

CHILDHHELP, INC. AND AFFILIATES
CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

**CHILDHELP, INC. AND AFFILIATES
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2017**

INDEPENDENT AUDITORS' REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS	
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	3
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS	4
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES	5
CONSOLIDATED STATEMENT OF CASH FLOWS	6
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	7



CliftonLarsonAllen

CliftonLarsonAllen LLP
CLAconnect.com

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, 2017, 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.

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, 2017, 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, Childhelp adopted a recently issued accounting standard related to the accounting for debt issuance costs. The new standard requires entities to present debt issuance costs as a direct deduction from the face amount of the related borrowing, amortize debt issuance costs using the interest method over the life of the debt, and record the amortization as a component of interest expense. Our opinion is not modified with respect to this matter.

Other Matter

Report on Summarized Comparative Information

We have previously audited Childhelp's 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated November 30, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



CliftonLarsonAllen LLP

Phoenix, Arizona
December 1, 2017

CHILDHELP, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30 2017
(WITH COMPARATIVE TOTALS AT JUNE 30, 2016)

ASSETS	2017	2016
Cash and Cash Equivalents	\$ 1,247,242	\$ 1,695,008
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$216,761	5,404,114	3,511,151
Contributions Receivable	823,679	239,850
Prepaid Expenses	900,199	503,478
Bequests Receivable	1,425,000	1,762,719
Deposits and Other Assets	837,324	541,798
Cash Surrender Value of Life Insurance	38,621	29,957
Assets Held in Trusts	1,921,420	1,761,697
Donated Use of Facility and Utilities	2,476,724	3,011,649
Property, Plant, and Equipment, Net	6,073,396	5,518,016
Land Available for Sale	611,411	611,411
	\$ 21,759,130	\$ 19,186,734
Total Assets	\$ 21,759,130	\$ 19,186,734
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 914,010	\$ 909,548
Accrued Expenses	2,540,154	2,330,624
Line of Credit, Net of Deferred Financing Costs	1,092,600	1,076,285
Deferred Revenues	435,253	613,837
Notes Payable, Net of Deferred Financing Costs	13,022,539	13,326,211
Total Liabilities	18,004,556	18,256,505
NET ASSETS (DEFICIENCY)		
Unrestricted	(2,737,319)	(5,765,189)
Temporarily Restricted	5,464,141	5,692,195
Permanently Restricted	1,027,752	1,003,223
Total Net Assets	3,754,574	930,229
Total Liabilities and Net Assets	\$ 21,759,130	\$ 19,186,734

See accompanying Notes to Consolidated Financial Statements.

CHILDHELP, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2017
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2016)

	2017			2016	
	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total	Total
SUPPORT AND REVENUES					
Program Income – Federal, State & Local Contracts	\$ 29,289,248	\$ -	\$ -	\$ 29,289,248	\$ 26,785,531
Special Events and Chapter Fundraising (net of special event expenses of \$1,744,916 for 2017)	2,869,417	800,052	-	3,669,469	1,726,378
Foundations, Corporations, Individuals, and Organizations	6,442,109	1,632,249	-	8,074,358	7,380,359
Contributed Goods and Services	1,982,305	161,075	-	2,143,380	5,023,234
Change in Value of Assets					
Held in Trust	111,418	-	48,305	159,723	(243,923)
Other	104,521	-	-	104,521	863,996
Total Support and Revenues	<u>40,799,018</u>	<u>2,593,376</u>	<u>48,305</u>	<u>43,440,699</u>	<u>41,535,575</u>
NET ASSETS RELEASED FROM RESTRICTION	<u>2,845,206</u>	<u>(2,821,430)</u>	<u>(23,776)</u>	<u>-</u>	<u>-</u>
Total Support and Revenues and Net Assets Released from Restrictions	43,644,224	(228,054)	24,529	43,440,699	41,535,575
FUNCTIONAL EXPENSES AND GAINS					
Program Services:					
Residential Treatment	22,654,799	-	-	22,654,799	22,153,389
Hotline	1,127,361	-	-	1,127,361	831,767
Educational Programs	5,806,264	-	-	5,806,264	4,764,977
Foster Care	3,082,538	-	-	3,082,538	2,856,194
Advocacy/Diagnostic Services	6,114,482	-	-	6,114,482	5,166,048
Total Program Services	<u>38,785,444</u>	<u>-</u>	<u>-</u>	<u>38,785,444</u>	<u>35,772,375</u>
Support Services:					
Management and General	1,818,568	-	-	1,818,568	1,564,505
Fundraising	1,314,491	-	-	1,314,491	1,156,319
Total Support Services	<u>3,133,059</u>	<u>-</u>	<u>-</u>	<u>3,133,059</u>	<u>2,720,824</u>
Total Functional Expenses	<u>41,918,503</u>	<u>-</u>	<u>-</u>	<u>41,918,503</u>	<u>38,493,199</u>
Gains and Losses:					
(Gain) Loss on Sale of Assets	(558)	-	-	(558)	(88,099)
Provision for Doubtful Accounts	176,308	-	-	176,308	673,474
Settlement Income	(1,477,899)	-	-	(1,477,899)	-
Total Functional Expenses and Net Gains	<u>40,616,354</u>	<u>-</u>	<u>-</u>	<u>40,616,354</u>	<u>39,078,574</u>
CHANGES IN NET ASSETS	3,027,870	(228,054)	24,529	2,824,345	2,457,001
Net Assets (Deficiency) - Beginning of Year	<u>(5,765,189)</u>	<u>5,692,195</u>	<u>1,003,223</u>	<u>930,229</u>	<u>(1,526,772)</u>
NET ASSETS (DEFICIENCY) - END OF YEAR	<u>\$ (2,737,319)</u>	<u>\$ 5,464,141</u>	<u>\$ 1,027,752</u>	<u>\$ 3,754,574</u>	<u>\$ 930,229</u>

See accompanying Notes to Consolidated Financial Statements.

CHILDHELP, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017

	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	\$ 17,429,909	\$ 852,160	\$ 4,052,275	\$ 1,328,838	\$ 2,833,672	\$ 26,496,854	\$ 1,144,992	\$ 593,085	\$ 1,738,077	\$ 28,234,931
Automobile and Travel	164,119	3,480	50,105	53,901	46,962	318,567	42,020	92,859	134,879	453,446
Children's Clothing and Related Needs	237,949	-	2,927	25,641	21,002	287,519	-	-	-	287,519
Conferences and Meetings	38,553	2,562	3,907	5,170	30,807	80,999	42,827	4,497	47,324	128,323
Dues and Subscriptions	124,861	9,230	30,807	9,332	25,815	200,045	33,139	64,946	98,085	298,130
Food	628,822	-	353,195	-	21,590	1,003,607	-	364,165	364,165	1,367,772
Foster Care	-	-	-	1,215,841	-	1,215,841	-	-	-	1,215,841
Gift In Kind	81,679	-	-	-	2,554,373	2,636,052	20,224	22,547	42,771	2,678,823
Insurance and Taxes	532,056	110,510	122,163	51,198	89,833	905,760	74,436	44,676	119,112	1,024,872
Interest and Bank Fees	786,825	-	167,316	27,795	14,034	995,970	55,112	13,475	68,587	1,064,557
Licensing	23,307	-	5,945	11,215	10,984	51,451	13,725	142	13,867	65,318
Maintenance and Repairs	495,053	-	66,515	79,572	82,396	723,536	21,056	9,296	30,352	753,888
Medical	237,037	-	46,878	1,090	51,387	336,392	-	-	-	336,392
Miscellaneous	(3,806)	-	-	-	6	(3,800)	30,179	762,633	792,812	789,012
Postage	8,670	-	262	1,804	2,380	13,116	18,163	11,412	29,575	42,691
Printing and Publishing	10,312	2,175	73,821	-	6,759	93,067	957	218,735	219,692	312,759
Professional Services	371,857	14,287	424,753	16,823	68,149	895,869	40,127	598,553	638,680	1,534,549
Promotion and Recruitment	39,867	2,977	2,941	37,046	6,176	89,007	16,587	74,809	91,396	180,403
Recreation and Special Education	256,303	-	25,649	4,057	5,241	291,250	-	-	-	291,250
Rent	274,178	55,585	150,513	93,446	80,112	653,834	80,557	53,317	133,874	787,708
Scholarships	-	-	-	-	7,314	7,314	-	-	-	7,314
Supplies	127,404	2,326	70,631	12,768	53,928	267,057	31,971	9,244	41,215	308,272
Telephone	106,132	69,057	35,188	48,330	41,739	300,446	93,104	17,717	110,821	411,267
Utilities	263,785	-	93,895	36,136	7,696	401,512	2,406	1,888	4,294	405,806
Depreciation and Amortization	419,927	3,012	26,578	22,535	52,127	524,179	56,986	101,411	158,397	682,576
Less Special Event Expenses	-	-	-	-	-	-	-	(1,744,916)	(1,744,916)	(1,744,916)
Total Functional Expenses	\$ 22,654,799	\$ 1,127,361	\$ 5,806,264	\$ 3,082,538	\$ 6,114,482	\$ 38,785,444	\$ 1,818,568	\$ 1,314,491	\$ 3,133,059	\$ 41,918,503

See accompanying Notes to Consolidated Financial Statements.

CHILDHELP, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Changes in Net Assets	\$ 2,824,345
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities	
Provision for Doubtful Accounts	176,308
Gain on Sale of Assets	(558)
Depreciation and Amortization	682,576
Interest Expense - Amortization of Loan Fees	34,764
Cash Surrender Value of Life Insurance	(8,664)
Change in Value of Assets Held in Trust	(159,723)
Contribution of Use Facility	(161,075)
Amortization of Facility Rent Receivable	696,000
Increase in Cash Resulting from Changes in:	
Accounts Receivable	(2,069,271)
Contributions Receivable	(583,829)
Prepays	(396,721)
Bequests Receivable	337,719
Deposits and Other Assets	(295,526)
Accounts Payable	4,462
Accrued Expenses	209,530
Deferred Revenues	(178,584)
Net Cash Provided by Operating Activities	<u>1,111,753</u>

CASH FLOWS USED BY INVESTING ACTIVITIES

Purchases of Property and Equipment	(1,237,398)
-------------------------------------	-------------

CASH FLOWS FROM FINANCING ACTIVITIES

Net Increase in Line of Credit	14,467
Proceeds from Issuance of Notes Payable	45,001
Principal Payments of Notes Payable	(358,939)
Loan Fees Paid on Line of Credit	(22,650)
Net Cash Used by Financing Activities	<u>(322,121)</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS

(447,766)

Cash and Cash Equivalents - Beginning of Year

1,695,008

CASH AND CASH EQUIVALENTS - END OF YEAR

\$ 1,247,242

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash Paid During the Year for Interest	<u><u>\$ 865,842</u></u>
--	--------------------------

See accompanying Notes to Consolidated Financial Statements.

CHILDHHELP, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 ORGANIZATION

Childhelp, Inc. (Childhelp, a registered name used throughout, or the Organization) is a California nonprofit corporation. During fiscal 2017, Childhelp's programs and services were conducted 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, 2017

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 2017 Childhelp helped over 172,000 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 92 cents is invested into serving the children in need of our program services using approximately 4 cents for administration and approximately 3 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, 2017. 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, 2017

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, 2017, management believes all contributions receivable are collectible within 12 months of year-end.

CHILDHELP, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017

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, 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Childhelp adopted the accounting guidance in FASB Accounting Standards Update (ASU) No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. ASU No. 2015-03 requires organizations to present debt issuance costs as a direct deduction from the face amount of the related borrowings, amortize debt issuance costs using the interest method over the life of the debt, and record the amortization as a component of interest expense. The adoption of the standard had no effect on previously reported net assets. The Organization has adopted this change in accounting principle as of July 1, 2015. The debt issuance costs as of June 30, 2017 are as follows:

	<u>Line of Credit</u>	<u>Notes Payable</u>	<u>Total</u>
Deferred Financing Costs	\$ 87,650	\$ 486,442	\$ 574,092
Accumulated Amortization	(67,831)	(245,590)	(313,421)
Deferred Financing Costs, Net	<u>\$ 19,819</u>	<u>\$ 240,852</u>	<u>\$ 260,671</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 \$34,764 for the year ended June 30, 2017.

CHILDHELP, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017

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, 2016, from which the summarized information was derived.

Certain items in the prior year consolidated financial statements have been reclassified to conform to the current year's presentation. These reclassifications had no effect on the 2016 total change in net assets or net assets of Childhelp.

NOTE 3 BEQUESTS RECEIVABLE

Bequests receivable totaled \$1,425,000 at June 30, 2017. As of June 30, 2017, 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, 2017

NOTE 4 ASSETS HELD IN TRUSTS

Childhelp has been named a remainder beneficiary of one trust held by a third-party. Under the term of this trust, Childhelp has the irrevocable right to receive all assets remaining in the trust 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.

Childhelp also has a 20 year annuity which began in 1998 and pays out at an interest rate of 5.069%.

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, 2017 as follows:

Trust Held by a Third Party	\$ 1,034,151
Perpetual Trust	877,752
Annuity	9,517
Total	<u>\$ 1,921,420</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, 2017

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 Level 2 of the valuation hierarchy, within the fair value measurement framework and the annuity is Level 3, within the fair value fair value measurement framework.

The following table presents assets measured at fair value on a recurring basis by classification within the fair value hierarchy as of June 30, 2017:

	Fair Value Measurements Using:			
	Level 1	Level 2	Level 3	Total
Beneficial Interest in Remainder Trust	\$ -	\$ 1,034,151	\$ -	\$ 1,034,151
Beneficial Interests in Assets Held in Trusts	\$ -	\$ -	\$ 877,752	\$ 877,752
Annuity Interest	\$ -	\$ -	\$ 9,517	\$ 9,517

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, 2017:

	Assets Held in Trust	Annuity Interest
Beginning Balance	\$ 833,179	\$ 27,197
Dividend and Interest Income	13,522	2,320
Distributions	(37,298)	(20,000)
Net Appreciation	68,349	-
Ending Balance	\$ 877,752	\$ 9,517

CHILDHELP, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 6 PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment consist of the following at June 30, 2017:

Land	\$ 1,967,458
Building and Improvements	15,426,074
Furniture, Fixtures, and Equipment	4,085,598
Vehicles	1,402,540
Construction in Progress	127,386
Copyrights/Trademark	449,364
Total	<u>23,458,420</u>
Less Accumulated Depreciation and Amortization	<u>(17,385,024)</u>
Property, Plant, and Equipment, Net of Accumulated Depreciation and Amortization	<u>\$ 6,073,396</u>

Total depreciation and amortization expense was \$682,576 for the year ended June 30, 2017.

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 \$1,112,419 as of June 30, 2017. The balance under this agreement is presented net of unamortized deferred financing costs of \$19,819 as of June 30, 2017.

Childhelp is required to comply with restrictive debt covenants with respect to the revolving line of credit agreement. Management believes that Childhelp has complied with the restrictive debt covenants as of June 30, 2017.

CHILDHELP, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017

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; payable in monthly interest only installments of \$6,655, at 2.875% for the first 10 years through November 2015, then fully amortizing principal and interest (one year LIBOR) payments through November 2035. \$ 1,258,907

Various notes payable and capital leases to various establishments; secured by vehicles and equipment; payable in monthly installments ranging from approximately \$360 to \$1,618, including interest ranging from 4.9% to 7.9%, through February 2019. 9,518

Note payable to a leasing agency, unsecured, noninterest bearing; payable in monthly installments of \$205 through May 2018. 2,253

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. 178,125

Note payable to a lender; secured; noninterest bearing; payable monthly at \$4,000 through February 2018. Secured by subordinated deed on the Tennessee Property and if needed the Virginia Property (Culpeper Campus). Agreement states that the lender cannot pursue collection actions against Childhelp of any kind until after June 1, 2016, and only in the event of default. 178,472

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. 8,045,970

Note payable to a lender; unsecured, noninterest bearing, paid at \$556 monthly through December 2022. 36,668

Total 13,263,391

Less: Unamortized Deferred Financing Costs (240,852)

Notes Payable, Net \$ 13,022,539

CHILDHELP, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 8 NOTES PAYABLE (CONTINUED)

Future maturities of notes payable are as follows:

<u>Year Ending June 30.</u>	<u>Amount</u>
2018	\$ 354,246
2019	315,428
2020	254,908
2021	254,221
2022	231,988
2023	240,887
2024	249,666
2025	3,819,210
2026	281,532
2027	298,331
Thereafter	6,962,974
Total	<u>\$ 13,263,391</u>

NOTE 9 OPERATING LEASES

Childhelp rents certain facilities and equipment under various operating lease agreements. 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>
2018	\$ 546,764
2019	468,175
2020	405,555
2021	92,223
2022	918
Total	<u>\$ 1,513,635</u>

Lease expense for all operating leases was approximately \$610,531 for the year ended June 30, 2017. 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 2018.

CHILDHELP, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 10 NET ASSETS

Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes:

Capital Expenditures	\$ 849,648
Residential Treatment Program	877,742
Assets Held in an External Trust Not Held by Childhelp	1,043,668
Hotline	47,589
Education Programs	165,969
Time Restricted Including Donated Office Space	2,476,724
Advocacy/Diagnostic Services	2,801
Total	<u>\$ 5,464,141</u>

A summary of net assets released from restriction follows:

Capital Expenditures	\$ 484,163
Residential Treatment Program	1,013,125
Assets Held in an External Trust Not Held by Childhelp	17,680
Hotline	274,672
Education Programs	206,765
Time Restricted Including Donated Office Space	706,037
Advocacy/Diagnostic Services	118,988
Total	<u>\$ 2,821,430</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, 2017

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, 2017 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, 2017, follows:

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

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, 2017

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, 2017 follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets - June 30, 2016	\$ (20,044)	\$ -	\$ 1,003,223	\$ 983,179
Investment Return:				
Dividends and Interest Income	13,522	-	-	13,522
Distributions	(13,522)	-	(23,776)	(37,298)
Net Appreciation (Realized and Unrealized)	20,044	-	48,305	68,349
Endowment Net Assets - June 30, 2017	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,027,752</u>	<u>\$ 1,027,752</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 \$1,765,530 for the year ended June 30, 2017. 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, 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 \$216,775 for the year ended June 30, 2017.

CHILDHELP, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017

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. The changes in the donated facility space receivable and associated discount for the year ended June 30, 2017 follows:

	Donated Facility Space Receivable	Unamortized Discount	Net Receivable
Beginning Balance	\$ 3,478,333	\$ (466,684)	\$ 3,011,649
In-Kind Rent Expense	(696,000)	-	(696,000)
Amortization of Discount - Contributed Goods and Services	-	161,075	161,075
Ending Balance	<u>\$ 2,782,333</u>	<u>\$ (305,609)</u>	<u>\$ 2,476,724</u>
Amounts Due in:			
Less than One Year	\$ 696,000		
Over One Year	2,086,333		
Total	<u>\$ 2,782,333</u>		

NOTE 12 DEFINED CONTRIBUTION PLANS

Childhelp sponsors defined contribution plans that cover employees who meet each plan's eligibility requirements. Childhelp contributed \$278,064 to the plans in total during the year ended June 30, 2017.

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.

CHILDHELP, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 14 RELATED PARTY TRANSACTIONS

During the year ended June 30, 2017, Childhelp had the following related party transactions:

- Childhelp reimbursed travel related expenses to a law firm that provided legal services on a pro bono basis and which is owned by a board member in the amount of \$748.
- Notes payable include \$3,553,478 payable to a finance company whose president is a board of directors' member of Childhelp and who also provided \$68,897 in contributions. In the opinion of management, the terms of the note was similar to those of third parties.
- The board of directors' members provided \$1,210,034 in contributions to Childhelp.

Each of the above transactions is considered to approximate the fair value cost for the related services provided. In the opinion of management, the terms of these notes were similar to those of third parties.

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, 2017.

NOTE 16 SUBSEQUENT EVENTS

Management evaluated subsequent events through December 1, 2017, the date the consolidated financial statements were available to be issued. Events or transactions occurring after June 30, 2017, but prior to December 1, 2017, that provided additional evidence about conditions that existed at June 30, 2017, have been recognized in the consolidated financial statements for the year ended June 30, 2017. Events or transactions that provided evidence about conditions that did not exist at June 30, 2017, 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, 2017.