

CHILDHELP, INC. AND AFFILIATES
CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019



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**CHILDHELP, INC. AND AFFILIATES
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2019**

| | |
|---|----------|
| 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 |



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, 2019, 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, 2019, 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.

Other Matter

Report on Summarized Comparative Information

We have previously audited Childhelp's 2018 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated December 7, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, management adopted Accounting Standards Update No. 2016-14, Not-for-Profit Entities (Topic 958) - *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.



CliftonLarsonAllen LLP

Phoenix, Arizona
January 16, 2020

CHILDHELP, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30 2019
(WITH COMPARATIVE TOTALS AT JUNE 30, 2018)

| | 2019 | 2018 |
|---|----------------------|----------------------|
| ASSETS | | |
| Cash and Cash Equivalents | \$ 3,134,342 | \$ 2,253,345 |
| Accounts Receivable, Net of Allowance for Doubtful Accounts of \$881,644 | 4,539,053 | 4,169,749 |
| Contributions Receivable, Net | 2,401,100 | 3,384,325 |
| Prepaid Expenses | 539,197 | 404,207 |
| Bequests Receivable | 457,841 | 522,770 |
| Deposits and Other Assets | 693,106 | 937,899 |
| Assets Held in Trusts | 1,818,875 | 1,774,077 |
| Donated Use of Facility, Utilities, and Curriculum | 1,556,229 | 2,404,895 |
| Property, Plant, and Equipment, Net | 5,305,015 | 5,767,791 |
| Land Available for Sale | 2,611,411 | 611,411 |
| | \$ 23,056,169 | \$ 22,230,469 |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | |
| Accounts Payable | \$ 909,149 | \$ 739,859 |
| Accrued Expenses | 2,641,974 | 2,679,464 |
| Line of Credit, Net of Deferred Financing Costs | - | 583,828 |
| Deferred Revenues | 490,749 | 386,678 |
| Notes Payable, Net of Deferred Financing Costs | 12,234,319 | 12,533,289 |
| Total Liabilities | 16,276,191 | 16,923,118 |
| NET ASSETS (DEFICIENCY) | | |
| Without Donor Restrictions | (955,144) | (1,085,649) |
| With Donor Restrictions | 7,735,122 | 6,393,000 |
| Total Net Assets | 6,779,978 | 5,307,351 |
| Total Liabilities and Net Assets | \$ 23,056,169 | \$ 22,230,469 |

See accompanying Notes to Consolidated Financial Statements.

CHILDHELP, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2019
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2018)

| | 2019 | | | 2018 |
|---|----------------------------------|-------------------------------|---------------------|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Total |
| SUPPORT AND REVENUES | | | | |
| Program Income – Federal, State, and Local Contracts | \$ 34,197,679 | \$ - | \$ 34,197,679 | \$ 30,900,458 |
| Special Events and Chapter Fundraising (Net of Direct Donor Expenses of \$2,835,917 for 2019) | 5,709,462 | - | 5,709,462 | 3,554,818 |
| Foundations, Corporations, Individuals, and Organizations | 2,095,065 | 3,403,741 | 5,498,806 | 7,124,643 |
| Contributed Goods and Services | 2,288,248 | - | 2,288,248 | 3,125,357 |
| Change in Value of Assets Held in Trust | 35,933 | 8,865 | 44,798 | 88,599 |
| Other | 122,734 | - | 122,734 | 635,158 |
| Total Support and Revenues | <u>44,449,121</u> | <u>3,412,606</u> | <u>47,861,727</u> | <u>45,429,033</u> |
| NET ASSETS RELEASED FROM RESTRICTIONS | <u>2,070,484</u> | <u>(2,070,484)</u> | <u>-</u> | <u>-</u> |
| Total Support and Revenues and Net Assets Released from Restrictions | 46,519,605 | 1,342,122 | 47,861,727 | 45,429,033 |
| FUNCTIONAL EXPENSES AND GAINS | | | | |
| Program Services: | | | | |
| Residential Treatment | 23,313,349 | - | 23,313,349 | 23,259,488 |
| Hotline | 1,129,934 | - | 1,129,934 | 1,256,311 |
| Public Awareness and Educational Programs | 5,792,463 | - | 5,792,463 | 5,081,473 |
| Foster Care | 3,345,638 | - | 3,345,638 | 3,214,702 |
| Advocacy/Diagnostic Services | 5,895,754 | - | 5,895,754 | 6,765,871 |
| Total Program Services | <u>39,477,138</u> | <u>-</u> | <u>39,477,138</u> | <u>39,577,845</u> |
| Support Services: | | | | |
| Management and General | 3,087,695 | - | 3,087,695 | 1,720,598 |
| Fundraising | 2,773,913 | - | 2,773,913 | 2,540,086 |
| Total Support Services | <u>5,861,608</u> | <u>-</u> | <u>5,861,608</u> | <u>4,260,684</u> |
| Total Functional Expenses | <u>45,338,746</u> | <u>-</u> | <u>45,338,746</u> | <u>43,838,529</u> |
| Gains and Losses: | | | | |
| (Gain) Loss on Sale of Assets | (6,375) | - | (6,375) | (268,989) |
| Provision for Doubtful Accounts | 891,644 | - | 891,644 | 306,716 |
| Settlement Loss | 165,085 | - | 165,085 | - |
| Total Functional Expenses and Net (Gains) Losses | <u>46,389,100</u> | <u>-</u> | <u>46,389,100</u> | <u>43,876,256</u> |
| CHANGES IN NET ASSETS | 130,505 | 1,342,122 | 1,472,627 | 1,552,777 |
| Net Assets (Deficiency) - Beginning of Year | <u>(1,085,649)</u> | <u>6,393,000</u> | <u>5,307,351</u> | <u>3,754,574</u> |
| NET ASSETS - END OF YEAR | <u>\$ (955,144)</u> | <u>\$ 7,735,122</u> | <u>\$ 6,779,978</u> | <u>\$ 5,307,351</u> |

See accompanying Notes to Consolidated Financial Statements.

CHILDHELP, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2018)

| | Program Services | | | | | Support Services | | | 2019 Total Functional Expenses | 2018 Total Functional Expenses | |
|---|--------------------------|---------------------|---|---------------------|-------------------------------------|------------------------------|------------------------------|---------------------|---|---|------------------------------|
| | Residential Treatment | Hotline | Public Awareness & Educational Programs | Foster Care | Advocacy/ Diagnostic Services | Total Program Services | Management and General | Fund- Raising | | | Total Support Services |
| Salaries and Benefits | \$ 17,473,946 | \$ 749,893 | \$ 4,105,001 | \$ 1,271,166 | \$ 2,384,837 | \$ 25,984,843 | \$ 1,974,417 | \$ 1,826,843 | \$ 3,801,260 | \$ 29,786,103 | \$ 28,829,901 |
| Clothing/personal Needs | 329,761 | - | 7,625 | 40,733 | 10,712 | 388,831 | - | - | - | 388,831 | 365,857 |
| Conferences/Meetings | 74,703 | 3,211 | 3,718 | 10,709 | 46,621 | 138,962 | 27,455 | 8,054 | 35,509 | 174,471 | 158,662 |
| Dues/Subscriptions | 142,573 | 15,583 | 25,835 | 7,627 | 37,508 | 229,126 | 99,814 | 43,989 | 143,803 | 372,929 | 320,278 |
| Food Service | 744,243 | - | 202,852 | - | 11,508 | 958,603 | - | 305,188 | 305,188 | 1,263,791 | 1,498,628 |
| Foster Care | - | - | - | 1,410,674 | - | 1,410,674 | - | - | - | 1,410,674 | 1,392,598 |
| Gift In-Kind Expense | 32,178 | - | 247,912 | - | 2,857,039 | 3,137,129 | - | 550 | 550 | 3,137,679 | 3,194,529 |
| Insurance/taxes | 370,605 | 15,792 | 294,564 | 20,661 | 36,370 | 737,992 | 155,762 | 145,709 | 301,471 | 1,039,463 | 1,214,812 |
| Interest and Bank Fees | 890,504 | - | 80,617 | 53,434 | 31,521 | 1,056,076 | 3,244 | 65,922 | 69,166 | 1,125,242 | 1,105,886 |
| Licensing | 16,746 | - | 10,131 | 7,005 | 1,017 | 34,899 | 23,255 | 432 | 23,687 | 58,586 | 54,816 |
| Maintenance/Repairs | 665,353 | - | 57,461 | 108,049 | 85,722 | 916,585 | 22,446 | 35,276 | 57,722 | 974,307 | 877,190 |
| Medical | 200,196 | - | 127 | - | 39,719 | 240,042 | - | - | - | 240,042 | 314,625 |
| Miscellaneous and Other Expenses | - | - | - | - | - | - | - | 1,106,176 | 1,106,176 | 1,106,176 | 750,541 |
| Postage | 9,655 | 114 | 1,443 | 1,272 | 1,136 | 13,620 | 17,389 | 9,954 | 27,343 | 40,963 | 39,829 |
| Printing/Publishing | 7,883 | 666 | 24,689 | 361 | 3,628 | 37,227 | 1,566 | 97,734 | 99,300 | 136,527 | 326,687 |
| Professional Services | 315,436 | 276,816 | 277,193 | 55,847 | 79,285 | 1,004,577 | 387,803 | 1,103,146 | 1,490,949 | 2,495,526 | 1,530,966 |
| Promotions | 40,823 | 9,292 | 240 | 68,835 | 14,409 | 133,599 | 3,112 | 190,428 | 193,540 | 327,139 | 98,017 |
| Recruiting | 2,352 | - | 150 | - | 300 | 2,802 | 58,092 | - | 58,092 | 60,894 | 73,791 |
| Recreation/Special Education | 275,679 | - | 24,209 | 11,232 | 2,726 | 313,846 | - | - | - | 313,846 | 293,173 |
| Rent | 348,678 | 35,116 | 173,299 | 103,856 | 70,022 | 730,971 | 79,966 | 376,451 | 456,417 | 1,187,388 | 882,850 |
| Scholarships | - | - | - | - | 300 | 300 | - | - | - | 300 | 6,416 |
| Supplies | 263,339 | 5,801 | 82,266 | 18,879 | 42,756 | 413,041 | 47,319 | 20,803 | 68,122 | 481,163 | 357,678 |
| Telephone/Telecommunications | 106,601 | 1,944 | 27,117 | 53,169 | 41,192 | 230,023 | 48,115 | 16,871 | 64,986 | 295,009 | 407,933 |
| Travel/Automobile | 191,453 | 13,559 | 64,694 | 61,132 | 45,682 | 376,520 | 63,072 | 194,522 | 257,594 | 634,114 | 496,164 |
| Utilities | 357,529 | - | 48,698 | 33,640 | 8,944 | 448,811 | 2,987 | 8,300 | 11,287 | 460,098 | 450,902 |
| Depreciation and Amortization | 453,113 | 2,147 | 32,622 | 7,357 | 42,800 | 538,039 | 71,881 | 53,482 | 125,363 | 663,402 | 636,727 |
| Provision for Doubtful Accounts | - | - | - | - | - | - | 891,644 | - | 891,644 | 891,644 | 306,716 |
| Less: Direct Donor Expenses | - | - | - | - | - | - | - | (2,835,917) | (2,835,917) | (2,835,917) | (1,840,928) |
| Total Functional Expenses | 23,313,349 | 1,129,934 | 5,792,463 | 3,345,638 | 5,895,754 | 39,477,138 | 3,979,339 | 2,773,913 | 6,753,252 | 46,230,390 | 44,145,245 |
| Less: Provision for Doubtful Accounts | - | - | - | - | - | - | (891,644) | - | (891,644) | (891,644) | (306,716) |
| Total Functional Expenses as Shown on The Statement of Activities and Changes in Net Assets - 2019 | \$ 23,313,349 | \$ 1,129,934 | \$ 5,792,463 | \$ 3,345,638 | \$ 5,895,754 | \$ 39,477,138 | \$ 3,087,695 | \$ 2,773,913 | \$ 5,861,608 | \$ 45,338,746 | \$ 43,838,529 |
| Total Functional Expenses as Shown on The Statement of Activities and Changes in Net Assets - 2018 | \$ 23,259,488 | \$ 1,256,311 | \$ 5,081,473 | \$ 3,214,702 | \$ 6,765,871 | \$ 39,577,845 | \$ 1,720,598 | \$ 2,540,086 | \$ 4,260,684 | \$ 43,838,529 | |

See accompanying Notes to Consolidated Financial Statements.

CHILDHELP, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|---|------------------|
| Changes in Net Assets | \$ 1,472,627 |
| Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities | |
| Provision for Doubtful Accounts | 891,644 |
| Gain on Sale of Assets | (6,375) |
| Depreciation and Amortization | 663,402 |
| Interest Expense - Amortization of Loan Fees | 45,249 |
| Change in Discount on Contributions Receivable | 410,338 |
| Change in Value of Assets Held in Trust | (44,798) |
| Bequests Received | (400,071) |
| Contribution of Land Held for Sale | (2,000,000) |
| Contribution of Use Facility | (95,246) |
| Amortization of Facility Rent Receivable | 696,000 |
| Amortization of Curriculum Use | 247,912 |
| Increase (Decrease) in Cash Resulting from Changes in: | |
| Accounts Receivable | (1,260,948) |
| Contributions Receivable | 572,887 |
| Prepays | (134,990) |
| Bequests Receivable | 465,000 |
| Deposits and Other Assets | 244,793 |
| Accounts Payable | 169,290 |
| Accrued Expenses | (37,490) |
| Deferred Revenues | 104,071 |
| Net Cash Provided by Operating Activities | <u>2,003,295</u> |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|---------------------------------------|------------------|
| Purchases of Property and Equipment | (978,411) |
| Proceeds from Sale of Real Estate | 784,160 |
| Net Cash Used by Investing Activities | <u>(194,251)</u> |

CASH FLOWS FROM FINANCING ACTIVITIES

| | |
|---------------------------------------|------------------|
| Net Decrease in Line of Credit | (592,322) |
| Principal Payments of Notes Payable | (255,332) |
| Loan Fees Paid on Line of Credit | (80,393) |
| Net Cash Used by Financing Activities | <u>(928,047)</u> |

NET INCREASE IN CASH AND CASH EQUIVALENTS

880,997

Cash and Cash Equivalents - Beginning of Year

2,253,345

CASH AND CASH EQUIVALENTS - END OF YEAR

\$ 3,134,342

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash Paid During the Year for Interest \$ 927,000

Noncash Donations \$ 2,400,071

See accompanying Notes to Consolidated Financial Statements.

CHILDHHELP, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 ORGANIZATION

Childhelp, Inc. (Childhelp, a registered name used throughout, or the Organization) is a California nonprofit corporation. During fiscal year 2019, Childhelp administers programs and services 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.

Outreach initiatives offer low-income, at-risk families abuse prevention support to enhance family resiliency. 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. Newly launched text and chat services offer an even greater chance for connectivity and support.

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 come to the Childhelp Residential Treatment Villages to heal. Onsite nonpublic schools ensure that even the most neglected child gets 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, 2019

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.

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, 2019. If there had been activity, then all inter-company transactions and balances would have been eliminated in consolidation.

Program Service Accomplishments

With over 10 million children helped since its inception, during the fiscal year ended 2019 Childhelp helped around 253,200 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 85 cents is invested into serving the children in need of our program services using approximately 9 cents for administration and approximately 6 cents for fundraising.

Change in Functional Expenses

Significant changes in functional expense allocations occurred during the year ended June 30, 2019. Program expenses to total expenses decreased while management and general and fundraising increased to total expenses as a result of the following:

- All expense categories were analyzed and adjusted to align with the expense allocation guidelines outlined in ASU 2016-14 during the implementation process of the Standard (Note 2).
- Salaries and Benefits increased nearly \$1 million in 2019 over 2018. The allocation of Salary and Benefits to the program functions were reduced to better capture only program activities that directly result in goods and services being distributed to beneficiaries and customers that fulfill the purpose or mission for which Childhelp exists. Salaries and Benefits that are supporting services in nature were allocated to the management and general and fundraising functions.

CHILDHELP, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 ORGANIZATION (CONTINUED)

Change in Functional Expenses (Continued)

- Provision for doubtful accounts was previously excluded from functional expenses and was added to functional expenses during the year in accordance with ASU 2016-14 resulting in increased expenses in management and general function. These expenses are removed from the total functional expenses on the consolidated statement of functional expenses and shown as other Gains and Losses on the consolidated statement of activities and changes in net assets.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) applicable to nonprofit organizations. The Organization is required to report information regarding its net assets and activities according to two classes of net assets based upon the existence or absence of restrictions on use that are placed by donors: net assets without donor restrictions and net assets with donor restrictions.

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

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

Net Assets With Donor Restrictions – Net Assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as restricted revenue when received and released from restriction when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

CHILDHELP, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Nonoperating activities include gains on the sale of assets, provisions for doubtful accounts, and settlement losses.

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

Unrestricted contributions and contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as Net Assets Released from Restrictions.

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, 2019, management believes all contributions receivable are collectible within 12 months of year-end.

CHILDHELP, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

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 net assets with donor restrictions or without donor restrictions, depending on donor-imposed purpose and time restrictions, if any.

CHILDHELP, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Land Available for Sale

Childhelp has approximately 70 acres of undeveloped land in Beaumont, California and 100 acres of undeveloped land in Carefree, Arizona 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, 2019 are as follows:

| | <u>Line of Credit</u> | <u>Notes Payable</u> | <u>Total</u> |
|-------------------------------|-----------------------|----------------------|-------------------|
| Deferred Financing Costs | \$ 80,393 | \$ 504,795 | \$ 585,188 |
| Accumulated Amortization | (25,464) | (267,660) | (293,124) |
| Deferred Financing Costs, Net | <u>\$ 54,929</u> | <u>\$ 237,135</u> | <u>\$ 292,064</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 \$45,249 for the year ended June 30, 2019.

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, primarily salaries and benefits, which 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, square footage and other rational allocation methodologies. Other expenses that are subject to allocations are professional services, allocated using time studies, and rent, allocated using square footage and time studies.

CHILDHELP, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2018, from which the summarized information was derived.

Change in Accounting Principle – Adoption of ASU 2016-14

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statement of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has implemented ASU 2016-14 and has adjusted the presentation in these consolidated financial statements accordingly. The ASU has been applied retrospectively to all periods presented.

CHILDHELP, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 3 LIQUIDITY AND AVAILABILITY

The Organization regularly monitors the availability of resources required to meet its operating needs and other contractual commitments. For purposes of analyzing resources available to meet general expenses over a 12-month period, the Organization considers all expenses related to its ongoing activities to be general expenses. The following table reflects the Organization's financial assets of June 30, 2019, available to meet general expenses within one year of the consolidated statement of financial position date.

| | |
|---|----------------------------|
| Financial Assets: | |
| Cash and Cash Equivalents | \$ 3,134,342 |
| Accounts Receivable, Net | 4,539,053 |
| Contributions Receivable | 2,401,100 |
| Bequests Receivable | 457,841 |
| Assets Held in Trusts | <u>1,818,875</u> |
| Total Financial Assets | 12,351,211 |
| Less: Net Assets With Donor Restrictions | (7,735,122) |
| Add: Donated Use of Facility, Utilities, and Curriculum | 1,556,229 |
| Add: Contributions Receivable Due Within One Year | |
| Included in Net Assets With Donor Restrictions | <u>530,746</u> |
| Financial Assets Available to Meet Cash Needs | |
| for General Expenses Within One Year | <u><u>\$ 5,146,835</u></u> |

Childhelp receives significant contributions and promises to give restricted by donors, and considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenses. The organization manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. Childhelp has a liquidity approach to maintain current financial assets less current liabilities at a minimum of 30 days operating expenses. The organization has a target for year-end balance of reserves of unrestricted, undesignated net assets to meet 15 to 30 days of expected expenses. To achieve these targets, the entity forecasts its future cash flows and monitors its liquidity monthly, and monitors its reserves annually. During the year ended June 30, 2019, the level of liquidity and reserves was managed within the liquidity targets. Childhelp also maintains a \$7,500,000 line of credit, see Note 9.

CHILDHELP, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 4 CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following at June 30:

| | |
|---------------------------------|---------------------|
| Contributions Receivable, Net | <u>\$ 2,401,100</u> |
| Total Amounts Due in: | |
| One Year | \$ 530,746 |
| Two to Five Years | <u>2,280,692</u> |
| Gross Contributions Receivable | 2,811,438 |
| Less: Discount to Present Value | <u>(410,338)</u> |
| Total Receivables, Net | <u>\$ 2,401,100</u> |

NOTE 5 BEQUESTS RECEIVABLE

Bequests receivable consist of 3 bequests totaling \$457,841 at June 30, 2019 and are recorded at net present value. During the year ended June 30, 2019 Childhelp received \$465,000 in cash flow from the bequests. Management believes the outstanding balance is collectable in the normal course of business and, accordingly, there is no allowance as of June 30, 2019.

NOTE 6 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, 2019 as follows:

| | |
|-----------------------------|---------------------|
| Trust Held by a Third Party | \$ 929,602 |
| Perpetual Trust | <u>889,273</u> |
| Total | <u>\$ 1,818,875</u> |

CHILDHELP, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 7 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.

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, 2019:

| | Fair Value Measurements Using: | | | |
|---|--------------------------------|------------|------------|------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Beneficial Interest in Remainder Trusts | \$ - | \$ 929,602 | \$ - | \$ 929,602 |
| Beneficial Interests in Assets Held in Trust | \$ - | \$ - | \$ 889,273 | \$ 889,273 |

CHILDHELP, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 7 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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, 2019:

| | Assets Held in Trust |
|------------------------------|-------------------------|
| Beginning Balance | \$ 896,522 |
| Dividend and Interest Income | 39,924 |
| Distributions | (56,038) |
| Net Appreciation | 8,865 |
| Ending Balance | <u>\$ 889,273</u> |

NOTE 8 PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment consist of the following at June 30, 2019:

| | |
|---|---------------------|
| Land | \$ 1,133,890 |
| Building and Improvements | 15,294,019 |
| Furniture, Fixtures, and Equipment | 4,345,973 |
| Vehicles | 857,517 |
| Construction in Progress | 595,818 |
| Copyrights/Trademark | 449,364 |
| Total | <u>22,676,581</u> |
| Less: Accumulated Depreciation and Amortization | <u>(17,371,566)</u> |
| Property, Plant, and Equipment, Net of Accumulated Depreciation and Amortization | <u>\$ 5,305,015</u> |

Total depreciation and amortization expense was \$663,402 for the year ended June 30, 2019. Childhelp has not capitalized interest expense on the construction in progress due to its immateriality.

NOTE 9 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 \$-0- as of June 30, 2019. The balance under this agreement is presented net of unamortized deferred financing costs of \$-0- as of June 30, 2019.

CHILDHELP, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 9 LINE OF CREDIT (CONTINUED)

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 June 30, 2019, the interest rate was 5.25% and the outstanding balance on the Line of Credit was \$-0-.

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, 2019.

NOTE 10 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, 2019 was 5.250%). Principal and interest is payable monthly through November 2035. | \$ 1,164,740 |
| 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; 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. | 7,784,831 |
| Note payable to a lender; unsecured, noninterest bearing, paid at \$556 monthly through December 2022. | 23,334 |
| Total | 12,526,383 |
| Less: Unamortized Deferred Financing Costs | (292,064) |
| Notes Payable, Net | <u>\$ 12,234,319</u> |

Future maturities of notes payable are as follows:

CHILDHELP, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 10 NOTES PAYABLE (CONTINUED)

| <u>Year Ending June 30,</u> | <u>Amount</u> |
|-----------------------------|----------------------|
| 2020 | \$ 206,870 |
| 2021 | 219,710 |
| 2022 | 231,947 |
| 2023 | 240,845 |
| 2024 | 249,624 |
| 2025 | 3,819,167 |
| 2026 | 281,487 |
| 2027 | 298,284 |
| 2028 | 315,021 |
| 2029 | 335,071 |
| Thereafter | 6,328,357 |
| Total | <u>\$ 12,526,383</u> |

NOTE 11 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> |
|-----------------------------|---------------------|
| 2020 | \$ 690,150 |
| 2021 | 572,405 |
| 2022 | 555,907 |
| 2023 | 525,717 |
| 2024 | 413,966 |
| Thereafter | 503,784 |
| Total | <u>\$ 3,261,929</u> |

Lease expense for all operating leases was approximately \$897,362 for the year ended June 30, 2019. 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 2020.

In July 2019, Childhelp entered into 6 year facility lease for its administrative offices classified as an operating lease commencing in November 2019 at monthly lease payments of \$31,487. The future maturities are included in the schedule above.

CHILDHELP, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 12 NET ASSETS

Net Assets With Donor Restrictions

Net assets with donor restriction are available for the following purposes or periods at June 30, 2019:

| | |
|--|----------------------------|
| Subject to Expenses for Specified Purpose: | |
| Capital Expenditures | \$ 704,611 |
| Residential Treatment Program | 559,580 |
| Hotline | 15,565 |
| Education and Prevention Programs | 70,555 |
| Advocacy/Diagnostic Services | <u>3,422</u> |
| Total | 1,353,733 |
| Subject to the Passage of Time: | |
| Pledge Receivable, Net | 2,401,100 |
| Assets Held in an External Trust Not Held by Childhelp | 929,602 |
| Time Restricted Including Donated Office Space | 1,556,229 |
| Bequest Receivables | <u>457,841</u> |
| | 5,344,772 |
| Donor-Restricted Endowment Funds: | |
| Perpetual Trust Corpus Not Held by Childhelp | 877,752 |
| Hotline Endowment | <u>150,000</u> |
| Total Donor-Restricted Endowment Funds Corpus | 1,027,752 |
| Accumulated Investment Gains | <u>8,865</u> |
| Total | <u>1,036,617</u> |
| Total Net Assets With Donor Restriction | <u><u>\$ 7,735,122</u></u> |

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the year ended June 30:

| | |
|--|----------------------------|
| Capital Expenditures | \$ 293,522 |
| Residential Treatment Program | 708,800 |
| Assets Held in an External Trust Not Held by Childhelp | 280 |
| Hotline | 76,331 |
| Education and Prevention Programs | 136,906 |
| Time Restricted Including Donated Office Space | 848,666 |
| Advocacy/Diagnostic Services | <u>5,979</u> |
| Total | <u><u>\$ 2,070,484</u></u> |

As of June 30, 2019, Childhelp reevaluated the collection period of previous contribution receivables and moved \$2,401,100 to net assets with donor restrictions from net assets without donor restrictions.

CHILDHELP, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 12 NET ASSETS (CONTINUED)

Endowments

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 net assets with donor restrictions. All realized investment income is expended in unrestricted net assets.

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

As of June 30, we had the following endowment net asset composition by type of fund:

| | Without Donor Restriction | With Donor Restriction | Total |
|-----------------------------------|------------------------------|---------------------------|---------------------|
| Donor Restricted Endowment Funds: | | | |
| Perpetual Trust not Held | | | |
| by Childhelp | \$ 2,656 | \$ 886,617 | \$ 889,273 |
| Hotline Endowment | - | 150,000 | 150,000 |
| Total | <u>\$ 2,656</u> | <u>\$ 1,036,617</u> | <u>\$ 1,039,273</u> |

CHILDHELP, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 12 NET ASSETS (CONTINUED)

Endowments (Continued)

Investment and Spending Policies

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.

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.

Changes in Endowment net assets for the years ended June 30 are as follows:

| | <u>Without Donor Restriction</u> | <u>With Donor Restriction</u> | <u>Total</u> |
|---|--------------------------------------|-----------------------------------|---------------------|
| Endowment Net Assets - June 30, 2018 | \$ 18,770 | \$ 1,027,752 | \$ 1,046,522 |
| Investment Return: | | | |
| Dividends and Interest Income | 39,924 | - | 39,924 |
| Distributions | (56,038) | - | (56,038) |
| Net Appreciation (Realized and Unrealized) | - | 8,865 | 8,865 |
| Endowment Net Assets - June 30, 2019 | <u>\$ 2,656</u> | <u>\$ 1,036,617</u> | <u>\$ 1,039,273</u> |

CHILDHELP, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 13 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 \$1,991,215 for the year ended June 30, 2019. These contributions benefited Childhelp's advocacy/diagnostic service operations and are reflected in the accompanying consolidated statement of activities and changes in net assets 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 \$297,033 for the year ended June 30, 2019.

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, 2019 follows:

| | Donated Facility Space and Curriculum Receivable | Unamortized Discount | Net Receivable |
|--|---|-------------------------|---------------------|
| Beginning Balance | \$ 2,581,388 | \$ (176,493) | \$ 2,404,895 |
| Donated Curriculum | (247,912) | - | (247,912) |
| In-Kind Rent Expense | (696,000) | - | (696,000) |
| Amortization of Discount - Contributed Goods and Services | - | 95,246 | 95,246 |
| Ending Balance | <u>\$ 1,637,476</u> | <u>\$ (81,247)</u> | <u>\$ 1,556,229</u> |
| Amounts Due in: | | | |
| Less than One Year | \$ 943,143 | | |
| Over One Year | 694,333 | | |
| Total | <u>\$ 1,637,476</u> | | |

CHILDHHELP, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 14 DEFINED CONTRIBUTION PLANS

Childhelp sponsors defined contribution plans that cover employees who meet each plan's eligibility requirements. Childhelp contributed \$290,000 to the plans in total during the year ended June 30, 2019.

NOTE 15 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. During fiscal year 2019, certain of the state of California matters were resolved. 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 16 RELATED PARTY TRANSACTIONS

During the year ended June 30, 2019, 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 \$50,725 in contributions.
- The board of directors' members provided \$1,015,944 in contributions to Childhelp.

NOTE 17 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 68% of total support and revenue was derived from agencies of several different states for the year ended June 30, 2019.

CHILDHELP, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 18 SUBSEQUENT EVENTS

Management evaluated subsequent events through January 16, 2020, the date the consolidated financial statements were available to be issued. Events or transactions occurring after June 30, 2019, but prior to January 16, 2020, that provided additional evidence about conditions that existed at June 30, 2019, have been recognized in the consolidated financial statements for the year ended June 30, 2019. Events or transactions that provided evidence about conditions that did not exist at June 30, 2019, 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, 2019.

Subsequent to June 30, 2019 Childhelp entered into a facility lease agreement for 6 years (Note 11).

NOTE 19 NEW AUTHORITATIVE ACCOUNTING LITERATURE

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.

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 Childhelp for the year ending June 30, 2021. Early adoption is permitted. Management is evaluating the impact of the amended lease guidance on Childhelp's consolidated financial statements.

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