KPMG

SAVE THE CHILDREN FEDERATION, INC. AND RELATED ENTITIES

Consolidated Financial Statements

December 31, 2018
(With summarized comparative financial information as of and
for the year ended December 31, 2017)

(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, 2018, 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 its related entities as of December 31, 2018, 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.

Emphasis of Matter

As discussed in Note 2(q) to the consolidated financial statements, in 2018 Save the Children Federation, Inc. adopted new accounting guidance, Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Save the Children Federation Inc.'s 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated May 22, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived before the adjustments to adopt ASU 2016-14. As part of our audit of the 2018 consolidated financial statements, we also audited the adjustments described in note 2(q) that were applied to adopt ASU 2016-14 retrospectively in the 2017 consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

KPMG LLP

May 20, 2019

SAVE THE CHILDREN FEDERATION, INC. AND RELATED ENTITIES

Consolidated Statement of Financial Position

December 31, 2018
(with comparative financial information as of December 31, 2017)

(In thousands)

Assets		**2018**	**2017**
Cash and cash equivalents (note 15)	$	40,809	76,641
Grants and contracts receivable (note 15)		52,551	53,109
Contributions receivable, net (note 7)		9,432	12,453
Inventory		1,057	988
Due from Save the Children International, net (notes 2(f) and 6)		34,832	15,908
Prepaid expenses and other assets		8,566	9,983
Investments (notes 3 and 4)		131,771	142,471
Assets of pooled income fund and charitable gift annuities (note 4)		3,061	3,564
Property, plant and equipment, net (note 8)		10,549	9,887
Beneficial interests in perpetual trusts held by third parties (note 4)		12,940	13,288
Total assets	$	305,568	338,292
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	28,751	30,017
Deferred revenue (note 15)		50,802	60,843
Severance benefits for foreign national employees		166	323
Postretirement benefits other than pensions (note 11)		4,397	4,588
Total liabilities		84,116	95,771
Commitments and contingencies (notes 9, 10, 11, 13, 14, and 15)			
Net assets:			
Without donor restrictions:			
Undesignated		6,863	13,828
Board-designated operating reserve (note 2c)		1,111	—
Board-designated endowment (note 6)		93,137	97,603
Investment in property, plant and equipment		10,549	9,887
Total net assets without donor restrictions		111,660	121,318
With donor restrictions:			
Purpose restricted (notes 6 and 12)		63,859	75,169
Donor-restricted endowment corpus (notes 6 and 12)		32,993	32,746
Beneficial interests in perpetual trusts held by third parties (note 4)		12,940	13,288
Total net assets with donor restrictions		109,792	121,203
Total net assets		221,452	242,521
Total liabilities and net assets	$	305,568	338,292

See accompanying notes to consolidated financial statements.

SAVE THE CHILDREN FEDERATION, INC. AND RELATED ENTITIES

Consolidated Statement of Activities

Year ended December 31, 2018
(with summarized comparative financial information for the year ended December 31, 2017)

(In thousands)

	2018 Without donor restrictions	2018 With donor restrictions	2018 Total	2017 Total
Operating revenue:				
Contributions and private grants (note 2 (c))	$ 229,639	94,990	324,629	343,086
U.S. government grants and contracts (note 15)	344,550	—	344,550	322,434
Sponsorships	—	74,528	74,528	69,768
Commodities and ocean freight (notes 2 (d), 5 and 15)	118,098	—	118,098	55,371
Fee for service contracts	2,133	—	2,133	4,804
Bequests	8,335	895	9,230	7,285
Net investment return appropriated for operations (notes 3 and 15)	4,992	1,146	6,138	6,137
Other	1,439	—	1,439	702
	709,186	171,559	880,745	809,587
Net assets released from restrictions	180,075	(180,075)	—	—
Total operating revenue	889,261	(8,516)	880,745	809,587
Operating expenses:				
Program services:				
Program activities (note 16)	159,759	—	159,759	136,672
Program activities-Save the Children International (note 16)	557,351	—	557,351	474,106
Program development and public policy support	57,081	—	57,081	53,191
Total program services	774,191	—	774,191	663,969
Supporting services:				
Management and general	27,279	—	27,279	24,515
Management and general-Save the Children International	16,610	—	16,610	13,886
Fund-raising	70,070	—	70,070	69,283
Total supporting services	113,959	—	113,959	107,684
Total operating expenses	888,150	—	888,150	771,653
(Deficiency) excess of operating revenue over expenses before net transfers	1,111	(8,516)	(7,405)	37,934
Net transfers from operating revenue:	(1,111)	—	(1,111)	(2,175)
(Deficiency) excess of operating revenue over expenses	—	(8,516)	(8,516)	35,759
Nonoperating activities:				
Net Investment return (less than) appropriated for operations (note 3)	(10,139)	(2,900)	(13,039)	11,428
Foreign currency exchange (loss) gain	(405)	—	(405)	943
Endowment contributions	10	351	361	180
Transfer of bequest, net (note 2(c))	1,111	—	1,111	2,175
Contributions and changes in value of split-interest agreements	(233)	(348)	(581)	8,153
Total nonoperating activities	(9,656)	(2,897)	(12,553)	22,879
(Decrease) increase in net assets	(9,656)	(11,413)	(21,069)	58,638
Net assets at beginning of year	121,316	121,205	242,521	183,883
Net assets at end of year	$ 111,660	109,792	221,452	242,521

See accompanying notes to consolidated financial statements.

SAVE THE CHILDREN FEDERATION, INC. AND RELATED ENTITIES

Consolidated Statement of Functional Expenses

Year ended December 31, 2018
(with summarized comparative financial information for the year ended December 31, 2017)

(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**	**2018 Total**	**2017 Total**
Salaries	$ 46,542	20,352	66,894	14,030	18,794	32,824	99,718	96,020
Employee fringe benefits (notes 10 and 11)	12,901	5,288	18,189	3,553	4,839	8,392	26,581	26,706
Total salaries and related expenses	59,443	25,640	85,083	17,583	23,633	41,216	126,299	122,726
Grants to and charges from Save the Children International	557,351	—	557,351	16,610	—	16,610	573,961	487,992
Grants to other agencies	69,392	271	69,663	345	928	1,273	70,936	48,031
Supplies, materials, etc.	10,571	264	10,835	1,335	1,124	2,459	13,294	12,952
Travel	6,460	2,806	9,266	879	1,212	2,091	11,357	11,121
Professional fees	7,195	5,021	12,216	4,112	16,965	21,077	33,293	26,679
Advertising (note 2(d))	—	19,373	19,373	6	12,285	12,291	31,664	32,644
Occupancy (note 13)	4,193	2,564	6,757	1,060	952	2,012	8,769	8,558
Printing	231	12	243	93	4,901	4,994	5,237	4,622
Telecommunications	481	347	828	264	1,802	2,066	2,894	2,641
Postage and shipping	478	184	662	37	2,951	2,988	3,650	2,999
Depreciation and amortization	658	64	722	977	654	1,631	2,353	2,588
Other	657	535	1,192	588	2,663	3,251	4,443	8,100
Total expenses	$ 717,110	57,081	774,191	43,889	70,070	113,959	888,150	771,653

See accompanying notes to consolidated financial statements.

SAVE THE CHILDREN FEDERATION, INC. AND RELATED ENTITIES

Consolidated Statement of Cash Flows

Year ended December 31, 2018
(with comparative financial information for the year ended December 31, 2017)

(In thousands)

		2018	2017
Cash flows from operating activities:			
(Decrease) increase in net assets	$	(21,069)	58,638
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities:			
Depreciation and amortization		2,353	2,588
Loss on disposal of building and equipment		12	—
Change in gifts-in-kind and other inventory		(69)	400
Net depreciation (appreciation) in fair value of investments		7,947	(14,597)
Contributions restricted for long-term investment		(351)	(174)
Contributions and changes in value of split-interest agreements		348	(8,153)
Changes in operating assets and liabilities:			
Grants and contracts receivable		558	(2,397)
Contributions receivable		3,021	(1,722)
Due from Save the Children International, net		(20,097)	(7,531)
Prepaid expenses and other assets		1,417	(4,083)
Accounts payable and accrued liabilities		(1,266)	868
Deferred revenue		(10,041)	9,780
Severance benefits for foreign national employees		(157)	61
Postretirement benefits other than pensions		(191)	70
Net cash (used in) provided by operating activities		(37,585)	33,748
Cash flows from investing activities:			
Purchases of property, plant and equipment		(3,027)	(3,268)
Purchases of investments		(41,388)	(49,338)
Proceeds from sale of investments		44,141	51,556
Loan repayment from Save the Children International		1,173	861
Net cash provided by (used in) investing activities		899	(189)
Cash flows from financing activities:			
Contributions restricted for long-term investment		351	174
Contributions (distribution) of split interest agreements, net		503	(537)
Net cash provided by (used in) financing activities		854	(363)
Net (decrease) increase in cash and cash equivalents		(35,832)	33,196
Cash and cash equivalents at beginning of year		76,641	43,445
Cash and cash equivalents at end of year	$	40,809	76,641
Supplemental cash flow information:			
Donated goods and services	$	41,800	39,599
Commodities		118,098	55,371

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, 2018, 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 for 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. 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) Grants and Contracts

The Organization receives funding under grants and contracts from the government of the United States of America, 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 is subject to contractual restrictions, which must be met through incurring qualifying expenses for particular programs.

Revenue from grants and contracts is recognized only when funds are utilized by the Organization to carry out the activity stipulated in the grant or contract agreement. Grants and contracts receivable represent amounts due from funding organizations for reimbursable expenses incurred. Cash received under grants and contracts in advance of incurring the related expenses is reported as deferred revenue.

(c) Contributions

Contributions, which include unconditional promises to give, 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. 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 established a threshold that any unrestricted bequest income recorded in operating activities in excess of $4,500 will first make up any revenue shortfall in operating, and the remainder will be transferred to operating reserve board-designated in non-operating activities. The amounts transferred to board-designated fund shall address key strategic purposes as determined by the management team. In 2018 and 2017, respectively, of the excess bequest of $3,385 and $2,175, the organization has utilized $2,724 and $0 for operations and $1,111 and $2,175 as transfers to the board-designated operating reserve.

Contributions received with donor-imposed conditions are recognized as revenue when the conditions have been substantially met. Amounts received in advance of satisfying the donor-imposed conditions are reported as deferred revenue until the conditions are met.

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

Donated services are reported as contributions and expenses in amounts equal to their estimated fair value on the date of receipt.

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.

Approximately $23,000 and $26,000, respectively, of in-kind media and broadcast time in the form of public service announcements was received during the years ended December 31, 2018 and 2017. 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-kid (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 $230 and $620 respectively, of in-kind pharmaceuticals were received during the years ended December 31, 2018 and 2017.

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. Approximately $18,400 and $12,700 respectively, of non-pharmaceutical in-kind gifts were received during the years ended December 31, 2018 and 2017.

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 non-operating activity. The liability related to split-interest agreements is included in accounts payable and accrued liabilities in the accompanying consolidated statement of financial position.

(Continued)

(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 expenses are allocated (joint costs). For 2018, the total expense included in the allocation is $19,294 and $22,926 for 2018 and 2017, respectively. Of the totals, $10,014 and $9,929 is allocated to program services and $9,280 and $12,997 are allocated to supporting services, in 2018 and 2017, 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.

Other 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 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, 2018 and 2017 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 nonrecurring 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.

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.

(Continued)

(Amounts in thousands)

(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 deducted 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, 2017 from which the summarized information was derived.

(q) New Accounting Pronouncements

During 2018, the Organization adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profits Entities* (ASU 2016-14). ASU 2016-14 reduces the number of net assets from three to two: net assets without donor restrictions, previously reported as unrestricted net assets, and net assets with donor restrictions, previously reported as temporarily restricted net assets and permanently restricted net assets. Additionally, a main provision of this guidance includes recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The guidance also expands the quantitative and qualitative disclosures regarding liquidity and availability of resources and requires expenses to be reported by both their natural and functional classification in one location. The Organization applied the changes retrospectively.

		ASU 2016-14 classifications		
		Without donor restrictions	With donor restrictions	Total
Reclassifications as of December 31, 2016:				
Endowment net assets at December 31, 2016	$	89,108	35,280	124,388
Reclassification of underwater endowments to implement ASU 2016-14		434	(434)	—
Endowment net assets at December 31, 2016, as adjusted (note 6)	$	89,542	34,846	124,388
Reclassifications as of December 31, 2017:				
Investment return, net	$	12,885	4,070	16,955
Reclassification of underwater endowments to implement ASU 2016-14		(697)	697	—
Investment return, net as adjusted (note 6)	$	12,188	4,767	16,955

(Amounts in thousands)

		ASU 2016-14 classifications		
		Without donor restrictions	**With donor restrictions**	**Total**
Spending rate	$	(4,769)	(1,185)	(5,954)
Reclassification of underwater endowments to implement ASU 2016-14		265	(265)	—
Spending rate as adjusted (note 6)	$	(4,504)	(1,450)	(5,954)

The FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606) – This ASU clarifies the principles for recognizing revenue and creates a common revenue standard for U.S. GAAP and International Financial Reporting Standards. This ASU is effective for the year ending December 31, 2019.

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, 2020.

The FASB issued ASU No. 2018-08, *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made* – This ASU is intended to clarify and improve the scope and accounting guidance for contributions received and contributions made. The ASU is effective for the year ending December 31, 2019.

(r) Reclassifications

Reclassifications were made to certain 2017 amounts to conform to the current year presentation.

(3) Investments

Investments consisted of the following at December 31, 2018 and 2017:

		Fair value	
		2018	**2017**
Cash equivalents	$	8,909	10,280
Fixed income		18,071	16,940
Public equity		60,022	85,462
Private equity		634	37
Alternative hedged strategies		26,945	29,537
Real assets		17,190	215
	$	131,771	142,471

The Organization is obligated under certain limited partnership investment fund agreements to advance additional funding periodically up to specified levels. Unfunded commitments as of December 31, 2018 were not material.

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.
- 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. As of December 31, 2017, the real assets strategy consisted of a real estate investment trust. As of December 31, 2018, the real assets strategy consisted of the same real estate investment trust as prior year plus a new investment in a real asset non-lending common trust fund. Investments within this new 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.

(Amounts in thousands)

(4) Fair Value Measurements

The following table presents investments by strategy and fair value as of December 31, 2018:

	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)

	Assets at fair value as of December 31, 2017				
	Measured at NAV	Level 1	Level 2	Level 3	Total
Long-term investment strategies:					
Cash equivalents	$ —	10,280	—	—	10,280
Fixed income:					
Domestic mutual funds	—	2,766	—	—	2,766
Common collective trust fund	9,740	—	—	—	9,740
Domestic government securities	—	4,433	1	—	4,434
Equity:					
Domestic	—	8,224	—	—	8,224
Global	—	6,020	—	—	6,020
Common collective trust fund	—	—	—	—	—
Hedge funds	71,218	—	—	—	71,218
Private equity	37	—	—	—	37
Alternative hedged strategies	29,537	—	—	—	29,537
Real assets:					
Real estate investment trust	215	—	—	—	215
Total investments	$ 110,747	31,723	1	—	142,471
Assets of Pooled Income Funds (PIF) and Charitable Gift Annuities (CGA):					
Cash equivalents	$ —	39		—	39
Fixed income	555	132	168	—	855
Public equity	2,267	403		—	2,670
Total assets of PIF and CGA	$ 2,822	574	168	—	3,564
Beneficial interests in perpetual trusts held by third parties	$ —	—	—	13,288	13,288

(Amounts in thousands)

The following table includes a rollforward for the years ended December 31, 2018 and 2017 for financial instruments classified within Level 3.

		Perpetual trusts
Balance, December 31, 2016	$	5,135
Distributions		—
Contributions		—
Fees		—
Net appreciation		8,153
Balance, December 31, 2017		13,288
Distributions		—
Contributions		—
Fees		—
Net depreciation		(348)
Balance, December 31, 2018	$	12,940

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, 2018, 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	$	21,502
Quarterly:			
Equity – hedge funds	30–60		27,590
Annually:			
Alternative hedged strategies	30-90		13,329
Lockup (a):			
Equity-hedge funds	Not applicable		16,525
Alternative hedged strategies	Not applicable		13,616
Private equity	Not applicable		634
Real estate investment trust	Not applicable		279
Pooled income funds and gift annuity	Not applicable		2,403
Total		$	95,878

(Amounts in thousands)

(a) The amounts subject to redemption lockups at December 31, 2018 that are set to expire are as follows:

Fiscal year		Amount
2019:		
Private equity	$	634
Real estate investment trust		279
Alternative hedged strategies		5,894
2020:		
Alternative hedged strategies		13,616
2022:		
Equity - hedge funds		10,631
2024 and beyond:		
Assets of PIF and CGA		2,403
Total	$	33,457

(5) Commodities and Ocean Freight

During the years ended December 31, 2018 and 2017, 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 and the government of Ethiopia). 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		2018	2017
World Food Programme	Agricultural	$	102,000	34,342
The Global Fund	Pharmaceutical		8,887	11,050
Catholic Relief Services from USAID	Agricultural		5,318	8,404
United States Department of Agriculture	Agricultural		1,801	1,271
United Nations High Commissioner for Refugees	Agricultural		92	—
Catholic Relief Services from government of Ethiopia	Agricultural		—	304
		$	118,098	55,371

(6) Endowments

The Organization’s endowment consists of 92 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 and $2 as of December 31, 2018 and 2017, respectively. These funds had an original gift value of $14,130 and $228 and a fair value of $13,452 and $226 as of December 31, 2018 and 2017, respectively. These deficiencies resulted from unfavorable market fluctuations.

(Continued)

(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 2018 and 2017) 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, 2018 and 2017, endowment net assets, excluding beneficial interests in perpetual trusts held by third parties, consist of the following:

		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

		2017		
		Without donor restrictions	With donor restrictions	Total
Donor-restricted funds	$	—	38,343	38,343
Board-designated funds		97,603	—	97,603
Total endowments	$	97,603	38,343	135,946

(Amounts in thousands)

Changes in endowment net assets for the years ended December 31, 2018 and 2017 consisted of the following:

		Without donor restrictions	With donor restrictions	Total
Endowment net assets, December 31, 2016	$	89,542	34,846	124,388
Investment return, net		12,188	4,767	16,955
Contributions		—	180	180
Member growth loan repayment		861	—	861
Transfer to/from board designated funds		(484)	—	(484)
Spending rate		(4,504)	(1,450)	(5,954)
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

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 at 4% per annum. As of December 31, 2018 and December 31, 2017, loan principal of $399 and $1,572, 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 repayment of such loans, including interest, was transferred back to the endowment. Principal loan repayments during 2018 and 2017 totaled $1,173 and $861, respectively.

(Amounts in thousands)

(7) Contributions Receivable, Net

Contributions receivable consisted of the following as of December 31, 2018 and 2017:

		2018	2017
Pledges receivable:			
Due within one year	$	4,977	7,306
Due within two to five years		4,038	4,715
		9,015	12,021
Less discount to present value (average rate of 0.12% to 2.54%)		(90)	(82)
Pledges receivable, net		8,925	11,939
Charitable remainder unitrusts receivable		507	514
Total contributions receivable, net	$	9,432	12,453

At December 31, 2018 and 2017, amounts receivable from two donors represents approximately 33% and 44% respectively, of the net contributions receivable.

(8) Property, Plant and Equipment, Net

Property, plant and equipment consisted of the following as of December 31, 2018 and 2017:

		2018	2017
Land	$	2	2
Buildings and improvements		539	539
Software and computer equipment		20,177	15,066
Vehicles		716	716
Furniture and office equipment		145	209
		21,579	16,532
Accumulated depreciation and amortization		(14,379)	(12,080)
Systems and construction in progress		3,349	5,435
Total property, plant and equipment, net	$	10,549	9,887

(Continued)

(Amounts in thousands)

(9) Lines of Credit

The Organization maintains two $15,000 revolving lines of credit, totaling $30,000. These lines of credit expire July 31, 2019 and September 10, 2019, respectively. Borrowings under these lines of credit bear interest at the 1 month LIBOR plus 0.70%. As of December 31, 2018 and 2017, there were no borrowings outstanding under such agreements nor any borrowings during fiscal year 2018 or 2017.

(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, 2018 and 2017, total pension expense under the defined contribution plans was $5,689 and $5,652, respectively.

The Organization has a self-insured group health benefit plans, including comprehensive medical, dental and prescription drug coverage. For 2018, the individual stop loss limit is $125 per person and the aggregate maximum is $14,733 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, 2018 and 2017:

		2018	2017
Change in benefit obligation:			
Benefit obligation at beginning of year	$	4,588	4,518
Service cost		267	227
Interest cost		150	161
Plan participant contributions		188	188
Actuarial loss		(488)	(96)
Benefits paid		(308)	(410)
Benefit obligation at end of year		4,397	4,588

(Amounts in thousands)

		2018	2017
Change in plan assets:			
Fair value of plan assets at beginning of year	$	—	—
SCUS contribution		120	222
Plan participant contributions		188	188
Benefits paid		(308)	(410)
Fair value of plan assets at end of year		—	—
Postretirement benefits other than pensions liability	$	4,397	4,588
Components of net periodic benefit cost:			
Service cost	$	267	227
Interest cost		150	161
Amortization of prior service cost		—	—
Amortization of net loss		—	—
Net periodic benefit cost	$	417	388

	2018	2017
Assumption used for benefit obligation as of December 31, 2018 and 2017:		
Discount rate	4.02 %	3.37 %
Assumptions used for benefit cost for the years ended December 31, 2018 and 2017:		
Discount rate	3.37 %	3.70 %

		2018	2017
The components of postretirement benefit cost other than net periodic benefit cost for the years ended December 31, 2018 and 2017, reported in fringe benefit expenses:			
Net actuarial gain (loss)	$	(488)	(96)
Total	$	(488)	(96)
Amounts not yet recognized as a component of net periodic benefit cost as of December 31, 2018 and 2017:			
Net actuarial gain	$	(752)	(264)
Total	$	(752)	(264)

(Amounts in thousands)

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

Years		Amount
2019	$	277
2020		296
2021		290
2022		296
2023		308
2024-2028		1,676

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.

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, 2018 and 2017.

(12) Net Assets with donor restrictions

Net assets with donor restrictions are available for the following purposes for the years ended December 31, 2018 and 2017, inclusive of appreciation on endowment corpus of $1,993 and $5,597, respectively.

		2018	2017
Asia programs	$	1,875	2,398
Middle East/Eurasia programs		930	2,138
Africa programs		922	1,500
Latin America/Caribbean programs		253	1,980
U.S. programs		24,660	27,799
International programs including match		2,110	2,309
Sector/thematic programs (emergency, education, health, etc.)		19,479	20,104
GIK programs		1,006	1,323
Other		12,624	15,618
Beneficial interest in perpetual trusts		12,940	13,288
Endowment corpus		32,993	32,746
	$	109,792	121,203

(Amounts in thousands)

(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, 2018:

Years		Amount
2019	$	4,717
2020		4,545
2021		4,568
2022		4,609
2023		4,637
Thereafter		33,182
	$	56,258

Rent expense, included in occupancy on the consolidated statement of functional expenses, amounted to $5,857 and $5,800 for the years ended December 31, 2018 and 2017, 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, 2018, ~~a~~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, 2018, no amounts have been accrued relating to this matter due to the uncertainty of the outcome.

(Amounts in thousands)

(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 40.0% and 41.1% of total operating revenue for 2018 and 2017, respectively. During the years ended December 31, 2018 and 2017, 83.6% and 86.1%, respectively, of such U.S. government revenue were received from USAID through direct and pass-through awards. At December 31, 2018 and 2017, 61.4% and 68.0% of grants and contracts receivable and 3.9% and 2.3%, 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, 2018 and 2017, 5.7% and 3.8%, respectively, of cash and cash equivalents (including liquid investments) were deposited in banks in foreign locations. In addition, at December 31, 2018 and 2017, 78.1% and 70.7%, 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.

(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, 2018 and 2017 is as follows:

	2018								
	Emergencies	Education	Health & nutrition	Child poverty/ livelihoods	HIV/AIDS	Child protection	Child rights governance	Total	FY 2017
Salaries	$ 7,289	23,506	9,780	3,712	863	1,378	14	46,542	45,860
Employee fringe benefits	1,739	6,361	2,848	1,160	309	480	4	12,901	13,126
Total salaries and related expenses	9,028	29,867	12,628	4,872	1,172	1,858	18	59,443	58,986
Grants and charges from SCI	18,866	93,287	325,218	52,554	45,099	21,891	436	557,351	474,106
Grants to other agencies	23,810	29,466	5,926	7,957	64	2,038	131	69,392	45,832
Supplies, material, etc.	2,747	6,683	749	143	51	197	1	10,571	10,435
Travel	1,403	2,262	1,776	600	180	232	7	6,460	6,665
Professional fees	1,262	2,970	1,916	699	141	204	3	7,195	5,031
Occupancy	690	3,170	170	89	10	63	1	4,193	3,703
Printing	59	96	46	21	2	6	1	231	429
Telecommunications	95	305	43	18	2	18	—	481	551
Postage and shipping	144	118	60	8	1	147	—	478	472
Depreciation and amortization	162	312	97	60	7	20	—	658	808
Other	68	477	83	29	—	—	—	657	3,760
Total expenses	$ 58,334	169,013	348,712	67,050	46,729	26,674	598	717,110	610,778

(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 31, 2018 are as follows:

		2018
Cash and cash equivalents	$	40,809
Grants and contracts receivable		52,551
Contributions receivable, net		9,432
Due from Save the Children International, net		34,832
Assets of pooled income fund and charitable gift annuities		3,061
Investments		131,771
Total financial assets		272,456
Add endowment spending rate		5,653
Less amounts unavailable for general expenditures within one year:		
Endowment funds restricted by donors of a perpetual nature		(32,993)
Unencumbered liquid assets required for line of credit		(35,000)
Contributions due beyond one year		(4,455)
Active PIF and CGA not yet terminated		(2,351)
Board-designated endowment		(93,137)
Board-designated operating reserve		(1,111)
Total financial assets available for general expenditure within one year		109,062
Other resources available:		
Lines of credit		30,000
Total financial assets and other resources available for general expenditure within one year	$	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 $93,137 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 $1,111 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.

(18) Subsequent Events

In connection with the preparation of the consolidated financial statements, the Organization evaluated subsequent events from December 31, 2018 through May 20, 2019, which was the date the consolidated financial statements were available for issuance, and concluded that no additional disclosures are required.