

**CHILDHELP, INC. AND AFFILIATES**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2018**

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Childhelp, Inc. and Affiliates  
Phoenix, Arizona

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements Childhelp, Inc. and Affiliates (Childhelp) as of June 30, 2018, which comprise the consolidated statement of financial position and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; 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 entity'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 entity'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.

Board of Directors  
Childhelp, Inc. and Affiliates

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Childhelp, Inc. and Affiliates as of June 30, 2018, and the change in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Phoenix, Arizona  
December 7, 2018

**CHILDHELP, INC. AND AFFILIATES**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**JUNE 30 2018**  
**(WITH COMPARATIVE TOTALS AT JUNE 30, 2017)**

<b>ASSETS</b>	2018	2017
Cash and Cash Equivalents	\$ 2,253,345	\$ 1,247,242
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$367,681	4,169,749	5,404,114
Contributions Receivable	3,384,325	823,679
Prepaid Expenses	404,207	900,199
Bequests Receivable	522,770	1,425,000
Deposits and Other Assets	937,899	837,324
Cash Surrender Value of Life Insurance	-	38,621
Assets Held in Trusts	1,774,077	1,921,420
Donated Use of Facility, Utilities, and Curriculum Property, Plant, and Equipment, Net	2,404,895	2,476,724
Land Available for Sale	5,767,791	6,073,396
	611,411	611,411
Total Assets	\$ 22,230,469	\$ 21,759,130
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts Payable	\$ 739,859	\$ 914,010
Accrued Expenses	2,679,464	2,540,154
Line of Credit, Net of Deferred Financing Costs	583,828	1,092,600
Deferred Revenues	386,678	435,253
Notes Payable, Net of Deferred Financing Costs	12,533,289	13,022,539
Total Liabilities	16,923,118	18,004,556
<b>NET ASSETS (DEFICIENCY)</b>		
Unrestricted	(1,085,649)	(2,737,319)
Temporarily Restricted	5,365,248	5,464,141
Permanently Restricted	1,027,752	1,027,752
Total Net Assets	5,307,351	3,754,574
Total Liabilities and Net Assets	\$ 22,230,469	\$ 21,759,130

See accompanying Notes to Consolidated Financial Statements.

**CHILDHELP, INC. AND AFFILIATES**  
**CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEAR ENDED JUNE 30, 2018**  
**(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2017)**

	2018			2017	
	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total	Total
<b>SUPPORT AND REVENUES</b>					
Program Income – Federal, State, and Local Contracts	\$ 30,900,458	\$ -	\$ -	\$ 30,900,458	\$ 29,289,248
Special Events and Chapter Fundraising (Net of Special Event Expenses of \$1,840,928 for 2018)	3,130,768	424,050	-	3,554,818	3,669,469
Foundations, Corporations, Individuals, and Organizations	5,913,803	1,210,840	-	7,124,643	8,074,358
Contributed Goods and Services	2,575,357	550,000	-	3,125,357	2,143,380
Change in Value of Assets Held in Trust	88,599	-	-	88,599	159,723
Other	635,158	-	-	635,158	104,521
<b>Total Support and Revenues</b>	<b>43,244,143</b>	<b>2,184,890</b>	<b>-</b>	<b>45,429,033</b>	<b>43,440,699</b>
<b>NET ASSETS RELEASED FROM RESTRICTION</b>	<b>2,283,783</b>	<b>(2,283,783)</b>	<b>-</b>	<b>-</b>	<b>-</b>
Total Support and Revenues and Net Assets Released from Restrictions	45,527,926	(98,893)	-	45,429,033	43,440,699
<b>FUNCTIONAL EXPENSES AND GAINS</b>					
Program Services:					
Residential Treatment	23,259,488	-	-	23,259,488	22,654,799
Hotline	1,256,311	-	-	1,256,311	1,127,361
Educational Programs	5,081,473	-	-	5,081,473	5,806,264
Foster Care	3,214,702	-	-	3,214,702	3,082,538
Advocacy/Diagnostic Services	6,765,871	-	-	6,765,871	6,114,482
<b>Total Program Services</b>	<b>39,577,846</b>	<b>-</b>	<b>-</b>	<b>39,577,845</b>	<b>38,785,444</b>
Support Services:					
Management and General	1,720,598	-	-	1,720,598	1,818,568
Fundraising	2,540,086	-	-	2,540,086	1,314,491
<b>Total Support Services</b>	<b>4,260,684</b>	<b>-</b>	<b>-</b>	<b>4,260,684</b>	<b>3,133,059</b>
<b>Total Functional Expenses</b>	<b>43,838,529</b>	<b>-</b>	<b>-</b>	<b>43,838,529</b>	<b>41,918,503</b>
Gains and Losses:					
(Gain) Loss on Sale of Assets	(268,989)	-	-	(268,989)	(558)
Provision for Doubtful Accounts	306,716	-	-	306,716	176,308
Settlement Income	-	-	-	-	(1,477,899)
<b>Total Functional Expenses and Net Gains</b>	<b>43,876,256</b>	<b>-</b>	<b>-</b>	<b>43,876,256</b>	<b>40,616,354</b>
<b>CHANGES IN NET ASSETS</b>	<b>1,651,670</b>	<b>(98,893)</b>	<b>-</b>	<b>1,552,777</b>	<b>2,824,345</b>
Net Assets (Deficiency) - Beginning of Year	(2,737,319)	5,464,141	1,027,752	3,754,574	930,229
<b>NET ASSETS (DEFICIENCY) - END OF YEAR</b>	<b>\$ (1,085,649)</b>	<b>\$ 5,365,248</b>	<b>\$ 1,027,752</b>	<b>\$ 5,307,351</b>	<b>\$ 3,754,574</b>

See accompanying Notes to Consolidated Financial Statements.

**CHILDHELP, INC. AND AFFILIATES**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2018**

	Program Services					Support Services			Total Functional Expenses	
	Residential Treatment	Hotline	Educational Programs	Foster Care	Advocacy/Diagnostic Services	Total Program Services	Management and General	Fund-Raising		Total Support Services
Salaries and Benefits	\$ 17,379,980	\$ 822,467	\$ 3,880,924	\$ 1,261,786	\$ 2,897,245	\$ 26,242,403	\$ 1,093,628	\$ 1,493,870	\$ 2,587,498	\$ 28,829,901
Clothing/personal Needs	326,978	-	4,033	25,753	9,093	365,857	-	-	-	365,857
Conferences/Meetings	70,730	1,255	3,114	8,537	40,201	123,837	31,060	3,765	34,825	158,662
Dues/Subscriptions	142,693	9,484	11,008	6,216	23,141	192,542	54,681	73,055	127,736	320,278
Food Service	824,314	-	171,305	-	15,886	1,011,505	-	487,123	487,123	1,498,628
Foster Care	-	-	-	1,392,598	-	1,392,598	-	-	-	1,392,598
Gift In-Kind Expense	50,645	88	54,945	-	3,086,428	3,192,106	-	2,423	2,423	3,194,529
Insurance/taxes	572,866	191,555	134,714	44,150	120,141	1,063,426	79,621	71,765	151,386	1,214,812
Interest and Bank Fees	876,568	-	100,684	23,493	24,465	1,025,210	51,866	28,810	80,676	1,105,886
Licensing	24,536	-	8,691	10,840	3,300	47,367	7,176	273	7,449	54,816
Maintenance/Repairs	583,559	-	57,953	90,521	108,491	840,524	17,940	18,726	36,666	877,190
Medical	237,455	-	33,842	14	43,314	314,625	-	-	-	314,625
Miscellaneous and Other Expenses	408	-	320	97	45,579	46,404	5,000	699,137	704,137	750,541
Postage	9,915	81	283	1,057	2,137	13,473	14,289	12,067	26,356	39,829
Printing/Publishing	10,512	839	54,654	-	4,938	70,943	3,027	252,717	255,744	326,687
Professional Services	293,458	112,964	238,630	29,853	66,395	741,301	111,542	678,122	789,665	1,530,966
Promotions	22,417	2,220	50	5,270	6,588	36,545	2,115	59,357	61,472	98,017
Recruiting	2,958	-	-	49,441	-	52,399	21,392	-	21,392	73,791
Recreation/Special Education	259,903	-	24,905	6,047	2,318	293,173	-	-	-	293,173
Rent	280,206	33,739	110,482	86,137	49,873	560,437	42,167	280,246	322,413	882,850
Scholarships	-	-	-	-	6,416	6,416	-	-	-	6,416
Supplies	195,575	3,146	26,937	16,927	67,416	310,001	34,431	13,246	47,677	357,678
Telephone/Telecommunications	118,060	69,900	32,767	56,088	43,518	320,333	69,091	18,509	87,600	407,933
Travel/Automobile	184,584	6,630	52,396	55,252	57,090	355,952	40,816	99,396	140,212	496,164
Utilities	350,266	-	44,851	37,705	8,512	441,334	2,646	6,922	9,568	450,902
Depreciation and Amortization	440,902	1,944	33,984	6,919	36,475	520,224	38,110	78,393	116,503	636,727
Less Special Event Expenses	-	-	-	-	(3,089)	(3,089)	-	(1,837,839)	(1,837,839)	(1,840,928)
<b>Total Functional Expenses</b>	<b>\$ 23,259,488</b>	<b>\$ 1,256,311</b>	<b>\$ 5,081,473</b>	<b>\$ 3,214,702</b>	<b>\$ 6,765,871</b>	<b>\$ 39,577,846</b>	<b>\$ 1,720,598</b>	<b>\$ 2,540,086</b>	<b>\$ 4,260,684</b>	<b>\$ 43,838,529</b>

See accompanying Notes to Consolidated Financial Statements.

**CHILDHELP, INC. AND AFFILIATES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**YEAR ENDED JUNE 30, 2018**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Changes in Net Assets	\$ 1,552,777
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities	
Provision for Doubtful Accounts	306,716
Gain on Sale of Assets	(268,989)
Depreciation and Amortization	636,727
Interest Expense - Amortization of Loan Fees	22,104
Cash Surrender Value of Life Insurance	38,621
Change in Value of Assets Held in Trust	147,343
Contribution of Use Facility	(129,116)
Contribution of Curriculum	(495,055)
Amortization of Facility Rent Receivable	696,000
Increase (Decrease) in Cash Resulting from Changes in:	
Accounts Receivable	927,649
Contributions Receivable	(2,560,646)
Prepays	495,992
Bequests Receivable	902,230
Deposits and Other Assets	(100,575)
Accounts Payable	(174,151)
Accrued Expenses	139,310
Deferred Revenues	(48,575)
Net Cash Provided by Operating Activities	<u>2,088,362</u>

**CASH FLOWS USED BY INVESTING ACTIVITIES**

Purchases of Property and Equipment	(619,648)
Proceeds from sale of real estate	557,515
Net Cash Used by Investing Activities	<u>(62,133)</u>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Net Decrease in Line of Credit	(520,097)
Principal Payments of Notes Payable	(500,029)
Net Cash Used by Financing Activities	<u>(1,020,126)</u>

**NET INCREASE IN CASH AND CASH EQUIVALENTS**

1,006,103

Cash and Cash Equivalents - Beginning of Year

1,247,242

**CASH AND CASH EQUIVALENTS - END OF YEAR**

\$ 2,253,345

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

Cash Paid During the Year for Interest \$ 910,755

Noncash Donations \$ 624,171

See accompanying Notes to Consolidated Financial Statements.

**CHILDHHELP, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 1 ORGANIZATION**

Childhelp, Inc. (Childhelp, a registered name used throughout, or the Organization) is a California nonprofit corporation. During fiscal year 2018, Childhelp's programs and services were administered in all 50 states, and its facilities were strategically located in Arizona, California, Tennessee, and Virginia.

Childhelp is the largest, longest-running national nonprofit dedicated to the intervention, treatment and prevention of child abuse. Childhelp exists to meet the physical, emotional, educational, and spiritual needs of abused, neglected and at risk children. Through a multidisciplinary network of child-centered programs and services, a child who has survived abuse is medically supervised to heal physically, encouraged to regain trust, taught to develop self-esteem through a gentle therapeutic process, tutored to progress educationally, nurtured to recover psychologically and supported to reach his/her limitless potential.

Advocacy begins at the public policy level where Childhelp promotes legislation that protects children from predators. Outreach initiatives, such as the Childhelp Community Center, offer low-income at-risk families childcare support, parenting classes and academic enrichment programs to build better neighborhoods. Through Childhelp Speak Up Be Safe for Students and Athletes, the organization is blanketing the nation with research-based prevention education programs that reach children in schools and on the sports field. These lifesaving tools not only prevent students from being victimized, but empower families to create safer communities for their children.

A child in crisis, survivor in need of services or anyone concerned about abuse in their region has access to the Childhelp National Child Abuse Hotline, a 24-hour, 7 day a week service staffed exclusively with degreed crisis counselors. 1-800-4-A-CHILD offers translation in over 170 languages because Childhelp believes every child deserves to have his/her voice heard. The hotline expands to Guam, Canada and U.S. Virgin Islands.

A child that has been rescued from an abusive situation is offered a host of healing options through Childhelp's treatment centers. A Childhelp Children's Advocacy Center is a one-stop shop for the prosecution of child abuse staffed with medical personnel, law enforcement, prosecution, social service agencies and counselors all working in unison to prosecute predators and restore health and happiness to survivors.

Childhelp offers safe haven through group homes, therapeutic foster care, and adoption. Some of the most severely abused children in the country are brought to the Childhelp Residential Treatment Villages to heal. Onsite nonpublic schools ensure that even the most neglected child is brought back to an appropriate grade level. These 24-hour care facilities located in idyllic country settings employ art and equine therapy along with traditional talk therapy to break through the walls of abuse and offer a bright view of the future.

**CHILDHHELP, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 1 ORGANIZATION (CONTINUED)**

Bricks and mortar programs are strategically located in California, Tennessee, Arizona, and Virginia while the Childhelp National Child Abuse Hotline, legislative work, and prevention education initiatives impact all 50 states. Childhelp Chapters and the Childhelp Wings parent/child collectively mobilize volunteers throughout the country who support the Childhelp philosophy that every child deserves a childhood free from abuse and a future filled with hope.

**Program Service Accomplishments**

With over 10 million children helped since its inception, during the fiscal year ended 2018 Childhelp helped over 160,600 children, including those who were the victims of severe emotional, physical, and sexual abuse, parental neglect, bullying, and countless other crimes against children. Through advocacy centers, residential treatment facilities, foster care and adoption programs, community outreach and the national hotline, Childhelp offered multidisciplinary advocacy for at-risk populations. The school and athletic-based prevention curricula, Childhelp Speak Up Be Safe and Childhelp Speak Up Be Safe for Athletes, continue to empower youth nationwide through prevention education. For each dollar expended, over 90 cents is invested into serving the children in need of our program services using approximately 4 cents for administration and approximately 6 cents for fundraising.

Affiliated organizations (the affiliates) include, Childhelp Foundation, Childhelp Lifeline Empowerment Trust, and Childhelp Arizona, LLC to carry out programs that complement the activities of Childhelp. The activities of these affiliated organizations have been consolidated with those of Childhelp. There was no financial activity for any of the affiliates during the year ended June 30, 2018. If there had been activity, then all inter-company transactions and balances would have been eliminated in consolidation.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The Organization's consolidated financial statements are presented in accordance with the American Institute of Certified Public Accountants (AICPA) Not-for-Profit Industry Guidance within the Financial Accounting Standards Board (FASB) Codification (Guidance). Under the Guidance, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Revenues, gains, expenses, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of Childhelp and changes therein are classified and reported as follows:

**Unrestricted Net Assets**

Net assets that are not subject to donor-imposed stipulations and that may be expendable for any purpose in performing the primary objectives of Childhelp.

**CHILDHELP, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Presentation (Continued)**

**Temporarily Restricted Net Assets**

Net assets subject to donor-imposed stipulations that may or will be met either by actions of Childhelp and/or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated financial statements as net assets released from restriction. Donor-restricted contributions received and expended in the same reporting period are recorded as unrestricted support. Contributions of land, building, and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of unrestricted net assets. Contributions of cash or other assets to be used to acquire land, buildings, and equipment with donor stipulations are reported as revenues of temporarily restricted net assets. The restrictions are considered to be released at the time such long-lived assets are placed in service.

**Permanently Restricted Net Assets**

Net assets subject to donor-imposed stipulations that require the amounts be invested in perpetuity. Income and gains relating to such contributions are available for the general operations of Childhelp.

**Use of Estimates in the Preparation of Consolidated Financial Statements**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

Childhelp considers money market funds and short-term investments purchased with an original maturity less than ninety days to be cash equivalents. The Organization maintains all of its cash and temporary investments in several commercial banks.

**Contributions**

Contributions, including unconditional promises to give, that are expected to be collected within one year are recorded as support at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded as a contribution receivable at the present value of their estimated future cash flow. The discounts on those amounts are computed using interest rates commensurate with the risks involved applicable to the years in which the promises are received. Conditional promises to give are not included as support until the conditions are substantially met. As of June 30, 2018, management believes all contributions receivable are collectible within 12 months of year-end.

**CHILDHELP, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Contributed Goods and Services**

The value of significant contributed goods and services is reflected as contributions in the accompanying consolidated financial statements and are recorded at the fair value of such goods and services at the date of the donations.

Contributed services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. In addition to contributed goods and services meeting the aforementioned criteria and that have been recorded in the accompanying consolidated financial statements, Childhelp receives significant amounts of contributed time from volunteers that do not meet the recognition criteria described above. As such, the value of this contributed time has not been determined and is not reflected in the accompanying consolidated financial statements.

**Program Income**

Program service revenues consist of governmental reimbursements at contracted rates for residential treatment based programs. Program service fees are recognized when earned. Monies received in advance of being earned are recognized as deferred revenue.

**Accounts Receivable**

Accounts receivable are uncollateralized receivables generated from providing program services based on contractual arrangements with state and local agencies and are stated at the invoice amount and are due upon presentation. Generally, account balances, with invoices over ninety days old are considered delinquent. The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. The allowance for doubtful accounts is based on management's assessment of the collectability of specific accounts and the aging of the accounts receivable. If there is a deterioration of the credit worthiness or actual defaults are higher than the historical experience, management's estimates of the recoverability of amounts due Childhelp could be adversely affected. All accounts or portions thereof deemed to be uncollectible or require an excessive collection effort are written off to the allowance for doubtful accounts.

**Beneficial Interests in Assets Held in Trusts**

Childhelp receives contributions of investment assets in which Childhelp retains an interest. The assets are invested and administered by unrelated trustees and community foundations, and distributions are made to Childhelp. These funds are primarily invested in debt and equity securities, and Childhelp records its interest at the fair value of the assets which are actively traded on exchanges. Initial recognition and subsequent adjustments to the assets' carrying value are recognized as bequest and trust contributions and change in value of beneficial interest in assets held in trust, respectively. The beneficial interest trusts are classified as permanently restricted, temporarily restricted, or unrestricted support, depending on donor-imposed purpose and time restrictions, if any.

**CHILDHELP, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Land Available for Sale**

Childhelp has approximately 70 acres of undeveloped land in Beaumont, California that is not used in operations and is available for sale.

**Property, Plant, and Equipment**

Property, plant, and equipment acquisitions in excess of \$2,000 are initially recorded at cost and donated property and equipment are recorded at fair value at the date of gift. Depreciation is provided using the straight-line method over their respective estimated useful lives, which range from 3 to 40 years.

Copyrights and trademarks are amortized using the straight-line method over their estimated useful lives of 7 years.

**Impairment of Long-Lived Assets**

Childhelp reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

**Deferred Financing Costs**

The debt issuance costs as of June 30, 2018 are as follows:

	<u>Line of Credit</u>	<u>Notes Payable</u>	<u>Total</u>
Deferred Financing Costs	\$ 87,650	504,795	\$ 592,445
Accumulated Amortization	(79,156)	(256,369)	(335,525)
Deferred Financing Costs, Net	<u>\$ 8,494</u>	<u>\$ 248,426</u>	<u>\$ 256,920</u>

Financing costs are amortized over the life of the related credit facilities to interest expense. Amortization of loan fees included in interest expense was \$22,104 for the year ended June 30, 2018.

**CHILDHELP, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Expense Allocation**

Expenses that can be specifically identified with a particular program or supporting service are charged directly to the related program or supporting service. Expenses that are associated with more than one program or supporting service are allocated based on an evaluation by Childhelp's management which is based on time studies and other rational allocation methodologies.

**Advertising**

Advertising costs are expensed as incurred.

**Income Taxes**

Childhelp has received a tax determination letter indicating that it qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. In addition, the Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a).

Income determined to be unrelated business taxable income (UBTI) would be taxable.

**Prior Year Summarized Information**

The consolidated financial statements include certain prior year summarized comparative information for the consolidated statement of financial position and the consolidated statement of activities and changes in net assets in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Childhelp's consolidated financial statements as of and for the year ended June 30, 2017, from which the summarized information was derived.

**NOTE 3 BEQUESTS RECEIVABLE**

Bequests receivable totaled \$522,770 at June 30, 2018. As of June 30, 2018, there was no allowance for doubtful receivables as management believes the bequests receivable to be fully collectible within 12 months of year-end.

**CHILDHELP, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 4 ASSETS HELD IN TRUSTS**

Childhelp has been named a remainder beneficiary of two trusts held by a third party. Under the term of this trusts, Childhelp has the irrevocable right to receive all assets remaining in the trusts after the death of the life income beneficiaries.

Childhelp also has been named in a trust held in perpetuity for which Childhelp has a one-sixth interest in the income received from the trust's assets. The trust is held by an unrelated third-party trustee and Childhelp is entitled to its proportionate share of the annual income distribution.

The beneficial interests in the trusts are recorded at the fair value of the assets expected to be received by the trusts as of June 30, 2018 as follows:

Trust Held by a Third Party	\$ 877,555
Perpetual Trust	<u>896,522</u>
Total	<u><u>\$ 1,774,077</u></u>

**NOTE 5 FAIR VALUE OF FINANCIAL INSTRUMENTS**

In determining fair value, Childhelp uses various valuation approaches within the fair value measurement framework. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability.

The fair value measurement framework establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The framework defines levels within the hierarchy based on the reliability of inputs as follows:

*Level 1* – Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;

*Level 2* – Valuations based on quoted prices for similar assets or liabilities or identical assets or liabilities in less active markets, such as dealer or broker markets; and

*Level 3* – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

**CHILDHELP, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 5 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

A description of the valuation methodologies used for instruments measured at fair value and their classification in the valuation framework follows:

**Assets Held in Trust and Remainder Trust**

The value of the beneficial interest agreements are recorded at the fair value of the investments which are held by third-party trustees and then adjusted for Childhelp's interest in the assets. These trusts are classified within the Level 2 and Level 3 of the valuation hierarchy.

The following table presents assets measured at fair value on a recurring basis by classification within the fair value hierarchy as of June 30, 2018:

	Fair Value Measurements Using:			Total
	Level 1	Level 2	Level 3	
Beneficial Interest in Remainder Trusts	\$ -	\$ 877,555	\$ -	\$ 877,555
Beneficial Interests in Assets Held in Trust	\$ -	\$ -	\$ 896,522	\$ 896,522

The following table presents a rollforward of activity for investments measured at fair value using significant unobservable inputs (Level 3) for the year ended June 30, 2018:

	Assets Held in Trust
Beginning Balance	\$ 877,752
Dividend and Interest Income	24,030
Distributions	(40,962)
Net Appreciation	35,702
Ending Balance	\$ 896,522

**CHILDHELP, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 6 PROPERTY, PLANT, AND EQUIPMENT**

Property, plant, and equipment consist of the following at June 30, 2018:

Land	\$ 1,853,988
Building and Improvements	15,223,271
Furniture, Fixtures, and Equipment	4,228,308
Vehicles	846,638
Construction in Progress	241,900
Copyrights/Trademark	449,364
Total	<u>22,843,469</u>
Less Accumulated Depreciation and Amortization	<u>(17,075,678)</u>
Property, Plant, and Equipment, Net of Accumulated Depreciation and Amortization	<u>\$ 5,767,791</u>

Total depreciation and amortization expense was \$636,727 for the year ended June 30, 2018. Childhelp has not capitalized interest expense on the construction in progress due to its immateriality.

**NOTE 7 LINE OF CREDIT**

Childhelp entered into a revolving line of credit and security agreement with a lender on October 21, 2014, with a maximum principal availability of \$3,000,000. The line of credit was due in full on March 18, 2017, with an interest rate of LIBOR plus 4.50% which dropped to 3.50% after one year of covenant and loan compliance, with a LIBOR floor of 1.25%. These terms were amended on March 17, 2017, to extend the line of credit for two years expiring on March 18, 2019. The outstanding balance was \$592,322 as of June 30, 2018. The balance under this agreement is presented net of unamortized deferred financing costs of \$8,494 as of June 30, 2018.

Effective July 24, 2018, Childhelp paid the outstanding balance and closed the aforementioned line of credit. Additionally, effective July 24, 2018, Childhelp entered into a \$7,500,000 revolving line of credit with a bank that accrues interest on any outstanding advances at a variable rate of prime plus .025% maturing July 24, 2021. The new line of credit will automatically renew for an additional three years maturing July 24, 2024 and is secured by deeds of trust on real property, assignment of rents, and assignment of depository accounts. As of December 7, 2018, the outstanding balance on the Line of Credit was approximately \$3 million.

Childhelp is required to comply with restrictive debt covenants with respect to the revolving line of credit agreements. Management believes that Childhelp has complied with the restrictive debt covenants as of June 30, 2018.

**CHILDHELP, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 8 NOTES PAYABLE**

Notes payable consist of the following:

Note payable to a bank; secured by three group homes; original amount of \$1,342,250; interest rate is variable comprised of a 2.500% margin rate plus a published index rate of 1.410% (one year LIBOR) rounded to the nearest .125% (as of June 30, 2018 was 4.000%). Principal and interest is payable monthly through November 2035.	\$ 1,210,356
Note payable to a funding company; secured by equipment; interest of 5.66% is payable monthly through February 2019.	3,935
Note payable to a funding company; secured by undeveloped land; interest of 7.5% is payable commencing August 20, 2015, through the due date and balloon payment of all principal and accrued interest on June 30, 2025.	3,553,478
Note payable to a lender; unsecured, non-interest bearing; payable monthly at \$9,375 through February 2019.	65,625
Note payable to a lender; secured by deed of trust on properties in California and Tennessee; fixed interest at 6.5%; original amount of \$8,239,000; payable monthly at \$54,514 through October 2042.	7,918,320
Note payable to a lender; unsecured, noninterest bearing, paid at \$556 monthly through December 2022.	30,001
Total	12,781,715
Less: Unamortized Deferred Financing Costs	(248,426)
Notes Payable, Net	<u><u>\$ 12,533,289</u></u>

**CHILDHELP, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 8 NOTES PAYABLE (CONTINUED)**

Future maturities of notes payable are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 270,470
2020	206,908
2021	219,749
2022	231,988
2023	240,887
2024	249,666
2025	3,819,210
2026	281,532
2027	298,331
2028	315,068
Thereafter	6,647,906
Total	<u>\$ 12,781,715</u>

**NOTE 9 OPERATING LEASES**

Childhelp rents certain facilities and equipment under various operating lease agreements maturing December 2023. The following is a schedule of the future minimum lease payments for leases that have a remaining noncancelable term in excess of one year:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 634,184
2020	511,661
2021	190,771
2022	96,076
2023	72,257
Thereafter	30,107
Total	<u>\$ 1,535,056</u>

Lease expense for all operating leases was approximately \$660,211 for the year ended June 30, 2018. It is expected that in the normal course of business, leases that expire will be renewed; thus, it is anticipated that future rent expense will be greater than the future minimum lease payments shown for 2019.

**CHILDHELP, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 10 NET ASSETS**

**Temporarily Restricted Net Assets**

Temporarily restricted net assets were available for the following purposes:

Capital Expenditures	\$ 998,133
Residential Treatment Program	817,504
Assets Held in an External Trust Not Held by Childhelp	877,555
Hotline	75,000
Education and Prevention Programs	188,461
Time Restricted Including Donated Office Space	2,404,895
Advocacy/Diagnostic Services	3,700
Total	<u>\$ 5,365,248</u>

A summary of net assets released from restriction follows:

Capital Expenditures	\$ 197,015
Residential Treatment Program	1,015,497
Assets Held in an External Trust Not Held by Childhelp	195,161
Hotline	47,589
Education and Prevention Programs	203,891
Time Restricted Including Donated Office Space	621,829
Advocacy/Diagnostic Services	2,801
Total	<u>\$ 2,283,783</u>

**Permanently Restricted Net Assets**

Childhelp's endowment funds consist of several individual funds established for general program purposes. The income earned on the endowment is available for general program purposes. Its endowment includes only donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions and are reported entirely as permanently restricted net assets. All realized investment income is expended in unrestricted net assets.

**CHILDHELP, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 10 NET ASSETS (CONTINUED)**

**Permanently Restricted Net Assets (Continued)**

The Board of Directors of Childhelp has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Childhelp classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent 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 classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) The possible effects of market volatility
- (4) The expected total return from income and the appreciation of investments
- (5) The investment policies of the organization

The permanently restricted net assets by type of fund as of June 30, 2018 are as follows:

Perpetual Trust Corpus Not Held by Childhelp	\$ 877,752
Hotline Endowment	150,000
Total	\$ 1,027,752

The endowment net asset composition by type of fund as of June 30, 2018, follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Restricted Endowment Funds:				
Perpetual Trust not Held by Childhelp	\$ 18,770	\$ -	\$ 877,752	\$ 896,522
Hotline Endowment	-	-	150,000	150,000
Total	\$ 18,770	\$ -	\$ 1,027,752	\$ 1,046,522

Childhelp has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments. Under this policy the endowment assets are invested in a manner that is intended to produce results while assuming a moderate level of investment risk.

**CHILDHELP, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 10 NET ASSETS (CONTINUED)**

To satisfy its long-term rate-of-return objectives, Childhelp 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). Childhelp targets a diversified asset allocation that consists of equity-based investments and fixed-income funds.

The changes in endowment net assets for the year ended June 30, 2018 follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets - June 30, 2017	\$ -	\$ -	\$ 1,027,752	\$ 1,027,752
Investment Return:				
Dividends and Interest Income	24,030	-	-	24,030
Distributions	(40,962)	-	-	(40,962)
Net Appreciation (Realized and Unrealized)	35,702	-	-	35,702
Endowment Net Assets - June 30, 2018	<u>\$ 18,770</u>	<u>\$ -</u>	<u>\$ 1,027,752</u>	<u>\$ 1,046,522</u>

**NOTE 11 CONTRIBUTED GOODS AND SERVICES**

In connection with its advocacy/diagnostic programs, Childhelp received contributions of various medical services including those of physicians, nurse practitioners, and therapeutic psychologists, totaling approximately \$2,276,713 for the year ended June 30, 2018. These contributions benefited Childhelp's advocacy/diagnostic service operations and are reflected in the accompanying consolidated statement of activities and changes in net assets (deficiency) as contributed goods and services and program expenses.

Contributions consisting of equipment, curriculum, teaching services, food, toys, clothing and other program related donations are recorded in the accompanying consolidated statement of activities and changes in net assets as contributed goods and services and expensed according to the program or supporting service benefited of approximately \$848,644 for the year ended June 30, 2018.

**CHILDHELP, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 11 CONTRIBUTED GOODS AND SERVICES (CONTINUED)**

On June 30, 2016, Childhelp signed an agreement with the City of Phoenix to receive donated office space for the purposes of providing child victim advocacy services. The lease term is for five years, with an option to extend an addition 5 years. The City of Phoenix valued the donated office space at \$696,000 per year, including utilities and furnishings. Childhelp recorded the initial five-year term of the lease in its entirety of \$3,480,000 as a receivable, net of \$466,684 discount, and temporarily restricted revenue, which will be released at \$58,000 per month as the lease term expires.

In March 2018, Childhelp contracted with The Southwest Interdisciplinary Research Center (SIRC) at Arizona State University, to provide expert services in the areas of curriculum design, development, pilot testing, and a randomized control trial of the Childhelp Speak Up Be Safe curriculum. Over the term of the agreement SIRC will conduct the randomized control trials, data analysis, and publication development.

The changes in the donated facility space receivable and associated discount for the year ended June 30, 2018 follows:

	Donated Facility Space and Curriculum Receivable	Unamortized Discount	Net Receivable
Beginning Balance	\$ 2,782,333	\$ (305,609)	\$ 2,476,724
Donated Curriculum	495,055	-	495,055
In-Kind Rent Expense	(696,000)	-	(696,000)
Amortization of Discount - Contributed Goods and Services	-	129,116	129,116
Ending Balance	<u>\$ 2,581,388</u>	<u>\$ (176,493)</u>	<u>\$ 2,404,895</u>
Amounts Due in:			
Less than One Year	\$ 991,055		
Over One Year	1,590,333		
Total	<u>\$ 2,581,388</u>		

**NOTE 12 DEFINED CONTRIBUTION PLANS**

Childhelp sponsors defined contribution plans that cover employees who meet each plan's eligibility requirements. Childhelp contributed \$285,296 to the plans in total during the year ended June 30, 2018.

**CHILDHELP, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 13 CONTINGENCIES**

**Legal Matters**

In the ordinary course of business, Childhelp is subject to certain lawsuits and other potential legal actions, including class actions pertaining to wage and hour claims in the state of California. In the opinion of management and outside counsel, such matters will not have a material adverse effect on the financial position, changes in net assets and net assets of Childhelp.

**Grants**

Childhelp participates in a number of federal and state-assisted grant and contract programs which are subject to financial and compliance audits. Accordingly, Childhelp's compliance with applicable grant or contract requirements may be established at some future date. The amount, if any, of expenditures or fees for units of service which may be disallowed by the granting or contracting agencies are determined upon the completion of audits.

**NOTE 14 RELATED PARTY TRANSACTIONS**

During the year ended June 30, 2018, Childhelp had the following related party transactions:

- Notes payable include \$3,553,478 payable to a finance company whose president is a board of directors' member of Childhelp and for which \$266,511 was paid in interest installments. Additionally, the board member provided \$113,285 in contributions.
- The board of directors' members provided \$880,677 in contributions to Childhelp.

**NOTE 15 CONCENTRATION OF CREDIT RISKS**

Financial instruments that potentially subject Childhelp to concentrations of credit risk consist principally of cash and accounts receivable. Childhelp places its cash with high-credit quality financial institutions and generally limits the amount of credit exposure to the amount in excess of the Federal Deposit Insurance Corporation (FDIC) insurance coverage limit. At various times throughout the year, the Organization's cash balances may exceed the federally insured limits. Management believes there are no unusual risks associated with the current depository institutions. Approximately 67% of total support and revenue was derived from agencies of several different states for the year ended June 30, 2018.

**CHILDHELP, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 16 SUBSEQUENT EVENTS**

Management evaluated subsequent events through December 7, 2018, the date the consolidated financial statements were available to be issued. Events or transactions occurring after June 30, 2018, but prior to December 7, 2018, that provided additional evidence about conditions that existed at June 30, 2018, have been recognized in the consolidated financial statements for the year ended June 30, 2018. Events or transactions that provided evidence about conditions that did not exist at June 30, 2018, but arose before the consolidated financial statements were available to be issued have not been recognized in the consolidated financial statements for the year ended June 30, 2018.

Subsequent to June 30, 2018, Childhelp closed one line of credit and opened a new line of credit (Note 7).

In October 2018 a donor transferred a Limited Liability Company (LLC) to Childhelp. At the conclusion of the transfer, Childhelp became the sole member of the LLC holding title to undeveloped and unencumbered land in Maricopa County with an estimated value of \$1,000,000.

**NOTE 17 NEW AUTHORITATIVE ACCOUNTING LITERATURE**

In August 2016, the FASB issued Accounting Standards Update 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which is expected to impact the information presented in financial statements and notes about a nonprofit entity's liquidity, financial performance, and cash flows. The guidance is required to be applied by Childhelp for the fiscal year ending June 30, 2019.

In May 2014, the FASB issued amended guidance to clarify the principles for recognizing revenue from contracts with customers. The guidance requires Childhelp to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which Childhelp expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The guidance will initially be applied retrospectively using one of two methods. The standard will be effective for Childhelp for the year ending June 30, 2020; however, early application is permitted.

**CHILDHELP, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 17 NEW AUTHORITATIVE ACCOUNTING LITERATURE (CONTINUED)**

The FASB issued Accounting Standards Update (ASU) No. 2018-08 on June 21, 2018. This update clarifies and improves the scope and the accounting guidance for contributions received and contributions made. This ASU distinguishes between contributions and exchange transactions and assists in determining which guidance to apply. For contributions, the guidance in *Subtopic 958-605, Not-for-Profit Entities—Revenue Recognition*, should be followed. For exchange transactions, Topic 606, Revenue from Contracts with Customers, should be followed. To determine which guidance should be followed, grant documents have to be carefully analyzed. The standard will be effective for Childhelp for the year ending June 30, 2020; however, early application is permitted.

In February 2016, the FASB issued amended guidance for the treatment of leases. The guidance requires lessees to recognize a right-of-use asset and a corresponding lease liability for all operating and finance leases with lease terms greater than one year. The guidance also requires both qualitative and quantitative disclosures regarding the nature of Childhelp's leasing activities. The guidance will initially be applied using a modified retrospective approach. The amendments in the guidance are effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. Management is evaluating the impact of the amended lease guidance on Childhelp's financial statements.



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