31, 2019, and the changes in their net assets and their cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited Save the Children Federation Inc.'s 2018 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated May 20, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

KPMG LLP

May 28, 2020

SAVE THE CHILDREN FEDERATION, INC. AND RELATED ENTITIES

Consolidated Statement of Financial Position

December 31, 2019
(with comparative financial information as of December 31, 2018)

(In thousands)

Assets		**2019**	**2018**
Cash and cash equivalents (note 15)	$	39,146	40,809
Grants and contracts receivable (note 15)		60,382	52,551
Contributions receivable, net (note 7)		28,235	9,432
Inventory		3,528	1,057
Due from Save the Children International, net (notes 2(f) and 6)		20,307	34,832
Prepaid expenses and other assets		6,804	8,566
Investments (notes 3 and 4)		153,460	131,771
Assets of pooled income fund and charitable gift annuities (note 4)		2,873	3,061
Property, plant and equipment, net (note 8)		8,863	10,549
Beneficial interests in perpetual trusts held by third parties (note 4)		14,954	12,940
Total assets	$	338,552	305,568
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	27,809	28,751
Deferred revenue (note 15)		37,808	50,802
Severance benefits for foreign national employees		92	166
Postretirement benefits other than pensions (note 11)		5,226	4,397
Total liabilities		70,935	84,116
Commitments and contingencies (notes 9, 10, 11, 13, 14, and 15)			
Net assets:			
Without donor restrictions:			
Undesignated		8,895	6,863
Board-designated operating reserve (note 2c)		6,337	1,111
Board-designated endowment (notes 6 and 17)		107,655	93,137
Investment in property, plant and equipment		8,863	10,549
Total net assets without donor restrictions		131,750	111,660
With donor restrictions:			
Purpose restricted (notes 6 and 12)		80,950	63,859
Donor-restricted endowment corpus (notes 6, 12 and 17)		39,963	32,993
Beneficial interests in perpetual trusts held by third parties (notes 4 and 12)		14,954	12,940
Total net assets with donor restrictions		135,867	109,792
Total net assets		267,617	221,452
Total liabilities and net assets	$	338,552	305,568

See accompanying notes to consolidated financial statements.

SAVE THE CHILDREN FEDERATION, INC. AND RELATED ENTITIES

Consolidated Statement of Activities

Year ended December 31, 2019
(with summarized comparative financial information for the year ended December 31, 2018)

(In thousands)

	2019 Without donor restrictions	2019 With donor restrictions	2019 Total	2018 Total
Operating revenue:				
Contributions and private grants (notes 2(c) and 2(d))	$ 198,148	125,859	324,007	324,629
U.S. government grants and contracts (note 15)	344,464	—	344,464	344,550
Child sponsorships	—	73,700	73,700	74,528
Commodities and ocean freight (notes 2(d), 5 and 15)	66,974	—	66,974	118,098
Fee for service contracts	1,273	—	1,273	2,133
Bequests (note 2(c))	17,078	1,296	18,374	9,230
Net investment return appropriated for operations (notes 3 and 6)	5,153	1,247	6,400	6,138
Other	518	163	681	1,439
	633,608	202,265	835,873	880,745
Net assets released from restrictions	190,463	(190,463)	—	—
Total operating revenue	824,071	11,802	835,873	880,745
Operating expenses:				
Program services:				
Program activities (note 16)	149,005	—	149,005	159,759
Program activities-Save the Children International (note 16)	476,214	—	476,214	557,351
Program development and public policy support	78,949	—	78,949	57,081
Total program services	704,168	—	704,168	774,191
Supporting services:				
Management and general	27,070	—	27,070	27,279
Management and general-Save the Children International	18,548	—	18,548	16,610
Fund-raising	68,198	—	68,198	70,070
Total supporting services	113,816	—	113,816	113,959
Total operating expenses	817,984	—	817,984	888,150
Excess (deficiency) of operating revenue over expenses before net transfers	6,087	11,802	17,889	(7,405)
Net transfers from operating revenue (note 2(c))	(5,226)	—	(5,226)	(1,111)
Excess (deficiency) of operating revenue over expenses	861	11,802	12,663	(8,516)
Nonoperating activities:				
Net investment return in excess of (less than) appropriated for operations (note 3)	13,402	4,164	17,566	(13,039)
Foreign currency exchange gain (loss)	42	—	42	(405)
Endowment contributions	—	8,087	8,087	361
Transfer of bequest, net (note 2(c))	5,226	—	5,226	1,111
Contributions and changes in value of split-interest agreements	559	2,022	2,581	(581)
Total nonoperating activities	19,229	14,273	33,502	(12,553)
Increase (decrease) in net assets	20,090	26,075	46,165	(21,069)
Net assets at beginning of year	111,660	109,792	221,452	242,521
Net assets at end of year	$ 131,750	135,867	267,617	221,452

See accompanying notes to consolidated financial statements.

SAVE THE CHILDREN FEDERATION, INC. AND RELATED ENTITIES

Consolidated Statement of Functional Expenses

Year ended December 31, 2019
(with summarized comparative financial information for the year ended December 31, 2018)

(In thousands)

	Program services			Supporting services				
	Program activities (note 16)	Program development and public policy support	Total program services	Management and general	Fund-raising	Total supporting services	2019 Total	2018 Total
Salaries	$ 41,046	21,014	62,060	14,585	18,515	33,100	95,160	99,718
Employee fringe benefits (notes 10 and 11)	12,360	5,818	18,178	3,904	4,883	8,787	26,965	26,581
Total salaries and related expenses	53,406	26,832	80,238	18,489	23,398	41,887	122,125	126,299
Grants to and charges from SCI	476,214	—	476,214	18,548	—	18,548	494,762	573,961
Grants to other agencies	68,903	327	69,230	478	1,043	1,521	70,751	70,936
Supplies, materials, etc.	7,687	386	8,073	1,388	1,245	2,633	10,706	13,294
Travel	4,888	2,590	7,478	879	1,271	2,150	9,628	11,357
Professional fees	7,353	2,930	10,283	2,890	16,945	19,835	30,118	33,293
Advertising (note 2(d))	—	42,471	42,471	15	8,292	8,307	50,778	31,664
Occupancy (note 13)	3,171	2,658	5,829	902	1,043	1,945	7,774	8,769
Printing	310	24	334	93	4,822	4,915	5,249	5,237
Telecommunications	541	156	697	270	2,109	2,379	3,076	2,894
Postage and shipping	213	60	273	23	3,106	3,129	3,402	3,650
Depreciation and amortization	897	30	927	1,033	725	1,758	2,685	2,353
Other	1,636	485	2,121	610	4,199	4,809	6,930	4,443
Total expenses	$ 625,219	78,949	704,168	45,618	68,198	113,816	817,984	888,150

See accompanying notes to consolidated financial statements.

SAVE THE CHILDREN FEDERATION, INC. AND RELATED ENTITIES

Consolidated Statement of Cash Flows

Year ended December 31, 2019
(with comparative financial information for the year ended December 31, 2018)

(In thousands)

		2019	2018
Cash flows from operating activities:			
Increase (decrease) in net assets	$	46,165	(21,069)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:			
Depreciation and amortization		2,685	2,353
Loss on disposal of building and equipment		67	12
Change in gifts-in-kind and other inventory		(2,471)	(69)
Net (appreciation) depreciation in fair value of investments		(19,059)	7,947
Contributions restricted for long-term investment		(8,087)	(351)
Contributions and changes in value of beneficial interest in perpetual trusts held by third parties		(2,014)	348
Changes in operating assets and liabilities:			
Grants and contracts receivable		(7,831)	558
Contributions receivable		(18,803)	3,021
Due from Save the Children International, net		14,126	(20,097)
Prepaid expenses and other assets		1,762	1,417
Accounts payable and accrued liabilities		(942)	(1,266)
Deferred revenue		(12,994)	(10,041)
Severance benefits for foreign national employees		(74)	(157)
Postretirement benefits other than pensions		829	(191)
Net cash used in operating activities		(6,641)	(37,585)
Cash flows from investing activities:			
Purchases of property, plant and equipment		(1,066)	(3,027)
Purchases of investments		(59,975)	(41,388)
Proceeds from sale of investments		57,345	44,141
Loan repayment from Save the Children International		399	1,173
Net cash (used in) provided by investing activities		(3,297)	899
Cash flows from financing activities:			
Contributions restricted for long-term investment		8,087	351
Contributions of split interest agreements, net		188	503
Proceeds from line of credit		6,000	—
Repayment of line of credit		(6,000)	—
Net cash provided by financing activities		8,275	854
Net decrease in cash and cash equivalents		(1,663)	(35,832)
Cash and cash equivalents at beginning of year		40,809	76,641
Cash and cash equivalents at end of year	$	39,146	40,809
Supplemental cash flow information:			
Donated goods and services	$	53,748	41,800
Commodities		66,974	118,098

See accompanying notes to consolidated financial statements.

(1) Organization and Purpose

Save the Children Federation, Inc. (SCUS) was established in 1932 and operates as a voluntary, nonsectarian, nonprofit organization in the United States of America and throughout the world providing services for children and community self-help assistance.

SCUS is a member of Save the Children Association (SCA), a Swiss membership organization. SCA currently has 30 independent, autonomous, nonprofit, private voluntary membership organizations that bear the name Save the Children or a related designation (the Members). SCA created Save the Children International (SCI), a United Kingdom based charitable entity, of which SCA is the sole member, and therefore, SCI is a wholly owned subsidiary of SCA.

In 2011, SCUS, in concert with the 29 other independent Members, entered into a series of agreements to create a single global program delivery platform through SCI. Under these agreements, SCUS works with other Members through the SCI platform to deliver nondomestic programs to benefit children. SCUS continues to design programs, coordinate with donors, and provide technical assistance to ensure program quality, monitoring, and reporting. The costs of implementing programs through the SCI structure are covered by program funds raised by SCUS (and other Members) and the allocation of administrative expenses among the Members.

In addition to the program delivery platform and cost-sharing, SCUS and other Members agreed to transfer certain in-country program assets to SCI to facilitate the delivery of programs overseas. SCUS started to transition country offices in 2011. As of December 31, 2019, one country office had not yet transitioned to SCI. SCUS is continuing to work towards transitioning this office to SCI and currently is operating under a pre-transition agreement.

SCUS Head Start Programs, Inc. (Head Start) began operations in 2012 as a voluntary, nonsectarian, nonprofit organization in the United States of America delivering early childhood development programming. SCUS is the sole member of Head Start, and accordingly, Head Start is a consolidated related entity.

Save the Children Action Network, Inc. (SCAN) was established in March 2014 as a nonprofit organization organized and operated exclusively for purposes related to the social welfare of children. SCUS is the sole member of SCAN, and accordingly, SCAN is a consolidated related entity.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The consolidated financial statements include the accounts of SCUS, Head Start, and SCAN (collectively, the Organization) and have been prepared using the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP). All significant intercompany account balances and transactions have been eliminated in consolidation.

Net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the Organization's net assets and changes therein are classified and reported as follows:

- Without donor restrictions – net assets that are not subject to donor-imposed restrictions or the donor-imposed restrictions have expired. As reflected in the accompanying consolidated financial statements and discussed below, the Organization's Board of Trustees has designated a portion of these net assets as an operating reserve from bequests received in excess of $4,500 (note 2(c)) and board-designated endowment.
- With donor restrictions – net assets that are subject to donor-imposed restrictions. These include net assets that are subject to time or purpose restrictions and donor restricted endowments. Assets with time or purpose restrictions are satisfied either by the passage of time or by actions of the Organization. Donor restricted endowments must be maintained permanently by the Organization and only the income may be used as specified by the donor. Donor restricted endowments consist primarily of the historical dollar value of contributions to donor-restricted endowment funds.

Revenue is reported as increases in net assets without donor restrictions unless their use is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. If an expense is incurred for a purpose for which net assets with donor restrictions are available, a donor-imposed restriction is fulfilled to the extent of the expense incurred. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as release from restrictions in the consolidated statement of activities. The organization adopts the simultaneous release option for donor-restricted conditional grants that are recognized and used within the same reporting period, and thus are reported as net assets without donor restrictions.

Gains and losses on investments are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by donors or by law.

(b) United States Government Grants and Contracts

The Organization receives funding under grants and contracts from the government of the United States (U.S.) of America for direct and indirect program costs and to provide certain whole or partial sub-grants to other agencies. This funding is subject to U.S. Government restrictions, which must be met through incurring qualifying expenses for particular programs. Revenue from U.S. Government grants and contracts is recognized when funds are utilized by the Organization to carry out the activity, accomplish the milestones/objectives or meet performance obligations stipulated in the grant or contract agreement.

U.S. Government grants and contracts receivable represent amounts due for reimbursable expenses incurred but not yet reimbursed of, $47,487 and $40,985 for years ended 2019 and 2018, respectively. Cash received under grants and contracts in advance of incurring the related expenses is reported as deferred revenue, $2,097 and $2,550 for years ended 2019 and 2018, respectively.

(Continued)

As of December 31, 2019, estimated conditional contributions of $304,265 have been obligated to the Organization from U.S. Government resources (direct and pass-through entities), for utilization in years 2020 – 2025. The recognition of revenue will occur when conditions have been met. Additionally as of December 31, 2019, we have obligated conditional grants to sub-recipients in the amount of $197,550.

Fees related to U.S. Government contracts are recognized as earned. Fees earned are reported on the consolidated statement of activities as other income.

(c) Contributions, Private Grants and Other Public Sources

The Organization receives funding under grants and contributions from United Nations agencies and other public and private grantors, for direct and indirect program costs and to provide certain whole or partial sub-grants to other agencies. This funding may be subject to donor restrictions, which must be met through incurring qualifying expenses for particular programs.

Public and private grants or contributions are conditional if the agreement includes both a barrier that must be overcome for the recipient to be entitled to the assets transferred and a right of return for the transferred asset or a right of release of the promisor's obligation to transfer assets. Conditional contributions received with donor-imposed conditions are recognized as revenue when the conditions have been met. Amounts received in advance of satisfying the donor-imposed conditions are reported as deferred revenue until the conditions are met. Non U.S. Government conditional contributions for which the conditions have not yet been met, amount to $35,711 and $48,252 as of 2019 and 2018, respectively.

As of December 31, 2019, estimated conditional contributions of $179,413 have been obligated to the Organization from non U.S. Government entities. The recognition of revenue for the aforementioned will occur when conditions have been met. Additionally, as of December 31, 2019, we have obligated conditional grants to sub-recipients in the amount of $123,348.

Unconditional contributions, are recognized as revenue at fair value when received or pledged. Fair value is estimated giving consideration to anticipated future cash receipts (after allowance is made for uncollectible contributions) and discounting anticipated future cash receipts at a risk-adjusted rate for the duration of the donor's payment plan. Amortization of the discount is recorded as additional contribution revenue. An allowance for uncollectible contributions is estimated based upon prior year collection history and analysis of past-due amounts. Time or purpose restrictions on the use of contributions are satisfied by passage of time or use of funds, and released from restriction accordingly.

Bequest income is recorded when the will has gone through probate, is declared legally valid, and the interests that the Organization has in a decedent's estate are reasonably estimated and assured to be received. The Board of Trustees has determined that bequest income without donor restrictions recognized in operating activities exceeding $4,500, will first make up any operating revenue shortfall, and the remainder will be reclassified to board-designated operating reserves under nonoperating activities. The amounts classified as board-designated funds shall address key strategic purposes as determined by the management team. In 2019 and 2018, respectively, of the excess bequest of $12,578 and $3,385, the organization has utilized $7,352 and $2,724 for operations and $5,226 and $1,111 were reclassified to the board-designated operating reserve.

(d) Donated Services, Commodities, and Gifts-in-Kind

In-kind services of $1,509 and $997 respectively, were provided in the form of program consulting and legal pro-bono assistance, during the years ended December 31, 2019 and 2018. For in-kind services, the Organization considers standard industry pricing for similar services by other providers.

A substantial number of individuals have volunteered significant amounts of their time to program and supporting functions; however, these services do not meet the criteria for recognition in accordance with U.S. generally accepted accounting principles and, therefore, are not recorded in the accompanying consolidated financial statements.

In-kind media and broadcast time of $41,844 and $23,171, respectively, in the form of public service announcements were received during the years ended December 31, 2019 and 2018. A third party is engaged to assist in arriving at the estimated fair value of such public service announcements using billing rates normally charged to other customers under similar circumstances.

Gifts-in-kind (GIK) are reported as contributions at their estimated fair value on the date of receipt and reported as expense when utilized. GIK are valued based upon estimates of fair market or wholesale values that would be received for selling the goods in their principal market considering their condition and utility for use at the time the goods are contributed by the donor. Donated GIK are not sold and goods are only distributed for program use.

Pharmaceutical GIK contributions are valued using a hierarchy of pricing inputs that approximates wholesale prices overseas where the GIK are distributed. The International Drug Price Indicator is the primary source for the exit market value. Approximately $0 and $230 respectively, of in-kind pharmaceuticals were received during the years ended December 31, 2019 and 2018.

Non-pharmaceutical GIK contributions received have been valued at their estimated wholesale value, or, in the absence of a wholesale value, using “like-kind” methodology that references U.S. wholesale pricing data for similar products. In-kind non-pharmaceutical of $10,395 and $17,398 respectively, were received during the years ended December 31, 2019 and 2018.

Donated commodities are reported at fair value and recognized as revenue and expense when the commodities are distributed for program purposes and received by the recipients.

Food commodities supplied to the Organization through U.S. government programs managed by U.S. Agency for International Development (USAID) or U.S. Department of Agriculture (USDA) are valued according to commercial prices paid as stated on the purchase order and ocean bill of lading. USAID/USDA food commodities are procured by the Farm Service Agency, the procurement arm of

USDA that purchases all food commodities on behalf of international nongovernmental organizations (NGOs) and the World Food Program (WFP), on the U.S. commercial market using funds granted to the Organization.

Other WFP contracts procure commodities through the conduct of its own competitive tender solicitations in various countries around the world. The value of those commodities is the amount WFP pays to its commercial vendors. The freight portion of the WFP commodity value is the amount WFP pays to carriers who are contracted through the solicitation of competitive offers.

(e) Split-Interest Agreements

Split-interest agreements consist of charitable gift annuities, charitable remainder unitrusts, charitable lead annuity trusts, pooled income funds, and perpetual trusts. Such split-interest agreements provide for payments to the donors or their beneficiaries based upon either the income earned on related investments or the specified annuity amounts. Assets held under these arrangements are reported at fair value in the accompanying consolidated statement of financial position. Contribution revenue is recognized at the date of the trust or the annuity contract are established, and liabilities are recorded for the present value of the estimated future payments expected to be made to the donors and/or other beneficiaries. The liabilities are adjusted annually for changes in the life expectancy of the donor or beneficiary, amortization of the discount, and other changes in the estimate of future payments and recognized as a nonoperating activity. The related liability split-interest agreements is included in accounts payable and accrued liabilities in the accompanying consolidated statement of financial position.

Investments of charitable gift annuities held by Save the Children Federation, Inc. as of December 2019 and 2018 respectively are $2,699 and $2,902. The related liability is included in accounts payable and accrued liabilities in the accompanying consolidated statement of financial position in the amount of $1,353 and $1,570 for 2019 and 2018 respectively.

(f) Functional Expenses

The Organization allocates expenses on a functional basis among its various programs and supporting services. Expenses that can be identified with a specific program or supporting service are reported accordingly. Other expenses that are common to several functions are allocated by various statistical bases which attribute the cost to functional categories. Statistical bases utilized include square footage occupied by business units and estimated time and effort supporting other functions.

The organization conducts activities related to fundraising that have elements of other functions, such as program services (advocacy), for which the fundraising expenses are allocated (joint costs). For 2019, the total expense included in the allocation is $35,588 and $19,294 for 2019 and 2018, respectively. Of the totals, $30,023 and $10,014 is allocated to program services and $5,565 and $9,280 are allocated to supporting services, in 2019 and 2018, respectively. These costs include GIK for media and broadcast time, salaries for staff dependent on the nature of work, and campaigns which are reviewed for intent of messaging and nature of support. In 2019, management focused media GIK on program advocacy efforts.

Other expenses represents the aggregate of various other program service costs (community labor expense and cash transfer programs) and items not individually classified in the accompanying consolidated statement of functional expenses due to their varying nature and amount from year to year (includes items such as event expense, reference materials, bad debt and membership fees).

Program activities include costs of the Organization associated with the delivery of programs relating to emergencies, education, health and nutrition, hunger, livelihoods, HIV/AIDS, child protection, and child rights governance. Program activities – SCI includes these activities implemented through SCI. Program development and public policy support relate to the development and technical support of programs and the advocacy efforts in support of the children. Management and general – SCI represents the Organization's payment of SCI's management and general expense.

Due from SCI, net includes the amounts advanced by the Organization for program operations and working capital to achieve programmatic objectives.

(g) Measure of Operations

The Organization includes in its measure of operations all revenues and expenses that are integral to its program services and supporting services. The measure of operations for the years ended December 31, 2019 and 2018 includes investment return appropriated for operations and excludes investment returns in excess of or less than the amount appropriated for operations, transfers to board-designated, bequests in excess of $4,500 after any operating shortfall, increases or decreases in donor-restricted endowment funds, foreign currency exchange gains/losses, endowment contributions and changes in value of split-interest agreements, and other non-recurring transactions.

(h) Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into U.S. dollars, the reporting currency at exchange rates in effect at the consolidated statement of financial position date, and revenue and expenses are translated at rates which approximate those in effect on transaction dates. Net transaction and translation gains and losses are included as foreign currency exchange gain or loss in the accompanying consolidated statement of activities.

(i) Cash and Cash Equivalents

The Organization considers all highly liquid debt instruments purchased with original maturities of three months or less, other than those held as part of the investment portfolio, to be cash equivalents.

(j) Investments

Investments with readily determinable fair values are reported at fair value based upon quoted market prices or published net asset values for alternative investments with characteristics similar to a mutual fund. Other alternative investments (nontraditional, not readily marketable vehicles) such as certain hedge funds, private equity, alternative hedged strategies and real assets are reported at net asset value, as a practical expedient for estimated fair value, as provided by the investment managers of the respective funds. These values are reviewed and evaluated by the Organization's management for reasonableness. The reported values may differ from the values that would have been reported had a ready market for these investments existed. All other investments are stated at fair value based upon quoted market prices in active markets.

Purchases and sales of securities are recorded on a trade-date basis. Realized gains and losses are determined on the basis of average cost of securities sold and are reflected in the consolidated statement of activities. Dividend income is recorded on the ex-dividend date, and interest income is recorded on an accrual basis.

(k) Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. U.S. GAAP requires the Organization to disclose the fair value of each of its assets and liabilities based on the level of observable inputs. 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 a reporting entity has the ability to access at the measurement date or published net asset value for alternative investments with characteristics similar to a mutual fund.
- 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.

The level in the fair value hierarchy within which a fair value measurement falls, in its entirety, is based on the lowest level input that is significant to the fair value measurement.

(l) Property, Plant and Equipment

Property, plant and equipment are stated at cost if purchased or fair value on date of contribution. Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the respective assets. Capitalizable costs incurred in connection with ongoing capital projects are recorded as systems and construction in progress. These costs will be reclassified into categories and depreciated once placed in service.

(Continued)

(Amounts in thousands)

The estimated useful lives by asset class are as follows:

	Years
Buildings	25–50
Buildings improvements	10
Vehicles	5
Furniture and office equipment	5
Software and computer equipment	3–5

(m) Tax Status

The Internal Revenue Service has ruled that, pursuant to Section 501(c)(3) of the Internal Revenue Code (the Code), SCUS and Head Start are exempt from federal income taxes and are publicly supported organizations, as defined in Section 509(a)(1) of the Code. Effective March 11, 2014, the Internal Revenue Service determined that SCAN is exempt from federal income tax under Section 501(c)(4) of the Code. As not-for-profit organizations, SCUS, Head Start, and SCAN are also exempt from state and local income taxes.

The Organization follows the guidance of Accounting Standards Codification 740, *Income Taxes*, related to uncertainties in income taxes, which prescribes a threshold of more likely than not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. The Organization believes it has taken no significant uncertain tax positions.

(n) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates made in the preparation of the consolidated financial statements include fair value of alternative investments, net realizable value of contributions receivable, fair value of GIK and commodities, and functional expense allocations. Actual results could differ from those estimates.

(o) Inventory

Inventory consists of program materials and emergency response supplies not used as of December 31st. Inventory is recorded at cost on purchase, while contributed inventory is recorded at fair value. Inventory is reduced and expensed when used and distributed.

(p) Presentation of Certain Prior Year Information

The consolidated statements of activities and functional expenses include certain prior year summarized consolidated financial information for comparative purposes only, such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended December 31, 2018 from which the summarized information was derived.

(q) Recent Accounting Pronouncements

During 2019, the Organization adopted Accounting Standards Update No. 2018-08, *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this update prescribe and assist an entity in (1) evaluating whether transactions are accounted for as contributions (non-reciprocal) within the scope of Accounting Standards Codification Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. Upon adoption, the Organization recognized unconditional contributions revenue of $9,197, previously recorded as conditional contributions and deferred revenue as of December 31, 2018.

During 2019, the Organization adopted Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (Topic 606) – This ASU clarifies the principles for recognizing revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Organization expects to be entitled in exchange for those goods or services. For the specified contracts for which the Organization is the service provider, there was not a significant impact on the consolidated financial statements.

Fee for Service revenue are short term delivery based contracts, recognized upon completion of the service agreements or accomplishment of any milestones. Revenue recorded as contracts, are longer term from institutional donors, and is recognized as spent towards the accomplishment of milestones or objectives. Project activity is inherently linked to expenditures incurred within donor contractual restrictions. Related fees are booked as earned and recorded as other revenue.

The FASB issued ASU No. 2016-02, *Leases* (Topic 842) – This guidance is designed to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing agreements. This ASU is effective for the year ending December 31, 2021.

(Amounts in thousands)

(3) Investments

Investments consisted of the following at December 31, 2019 and 2018:

	Fair value 2019	Fair value 2018
Cash equivalents	$ 10,306	8,909
Fixed income	20,834	18,071
Public equity	77,609	60,022
Private equity	1,518	634
Alternative hedged strategies	35,886	26,945
Real assets	7,307	17,190
	$ 153,460	131,771

The Organization is obligated under certain limited partnership investment fund agreements to advance additional funding periodically up to specified levels. Unfunded commitments were $2,030 as of December 31, 2019.

Information pertaining to investment strategies is as follows:

- Cash equivalents provide short term liquidity and serve as a funding source for distributions and rebalancing.
- The fixed income category comprises strategies that invest principally in debt instruments issued by governments or companies or through the securitization of certain types of collateral. Fixed income provides stability and protection in deflationary environments.
- The public equity category comprises investment strategies that invest principally in publicly traded equity securities. These strategies are generally designed with reference to a benchmark that itself comprises equity securities that are traded on a recognized exchange. Public equities may include hedge funds whose investment objectives are benchmarked to equity markets.
- The private equity category comprises investment strategies that invest principally in privately issued equity-related securities. This category includes strategies that participate in venture capital, leveraged buyouts and control-oriented distressed situations.
- The alternative hedged strategies category comprises strategies that seek to generate return streams that are not highly correlated to broad capital markets and that rely less on the general direction of capital markets to produce positive returns. These strategies may take a variety of forms including long or short positions in the public equity or credit markets that seek to capitalize on perceived mispricing or on the anticipated outcome of an “event,” such as a merger or bankruptcy proceeding. Alternative hedged strategies are employed to offer market comparable returns with lower expected volatility.

(Amounts in thousands)

- Real assets comprise strategies that invest in securities relating to real estate. This strategy provides the portfolio with a diversified hedge against inflation as well as a yield component. The real assets strategy consisted of one real estate investment trust and a mutual fund. Investments within this strategy include commodities, global natural resource stocks, global infrastructure stocks, U.S. real estate investment trusts, and treasury inflation protected securities.

The above asset categories are managed to create a portfolio effect to balance risk and return to meet investment objectives.

(4) Fair Value Measurements

The following table presents investments by strategy and fair value as of December 31, 2019:

	Assets at fair value as of December 31, 2019				
	Measured at NAV	Level 1	Level 2	Level 3	Total
Long-term investment strategies:					
Cash equivalents	$ —	10,306	—	—	10,306
Fixed income:					
Domestic mutual funds	—	9,454	—	—	9,454
Common collective trust fund	11,380	—	—	—	11,380
Equity:					
Domestic	—	—	—	—	—
Hedge funds	77,609	—	—	—	77,609
Private equity	1,518	—	—	—	1,518
Alternative hedged strategies	35,886	—	—	—	35,886
Real assets:					
Real estate investment trust	233	—	—	—	233
Mutual funds	—	7,074	—	—	7,074
Total investments	$ 126,626	26,834	—	—	153,460
Assets of Pooled Income Funds (PIF) and Charitable Gift Annuities (CGA):					
Cash equivalents	$ —	596	—	—	596
Fixed income	607	8	181	—	796
Public equity	1,125	356	—	—	1,481
Total assets of PIF and CGA	$ 1,732	960	181	—	2,873
Beneficial interests in perpetual trusts held by third parties	$ —	—	—	14,954	14,954

(Amounts in thousands)

	Assets at fair value as of December 31, 2018				
	Measured at NAV	Level 1	Level 2	Level 3	Total
Long-term investment strategies:					
Cash equivalents	$ —	8,909	—	—	8,909
Fixed income:					
Domestic mutual funds	—	7,472	—	—	7,472
Common collective trust fund	10,599	—	—	—	10,599
Equity:					
Domestic	—	5,004	—	—	5,004
Hedge funds	55,018	—	—	—	55,018
Private equity	634	—	—	—	634
Alternative hedged strategies	26,945	—	—	—	26,945
Real assets:					
Real estate investment trust	279	—	—	—	279
Mutual funds	—	16,911	—	—	16,911
Total investments	$ 93,475	38,296	—	—	131,771
Assets of Pooled Income Funds (PIF) and Charitable Gift Annuities (CGA):					
Cash equivalents	$ —	59	—	—	59
Fixed income	561	98	227	—	886
Public equity	1,842	274	—	—	2,116
Total assets of PIF and CGA	$ 2,403	431	227	—	3,061
Beneficial interests in perpetual trusts held by third parties	$ —	—	—	12,940	12,940

(Amounts in thousands)

The following table includes a roll-forward for the years ended December 31, 2019 and 2018 for financial instruments classified within Level 3.

		Perpetual trusts
Balance, December 31, 2017	$	13,288
Distributions		—
Contributions		—
Fees		—
Net depreciation		(348)
Balance, December 31, 2018		12,940
Distributions		—
Contributions		—
Fees		—
Net appreciation		2,014
Balance, December 31, 2019	$	14,954

Investments measured at net asset value contain various monthly, quarterly, and annual redemption restrictions with required written notice ranging from 1 to 90 days. In addition, certain of these investments are restricted by lockup periods. As of December 31, 2019, the following table summarizes the composition of such investments by the various redemption and lockup provisions:

Redemption period	Days notice for redemption		Amount
Monthly:			
Fixed income – common collective trust fund and public equity – hedge funds	5–30	$	28,566
Quarterly:			
Equity – hedge funds	30–60		43,332
Annually:			
Alternative hedged strategies	30–90		12,820
Lockup (a):			
Equity – hedge funds	Not applicable		24,700
Alternative hedged strategies	Not applicable		15,457
Private equity	Not applicable		1,518
Real estate investment trust	Not applicable		233
Pooled income funds and gift annuity	Not applicable		1,732
Total		$	128,358

(Amounts in thousands)

The amounts subject to redemption lockups at December 31, 2019 that are set to expire are as follows:

Fiscal year		Amount
2020:		
Private equity	$	1,518
Real estate investment trust		233
Alternative hedged strategies		13,506
2021:		
Alternative hedged strategies		1,951
2022:		
Equity – hedge funds		24,700
2024 and beyond:		
Assets of PIF and CGA		1,732
Total	$	43,640

(5) Commodities and Ocean Freight

During the years ended December 31, 2019 and 2018, the Organization was granted and distributed certain agricultural commodities under famine relief and food aid contracts with the U.S. government, WFP, United Nations High Commissioner for Refugees (UNHCR) and Catholic Relief Services (CRS) (from USAID). The Organization also received and distributed medical commodities under agreements with The Global Fund. The commodities, and related ocean freight where applicable, are detailed below:

	Commodity type		2019	2018
World Food Programme	Agricultural	$	57,234	102,000
The Global Fund	Pharmaceutical		5,723	8,887
Catholic Relief Services from USAID	Agricultural		753	5,318
United States Department of Agriculture	Agricultural		3,130	1,801
United Nations High Commissioner for Refugees	Agricultural		134	92
		$	66,974	118,098

(Continued)

(6) Endowments

The Organization's endowment consists of 95 individual funds established for a variety of purposes and includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

(a) Interpretation of Relevant Law

The Organization is subject to the State of Connecticut's version of the Uniform Prudent Management of Institutional Funds Act (CUPMIFA). Based on the interpretation of CUPMIFA by the Board of Trustees of the Organization, applicable accounting guidance, and absent explicit donor stipulations to the contrary, the Organization classifies net assets of a perpetual nature with donor restrictions as (a) the original value of gifts donated to the donor restricted endowment, (b) the original value of subsequent gifts to the donor restricted endowment, and (c) accumulations to the donor restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not held in perpetuity is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Board of Trustees of the Organization in a manner consistent with the standard of prudence prescribed by CUPMIFA. In accordance with CUPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original dollar value of the endowment fund or the level specifically required to be retained by the donor. The Organization considers prudence in maintaining an endowment fund in perpetuity. So while spending may occur from an endowment fund whose fair value is below its historic value, the organization has determined that its policies will continue the perpetual nature of the endowment over time. Deficiencies of this nature, which are reported in net assets with donor restrictions, were $678 as of December 31, 2018. These funds had an original gift value of $14,130 and a fair value of $13,452 as of December 31, 2018. The deficiency resulted from unfavorable market fluctuations in 2018. There were no such deficiencies as of December 31, 2019.

(b) Return Objectives and Risk Parameters

The Organization 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. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce a real return, net of inflation and investment management costs of at least 4.5% over the long term while shouldering an acceptable level of risk and maintaining adequate liquidity. Actual returns in any given year may vary from this amount.

(c) Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization 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). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based and alternative investments to achieve its long-term objective within prudent risk constraints.

(d) Spending Policy and How the Investment Objectives Relate to Spending Policy

The policy governing the investment of the Organization’s endowment is twofold: to provide a reasonable and prudent level of currently expendable income in accordance with the spending policy set by the Finance and Administration Committee of the Organization’s Board of Trustees at 4.5% (in 2019 and 2018) of the average of the endowment’s total market value for the 12 quarters ending June 30 of the previous year in which distribution is planned; and to support the Organization and its mission over the long term by ensuring that the future growth of the endowment is sufficient to offset normal inflation plus reasonable spending, thereby preserving the constant dollar value and purchasing power of the endowment for the benefit of future generations of children in need.

The Finance and Administration Committee, after consideration of the factors provided in CUPMIFA, approved a policy which states that, absent donor-imposed directions, it is prudent given the current market climate to apply the current spending policy to below historic value funds until such funds hit the threshold of 50% of historic value.

(Continued)

(Amounts in thousands)

At December 31, 2019 and 2018, endowment net assets, excluding beneficial interests in perpetual trusts held by third parties, consist of the following:

		2019		
		Without donor restrictions	**With donor restrictions**	**Total**
Donor-restricted funds	$	—	41,113	41,113
Board-designated funds		107,655	—	107,655
Total endowments	$	107,655	41,113	148,768

		2018		
		Without donor restrictions	**With donor restrictions**	**Total**
Donor-restricted funds	$	—	34,986	34,986
Board-designated funds		93,137	—	93,137
Total endowments	$	93,137	34,986	128,123

Changes in endowment net assets not including endowment receivables of $6,126 as of December 31, 2019, for the years ended December 31, 2019 and 2018 consisted of the following:

		Without donor restrictions	**With donor restrictions**	**Total**
Endowment net assets, December 31, 2017	$	97,603	38,343	135,946
Investment return, net		(5,491)	(2,160)	(7,651)
Contributions		10	351	361
Member loan repayment		1,173	—	1,173
Transfer to/from board designated funds		4,098	—	4,098
Spending rate		(4,256)	(1,548)	(5,804)
Endowment net assets, December 31, 2018		93,137	34,986	128,123
Investment return, net		18,444	5,481	23,925
Contributions		95	1,961	2,056
Member loan repayment		567	—	567
Transfer to/from board designated funds		(95)	—	(95)
Spending rate		(4,493)	(1,315)	(5,808)
Endowment net assets, December 31, 2019	$	107,655	41,113	148,768

(Amounts in thousands)

On August 1, 2014, the Organization entered into a three-year loan agreement with SCI to help fund the Member Growth Fund, a fund established by SCI to help smaller Members with their growth strategies. The Organization agreed to loan up to $6,000 to be disbursed in 2014 and 2015. These loans bear interest of 4% annually. As of December 31, 2019 and December 31, 2018, loan principal of $0 and $399, respectively, is outstanding and included in amounts due from Save the Children International, net in the accompanying consolidated statement of financial position. Board-designated endowment funds were used to fund the loan disbursements to SCI. Any repayments of such loans, including interest, was transferred back to the endowment. Principal loan repayments during 2019 and 2018 totaled $399 and $1,173, respectively.

(7) Contributions Receivable, Net

Contributions receivable consisted of the following as of December 31, 2019 and 2018:

		2019	2018
Contributions receivable:			
Due within one year	$	22,088	4,977
Due within two to five years		5,746	4,038
		27,834	9,015
Less discount to present value (average rate of 0.12% to 2.54%)		(107)	(90)
Pledges receivable, net		27,727	8,925
Charitable remainder unitrusts receivable		508	507
Total contributions receivable, net	$	28,235	9,432

At December 31, 2019 and 2018, amounts receivable from two donors represents approximately 35% and 33% respectively, of the net contributions receivable.

(Amounts in thousands)

(8) Property, Plant and Equipment, Net

Property, plant and equipment consisted of the following as of December 31, 2019 and 2018:

		2019	2018
Land	$	2	2
Buildings and improvements		18	539
Software and computer equipment		23,984	20,177
Vehicles		351	716
Furniture and office equipment		89	145
		24,444	21,579
Accumulated depreciation and amortization		(16,092)	(14,379)
Systems and construction in progress		511	3,349
Total property, plant and equipment, net	$	8,863	10,549

(9) Lines of Credit

In 2018, the Organization maintained two $15,000 revolving lines of credit, totaling $30,000. During 2019, one line of credit for $15,000 was renewed and expires July 31, 2020 and the second $15,000 line of credit was not renewed and expired September 10, 2019. Borrowings under the current $15,000 line of credit bears interest of 1 month LIBOR plus 0.70%. In May 2019, the Organization borrowed $6,000 from the line of credit, which was repaid in July 2019. As of December 31, 2019 and 2018, there were no borrowings outstanding under such agreements.

(10) Employee Benefits

The Organization maintains two defined contribution plans covering all eligible employees. The plans require the Organization to contribute 4% of each eligible employee’s compensation and match 100% of the first 4% contributed by each eligible employee. During the years ended December 31, 2019 and 2018, total pension expense under the defined contribution plans was $5,547 and $5,689, respectively.

The Organization has a self-insured group health benefit plans, including comprehensive medical, dental and prescription drug coverage. For 2019, the individual stop loss limit is $175 per person and the aggregate maximum is $14,563 in claims.

(11) Postretirement Benefits Other than Pensions

In addition to providing pension benefits, the Organization provides healthcare benefits for certain retired employees. To be eligible for these benefits, employees must complete at least 10 years of service and have reached age 55. Dental, life, and accidental death and dismemberment benefits for participants who retired before October 1, 1995 are also provided. The expected cost of providing postretirement benefits to employees and their beneficiaries and covered dependents, if applicable, is accrued during the years that the employees render service. The following tables set forth amounts relating to postretirement benefits other than pensions recognized as of and for the years ended December 31, 2019 and 2018:

(Amounts in thousands)

		2019	2018
Change in benefit obligation:			
Benefit obligation at beginning of year	$	4,397	4,588
Service cost		249	267
Interest cost		171	150
Plan participant contributions		190	188
Actuarial loss (gain)		656	(488)
Benefits paid		(437)	(308)
Benefit obligation at end of year		5,226	4,397

		2019	2018
Change in plan assets:	$		
Fair value of plan assets at beginning of year		—	—
SCUS contribution		247	120
Plan participant contributions		190	188
Benefits paid		(437)	(308)
Fair value of plan assets at end of year		—	—
Postretirement benefits other than pensions liability	$	5,226	4,397
Components of net periodic benefit cost:			
Service cost	$	249	267
Interest cost		171	150
Amortization of prior service cost		—	—
Amortization of net (gain) loss		(27)	—
Net periodic benefit cost	$	393	417

(Amounts in thousands)

Assumption used for benefit obligation as of December 31, 2019 and 2018:		
Discount rate	2.79 %	4.02 %
Assumptions used for benefit cost for the years ended December 31, 2019 and 2018:		
Discount rate	4.02 %	3.37 %

The components of postretirement benefit cost other than net periodic benefit cost for the years ended December 31, 2019 and 2018, reported in fringe benefit expenses:		
Net actuarial loss (gain)	$ 684	(488)
Total	$ 684	(488)
Amounts not yet recognized as a component of net periodic benefit cost as of December 31, 2019 and 2018:		
Net actuarial gain (loss)	$ 69	(752)
Total	$ 69	(752)

The following future benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

Years	Amount
2020	$ 356
2021	344
2022	361
2023	379
2024	402
2025-2029	2,155

The benefit obligation takes into account several assumptions, including the incidence and magnitude of medical claims by age, medical trend, employee turnover, and mortality. The mortality assumption includes projections of improved longevity in the future. The medical trend assumption has limited impact on the benefit obligation because of the organization capping its cost portion at January 1, 2001 levels. Effective January 1, 2002, retirees began paying for cost increases in excess of the January 1, 2001 levels.

(Amounts in thousands)

The Organization has not identified any provisions of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act that would be expected to have a significant impact on the measured obligation at December 31, 2019 and 2018.

(12) Net Assets with donor restrictions

Net assets with donor restrictions are available for the following purposes for the years ended December 31, 2019 and 2018, inclusive of appreciation on endowment corpus of $7,227 and $1,993 respectively. The endowment corpus includes endowment contribution receivable of $6,126 at December 31, 2019.

	2019	2018
International country office programs	$ 7,160	3,980
U.S. programs	23,343	24,660
International programs including match	3,774	2,110
Sector/thematic programs (emergency, education, health, etc.)	21,335	19,479
GIK programs	2,409	1,006
Other	22,929	12,624
Beneficial interest in perpetual trusts	14,954	12,940
Endowment corpus	33,837	32,993
Endowment corpus contribution receivable	6,126	—
	$ 135,867	109,792

(13) Lease Commitments

The following is a schedule of the minimum future lease commitments for operating leases having initial or remaining non-cancelable lease terms greater than one year as of December 31, 2019:

Years	Amount
2020	$ 4,529
2021	4,597
2022	4,628
2023	4,633
2024	4,690
Thereafter	28,493
	$ 51,570

Rent expense, included in occupancy on the consolidated statement of functional expenses, amounted to $5,408 and $5,857 for the years ended December 31, 2019 and 2018, respectively.

(14) Commitments and Contingencies

The Organization is involved in various legal proceedings and claims arising in the normal course of business. Management does not expect the ultimate resolution of these actions to have a material adverse effect on the Organization's financial position, changes in net assets, or cash flows.

The Organization receives funding from government agencies for various activities, which are subject to audit. Although such audits may result in disallowance of certain expenditures, which would be absorbed by the Organization, in management's opinion, the ultimate outcome of such audits would not have a significant effect on the financial position, changes in net assets, or cash flows of the Organization.

Government of Bolivia versus Save the Children (Bolivia)

SCUS is a cooperating sponsor with USAID in connection with USAID's Food for Peace (USAID/FFP) commodity distribution and monetization program in Bolivia. Due to a long unresolved disagreement between the Government of Bolivia and the Government of the United States and in contravention of bilateral agreements between the two governments, the Government of Bolivia began asserting claims in December 2008 of past due taxes on shipments imported by SCUS and other NGOs working with the USAID/FFP program. As of December 31, 2019, approximately 60 separate claims related to shipments between 2002 and 2009, with a value of approximately $16,000 are pending before Bolivian courts. SCUS has filed objections and is defending each claim. Additionally, SCUS maintains no material assets in country. As of December 31, 2019, no amounts have been accrued relating to this matter due to the uncertainty of the outcome.

(15) Significant Funders and Concentrations of Credit Risk

Revenue from U.S. government grants and contracts, including U.S. government commodities and ocean freight, represented 41.9% and 40.0% of total operating revenue for 2019 and 2018, respectively. During the years ended December 31, 2019 and 2018, 82.9% and 83.6%, respectively, of such U.S. government revenue were received from USAID through direct and pass-through awards. At December 31, 2019 and 2018, 61.5% and 61.4% of grants and contracts receivable and 1.5% and 3.9%, respectively, of deferred revenue received under grants and contracts were related to USAID. The operations of the Organization's programs at present levels are dependent upon continued funding from USAID.

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of foreign cash and cash equivalents. At December 31, 2019 and 2018, 1.5% and 5.7%, respectively, of cash and cash equivalents (including liquid investments) were deposited in banks in foreign locations. In addition, at December 31, 2019 and 2018, 85.2% and 78.1%, respectively, of the Organization's cash and cash equivalents were held by a single institution, for which $250 was insured by the Federal Deposit Insurance Corporation.

(Amounts in thousands)

(16) Program Activities

A summary of program activities (without Program Development and Public Policy Support) by sector and type for the years ended December 31, 2019 and 2018 is as follows:

	2019								
	Emergencies	Education	Health & nutrition	Child poverty/ livelihoods	HIV/AIDS	Child protection	Child rights governance	Total	FY 2018
Salaries	$ 5,511	19,508	9,312	4,436	1,025	1,235	19	41,046	46,542
Employee fringe benefits	1,512	5,550	2,990	1,467	430	406	5	12,360	12,901
Total salaries and related expenses	7,023	25,058	12,302	5,903	1,455	1,641	24	53,406	59,443
Grants and charges from SCI	26,653	69,350	243,879	67,711	42,561	25,459	601	476,214	557,351
Grants to other agencies	21,697	22,013	6,699	12,704	3,528	2,094	168	68,903	69,392
Supplies, material, etc.	1,467	5,529	366	201	45	77	2	7,687	10,571
Travel	793	1,815	1,258	695	144	181	2	4,888	6,460
Professional fees	1,100	3,487	1,500	816	105	342	3	7,353	7,195
Occupancy	427	2,364	166	129	33	51	1	3,171	4,193
Printing	48	89	119	43	4	7	—	310	231
Telecommunications	84	304	59	69	10	15	—	541	481
Postage and shipping	98	65	15	11	3	21	—	213	478
Depreciation and amortization	201	373	138	125	32	27	1	897	658
Other	378	875	176	127	28	51	1	1,636	657
Total expenses	$ 59,969	131,322	266,677	88,534	47,948	29,966	803	625,219	717,110

(17) Liquidity and Availability

The Organization regularly monitors liquidity required to meet its operating needs and other financial commitments, while also striving to maximize the investment of its available funds. The Organization maintains a financial resources policy that outlines acceptable investment vehicles for working capital, which includes reserves to be spent in the short-term on current activities, donor restricted funds meant to be spent down over a relatively short period of time to fund programs, and operating cash, which includes gifts without donor restrictions and with restriction or funds for operating needs. Per the policy, the Organization invests available cash needed for its general expenditures, liabilities, and other obligations in short-term investments, specifically interest bearing checking accounts, money market funds, and money market mutual funds.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing activities of providing services for children and community self-help assistance in the U.S. and throughout the world, as well as the conduct of activities to support those service operations, to be general expenditures. In addition to the financial assets available to meet general expenditures over the next 12 months, the Organization operates with a balanced budget and anticipates collecting sufficient funds to cover general expenditures not covered by donor-restricted resources.

(Amounts in thousands)

Financial assets for general expenditures available within one year from December 31st are as follows:

		2019	2018
Cash and cash equivalents	$	39,146	40,809
Grants and contracts receivable		60,382	52,551
Contributions receivable, net		28,235	9,432
Due from Save the Children International, net		20,307	34,832
Assets of pooled income fund and charitable gift annuities		2,873	3,061
Investments		153,460	131,771
Total financial assets		304,403	272,456
Add endowment spending rate		5,849	5,653
Less amounts unavailable for general expenditures within one year:			
Endowment funds restricted by donors of a perpetual nature		(39,963)	(32,993)
Unencumbered liquid assets required for line of credit		(35,000)	(35,000)
Contributions due beyond one year		(6,147)	(4,455)
Active PIF and CGA not yet terminated		(2,237)	(2,351)
Board-designated endowment		(107,655)	(93,137)
Board-designated operating reserve		(6,337)	(1,111)
Total financial assets available for general expenditure within one year		112,913	109,062
Other resources available:			
Lines of credit		15,000	30,000
Total financial assets and other resources available for general expenditure within one year	$	127,913	139,062

In addition to the financial assets and other resources available for general expenditure within one year, the Organization has board-designated endowment net assets without donor restrictions of $107,655 and $93,137 in 2019 and 2018 that, while the Organization does not intend to spend these for purposes other than those identified, the amounts could be made available for current operations, with Board approval, if necessary. Furthermore, an operating reserve of $6,337 and $1,111 in 2019 and 2018 was established by action of the Board and is funded from any annual budgeted or unbudgeted surpluses. Board approval is required to access funds from the operating reserve.

(Continued)

(18) Subsequent Events

In connection with the preparation of the consolidated financial statements, the Organization evaluated subsequent events from December 31, 2019 through May 28, 2020, which was the date the consolidated financial statements were available for issuance. The Organization invests in various investment securities and relies on contributions and U.S. government grants and contracts to support its operations. Investment securities are exposed to various risks such as interest rate, market and credit risks. The spread of coronavirus (COVID-19) around the world in the first quarter of 2020 has caused significant volatility in the U.S. and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies and, as such, the Organization is unable to determine if it will have a material impact to its financial position and changes in net assets in the future.