
Childhelp, Inc. and Affiliates

*Consolidated Financial Statements,
Single Audit Report, and
Independent Auditor's Reports
June 30, 2023*

redw
Advisors & CPAs

Childhelp, Inc. and Affiliates

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Independent Auditor's Report

The Board of Directors
Childhelp, Inc. and Affiliates
Scottsdale, Arizona

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Childhelp, Inc. and Affiliates, (the "Organization") (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2023, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing

procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 8, 2024, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

REDW LLC

Phoenix, Arizona
August 8, 2024

Consolidated Financial Statements

Childhelp, Inc. and Affiliates
Consolidated Statement of Financial Position
June 30, 2023

Assets

Cash and cash equivalents	\$ 3,163,747
Restricted cash held for endowment	402,489
Accounts receivable, net of allowance for doubtful accounts of \$308,254	4,514,591
Contributions receivable, net	1,203,628
Other receivable	1,852,854
Prepaid expenses and other	656,575
Bequests receivable, net	2,715,102
Deposits and other assets	842,178
Assets held in trusts	2,026,196
Donated use of facility, utilities, and curriculum	1,911,725
Assets held for sale	5,341,554
Property and equipment, net	4,861,507
Operating lease assets, net	<u>1,889,467</u>
Total assets	<u>\$ 31,381,613</u>

Liabilities and Net (Deficit) Assets

Accounts payable	\$ 1,125,410
Accrued expenses	3,552,514
Deferred revenues	87,278
Line of credit	7,460,101
Related party notes payable	3,750,000
Notes payable, net of deferred financing costs	14,860,246
Operating lease liability	<u>1,941,310</u>
Total liabilities	<u>32,776,859</u>

Net (Deficit) Assets

Without donor restrictions	(9,319,883)
With donor restrictions	<u>7,924,637</u>
Total net (deficit) assets	<u>(1,395,246)</u>
Total liabilities and net (deficit) assets	<u>\$ 31,381,613</u>

The accompanying notes are an integral part of these consolidated financial statements.

Childhelp, Inc. and Affiliates
Consolidated Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Totals
Support and Revenues			
Program income - federal, state, and local contracts	\$ 22,242,341	\$ -	\$ 22,242,341
Special events and chapter fundraising (net of direct donor expenses of \$2,267,264 for 2023)	8,037,476	-	8,037,476
Foundations, corporations, individuals, and organizations	9,298,915	969,066	10,267,981
Contributed goods and services	2,646,490	-	2,646,490
Change in value of assets held in trust	373,233	-	373,233
Other	<u>1,330,465</u>	<u>-</u>	<u>1,330,465</u>
Total support and revenues	43,928,920	969,066	44,897,986
Net assets released from restrictions	<u>1,468,045</u>	<u>(1,468,045)</u>	<u>-</u>
Total support and revenues and net assets released from restrictions	<u>45,396,965</u>	<u>(498,979)</u>	<u>44,897,986</u>
Functional Expenses and Gains and Losses			
Program services			
Residential treatment	23,260,431	-	23,260,431
Hotline	2,226,087	-	2,226,087
Public awareness and educational programs	2,541,034	-	2,541,034
Foster care	4,372,492	-	4,372,492
Advocacy/diagnostic services	4,827,249	-	4,827,249
Mental health	2,493,321	-	2,493,321
Relative caregiver	<u>594,642</u>	<u>-</u>	<u>594,642</u>
Total program services	<u>40,315,256</u>	<u>-</u>	<u>40,315,256</u>
Support services			
Management and general	6,911,111	-	6,911,111
Fundraising	<u>7,171,125</u>	<u>-</u>	<u>7,171,125</u>
Total support services	<u>14,082,236</u>	<u>-</u>	<u>14,082,236</u>
Total functional expenses	54,397,492	-	54,397,492
Gains and losses			
Gain on bad debt recovery	(405,737)	-	(405,737)
Bad debt expense	<u>338,052</u>	<u>-</u>	<u>338,052</u>
Total functional expenses and net (gains) losses	<u>54,329,807</u>	<u>-</u>	<u>54,329,807</u>
Change in net assets	(8,932,842)	(498,979)	(9,431,821)
Net assets (deficit), beginning of year, as restated	<u>(387,041)</u>	<u>8,423,616</u>	<u>8,036,575</u>
Net assets (deficit), end of year	<u>\$ (9,319,883)</u>	<u>\$ 7,924,637</u>	<u>\$ (1,395,246)</u>

The accompanying notes are an integral part of these consolidated financial statements.

Childhelp, Inc. and Affiliates
Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2023

	Program Services							Support Services			Total Functional Expenses	
	Residential Treatment	Hotline	Public Awareness and Educational Programs	Foster Care	Advocacy/Diagnostic Services	Mental Health	Relative Caregiver	Total Program Services	Management and General	Fundraising		Total Support Services
Salaries and benefits	\$ 17,262,595	\$ 1,487,882	\$ 1,852,258	\$ 1,636,106	\$ 1,533,401	\$ 1,889,789	\$ 333,098	\$ 25,995,129	\$ 3,978,897	\$ 3,354,648	\$ 7,333,545	\$ 33,328,674
Clothing/personal needs	135,623	800	377	25,709	1,636	509	433	165,087	146	98	244	165,331
Conferences/meetings	46,621	12,448	6,048	5,775	39,564	15,908	5,722	132,086	30,150	65,784	95,934	228,020
Dues/subscriptions	113,729	81,938	14,165	31,417	53,558	41,595	2,831	339,233	216,101	89,597	305,698	644,931
Food service	603,372	-	121,268	3,379	10,539	8,133	742	747,433	3,765	304,298	308,063	1,055,496
Foster care	-	-	-	2,170,859	28	-	31	2,170,918	-	-	-	2,170,918
Relative Care	-	-	-	-	-	-	70,671	70,671	-	-	-	70,671
Gift in-kind expense	33,692	-	-	5,678	2,561,479	-	-	2,600,849	-	142,985	142,985	2,743,834
Insurance/taxes	792,721	45,249	115,788	73,474	47,554	168,469	12,984	1,256,239	415,128	54,875	470,003	1,726,242
Interest and bank fees	1,008,693	879	18,001	2,676	92,246	74,030	80	1,196,605	197,242	425,900	623,142	1,819,747
Licensing	19,478	-	2,449	10,761	1,543	1,568	477	36,276	7,589	16	7,605	43,881
Maintenance/repairs	637,755	480	17,130	23,859	9,488	9,647	864	699,223	7,445	7,110	14,555	713,778
Medical	71,100	-	56,600	416	9,680	105,799	-	243,595	-	43	43	243,638
Miscellaneous and other expenses	19,751	-	-	3,529	32,444	-	-	55,724	499,790	720,208	1,219,998	1,275,722
Postage	6,825	31	305	243	446	19	37	7,906	19,058	18,638	37,696	45,602
Printing/publishing	5,935	7,033	-	60	39,658	90	87	52,863	1,578	58,555	60,133	112,996
Professional services	564,646	270,544	178,659	60,684	71,561	38,644	7,871	1,192,609	599,208	3,182,446	3,781,654	4,974,263
Promotions	14,218	234,358	-	1,759	3,849	1,057	920	256,161	1,416	92,109	93,525	349,686
Recruiting	77,009	459	3,793	4,480	1,346	850	417	88,354	263,611	20,526	284,137	372,491
Recreation/special education	182,977	-	163	3,401	1,100	345	376	188,362	22	-	22	188,384
Rent	179,819	63,228	36,590	157,217	15,524	53,177	65,835	571,390	247,550	542,911	790,461	1,361,851
Supplies	246,112	1,693	30,128	30,774	37,641	25,548	67,168	439,064	21,858	18,187	40,045	479,109
Telephone/telecommunications	211,216	3,169	8,195	48,384	41,215	13,374	8,078	333,631	179,049	20,195	199,244	532,875
Travel/automobile	113,208	15,896	4,910	35,519	31,017	1,734	15,920	218,204	113,014	304,505	417,519	635,723
Utilities	371,886	-	62,776	29,845	6,092	41,036	-	511,635	9,306	12,047	21,353	532,988
Depreciation and amortization	541,450	-	11,431	6,488	184,640	2,000	-	746,009	99,188	2,708	101,896	847,905
Bad debt expense	-	-	-	3,557	1,012	4,633	-	9,202	328,850	-	328,850	338,052
Total functional expenses	23,260,431	2,226,087	2,541,034	4,376,049	4,828,261	2,497,954	594,642	40,324,458	7,239,961	9,438,389	16,678,350	57,002,808
Less direct donor expenses	-	-	-	-	-	-	-	-	-	(2,267,264)	(2,267,264)	(2,267,264)
Total functional expenses net of direct donor benefits	23,260,431	2,226,087	2,541,034	4,376,049	4,828,261	2,497,954	594,642	40,324,458	7,239,961	7,171,125	14,411,086	54,735,544
Less provision for doubtful accounts	-	-	-	(3,557)	(1,012)	(4,633)	-	(9,202)	(328,850)	-	(328,850)	(338,052)
Total functional expenses as shown on the consolidated statement of activities and changes in net assets	23,260,431	2,226,087	2,541,034	4,372,492	4,827,249	2,493,321	594,642	40,315,256	6,911,111	7,171,125	14,082,236	54,397,492
Total functional expenses	\$ 23,260,431	\$ 2,226,087	\$ 2,541,034	\$ 4,372,492	\$ 4,827,249	\$ 2,493,321	\$ 594,642	\$ 40,315,256	\$ 6,911,111	\$ 7,171,125	\$ 14,082,236	\$ 54,397,492

The accompanying notes are an integral part of these consolidated financial statements.

Childhelp, Inc. and Affiliates
Consolidated Statement of Cash Flows
For the Year Ended June 30, 2023

Cash flows from operating activities

Change in net assets	\$ (9,431,821)
Adjustments to reconcile changes in net assets to net cash used in operating activities	
Gain on recovery of doubtful accounts	(405,737)
Bad debt expense	338,052
Loss on disposal of assets	89,792
Depreciation and amortization on property, plant, and equipment	847,905
Amortization on right-of-use operating lease assets	629,175
Interest expense - amortization of loan fees	9,765
Change in value of assets held in trust	(334,829)
Bequests receivable	380,230
Amortization of facility rent receivable	566,779
Changes in operating assets and liabilities	
Accounts receivable	752,249
Contributions receivable	(836,628)
Other receivable	(483,606)
Prepays	416,694
Deposits and other assets	111,320
Accounts payable	131,551
Accrued expenses	(758,605)
Deferred revenues	(439,379)
Operating lease liability	(577,332)
Net cash used in operating activities	<u>(8,994,425)</u>

Cash flows from investing activities

Purchase of property and equipment	<u>(201,831)</u>
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Cash flows from financing activities

Net increase in line of credit	3,660,101
Proceeds from notes payable	9,400,000
Principal payments on notes payable	<u>(1,957,777)</u>
Net cash provided by financing activities	<u>11,102,324</u>
Net increase in cash and cash equivalents	1,906,068
Cash and cash equivalents, beginning of year	<u>1,660,168</u>
Cash and cash equivalents, end of year	<u><u>\$ 3,566,236</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

Childhelp, Inc. and Affiliates
Consolidated Statement of Cash Flows – continued
For the Year Ended June 30, 2023

Cash and cash equivalents consist of the following

Cash and cash equivalents	\$ 3,163,747
Restricted cash held for endowment	<u>402,489</u>
Cash and cash equivalents - end of year	<u>\$ 3,566,236</u>

Supplemental cash flow information and noncash activity

Cash paid during the year for interest	<u>\$ 1,143,595</u>
Capital lease right-of-use asset obtained in exchange for lease liability	<u>\$ 2,518,642</u>
Assets reclassified as held for sale	<u>\$ 5,341,554</u>

The accompanying notes are an integral part of these consolidated financial statements.

Childhelp, Inc. and Affiliates
Notes to the Consolidated Financial Statements
June 30, 2023

1) Organization

Childhelp, Inc. (Childhelp, a registered name used throughout, or the Organization) is a California nonprofit corporation. During fiscal year 2023, 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.

Childhelp, Inc. and Affiliates
Notes to the Consolidated Financial Statements
June 30, 2023

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, 2023. 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 2023 Childhelp helped around 279,000 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 74 cents are invested into serving the children in need of our program services using approximately 13 cents for administration and approximately 13 cents for fundraising.

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.

Childhelp, Inc. and Affiliates
Notes to the Consolidated Financial Statements
June 30, 2023

- *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 those 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.

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

Use of Estimates in the Preparation of Consolidated Financial Statements

The preparation of consolidated financial statements in conformity with U.S. GAAP 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. As of June 30, 2023, management believes all contributions receivable are collectible within 12 months of year-end.

Childhelp, Inc. and Affiliates
Notes to the Consolidated Financial Statements
June 30, 2023

Conditional promises to give, bequests, and grants are not included as support until the conditions are substantially met. The amount of conditional promises outstanding and not recorded at June 30, 2023, was approximately \$9,500,000.

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 and valuation allowance is established for all invoices over 150 days. 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

Childhelp, Inc. and Affiliates
Notes to the Consolidated Financial Statements
June 30, 2023

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.

Property and Equipment

Property 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 seven 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, 2023, are as follows:

Deferred financing costs	\$ 327,541
Accumulated amortization	<u>(152,084)</u>
Deferred financing costs, net	<u>\$ 175,457</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 \$9,765 for the year ended June 30, 2023.

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.

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Advertising

Advertising costs are expensed as incurred.

Leases

The Organization adopted Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842) effective July 1, 2022, using the alternative modified retrospective approach. The Organization has elected the package of practical expedients permitted in Topic 842.

The Organization determines whether an arrangement is or contains a lease at contract inception. The lease classification evaluation begins at the lease commencement date. The lease term used in the evaluation includes the noncancellable period for which the Company has the right to use the underlying asset, together with renewal option periods when the exercise of the renewal option is reasonably certain.

Total rent payable is recorded during the lease term, including rent escalations in which the amount of future rent is fixed on the straight-line basis over the term of the lease (including the rent holiday period beginning upon control of the premises and any fixed payments stated in the lease). For leases with an initial term greater than 12 months, a related lease liability is recorded on the consolidated statement of financial position at the present value of future payments discounted at either the implicit rate of the contract, the estimated fully collateralized incremental borrowing rate, or the risk-free rate (discount rate) corresponding with the lease term. In addition, a right-of-use asset is recorded as the initial amount of the lease liability, plus any lease payments made to the lessor before or at the lease commencement date and any initial direct costs incurred.

Certain leases contain provisions that require payment of common area maintenance costs, real estate taxes, and insurance related to leases (variable lease cost). The Organization separates lease and non-lease components. Variable lease costs are expensed as incurred.

Leases with an initial term of 12 months or less (short-term leases) are not recorded on the consolidated statement of financial position. Short-term lease expense is recognized on a straight-line basis over the lease term.

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.

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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, 2023, available to meet general expenses within one year of the consolidated statement of financial position date.

Financial assets	
Cash and cash equivalents	\$ 3,163,747
Accounts receivable, net	4,514,591
Contributions receivable	1,203,628
Bequests receivable, net	2,715,102
Assets held in trust	2,026,196
Donated use of facility, utilities, and curriculum	<u>1,911,725</u>
Total financial assets	15,534,989
Less net assets with donor restrictions	(7,924,637)
Add donated use of facility, utilities, and curriculum	566,778
Add with donor-restricted net assets available for promotions and education	104,783
Add with donor-restricted net assets available for residential treatment	<u>274,400</u>
Financial assets available to meet cash needs for general expenses within one year	<u>\$ 8,556,313</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, 2023, the level of liquidity and reserves was managed within the liquidity targets. Childhelp also maintains a \$7,500,000 line of credit, see Note 8.

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4) Bequests Receivable

Bequests receivable consist of three bequests totaling \$2,715,102 at June 30, 2023, and are recorded at net present value. During the year ended June 30, 2023, Childhelp received \$0 in cash flow from these bequests. An allowance for doubtful accounts has been established based on management's assessment of the collectability and aging of the bequests of \$301,678 as of June 30, 2023.

5) Assets Held in Trusts

Childhelp has been named a remainder beneficiary of two trusts held by a third-party. Under the term of these 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, 2023, as follows:

Remainder trust held by a third party	\$ 1,119,622
Perpetual trust	<u>906,574</u>
Total	<u>\$ 2,026,196</u>

6) 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;

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- 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 Perpetual and Remainder Trusts

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 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, 2023:

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Beneficial interest in remainder trusts	\$ -	\$ 1,119,622	\$ -	\$ 1,119,622
Perpetual trust	-	906,574	-	906,574
Total	<u>\$ -</u>	<u>\$ 2,026,196</u>	<u>\$ -</u>	<u>\$ 2,026,196</u>

7) Property and Equipment

Property and equipment consist of the following at June 30, 2023:

Land	\$ 584,124
Building and improvements	10,985,294
Furniture, fixtures, and equipment	2,817,139
Vehicles	502,651
Construction in progress	231,536
Copyrights/trademark	449,364
Total	<u>15,570,108</u>
Less accumulated depreciation and amortization	<u>(10,708,601)</u>
Property and equipment, net of accumulated depreciation and amortization	<u>\$ 4,861,507</u>

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During the year ended June 30, 2023, Childhelp had approximately 70 acres of undeveloped land in Beaumont, California and 100 acres of undeveloped land in Carefree, Arizona available for sale with total book value of \$2,611,411. In addition, the Merv Griffin Village in Beaumont, California was reclassified to available for sale during the year ended June 30, 2023, with a net book value of \$2,730,143. Subsequent to year-end all of the Beaumont undeveloped land and the Merv Griffin Village were sold. Refer to footnote 19 for further information regarding the sale of available for sale assets.

Total depreciation and amortization expense was \$847,905 for the year ended June 30, 2023. Childhelp has not capitalized interest expense on the construction in progress due to its immateriality.

8) Line of Credit

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 0.025% maturing July 24, 2021. The line of credit contained a provision for an automatic renewal. On October 24, 2021, the line of credit was formally renewed on essentially the same terms and conditions and extending the maturity date to July 24, 2024. The credit line was secured by deeds of trust on real property, assignment of rents, and assignment of depository accounts. As of June 30, 2023, the interest rate was 8.50% and the outstanding balance on the line of credit was \$7,460,101.

Childhelp was required to comply with restrictive debt covenants with respect to the revolving line of credit agreements such as maintaining a specified debt service coverage ratio and annual audit and tax return filing dates. Management believes that Childhelp had complied with the restrictive debt covenants as of June 30, 2023. Subsequent to year-end Childhelp paid off and closed the line of credit.

9) Related party notes payable

During the year ended June 30, 2023, Childhelp entered into notes payable to related parties with fixed interest rates ranging from 0% - 7%. The original amounts totaled \$5,400,000 and were payable on demand. Related party notes payable outstanding as of June 30, 2023, was \$3,750,000. Subsequent to year-end the related party notes payable were paid in full.

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10) Notes Payable

Notes payable consist of the following:

Note payable to a bank; secured by Baker St. group home; original amount of \$365,000; fixed interest at 3.125%; payable monthly at \$1,571. A balloon payment of all outstanding principal and accrued interest is due on August 30, 2030.	\$ 343,493
Note payable to a bank; secured by Joann St. group home; original amount of \$380,000; fixed interest at 3.125%; payable monthly at \$1,639. A balloon payment of all outstanding principal and accrued interest is due on August 30, 2030.	357,533
Note payable to a bank; secured by Johnson Ave. group home; original amount of \$388,000; fixed interest at 3.125%; payable monthly at \$1,670. A balloon payment of all outstanding principal and accrued interest is due on August 30, 2030.	365,349
Note payable to a lender; secured by deed of trust on a property in California; fixed interest at 4.25%; original amount of \$3,117,317; payable monthly at \$19,405. A balloon payment of all outstanding principal and accrued interest is due September 4, 2030. Childhelp is subject to certain loan covenants requiring audited financial statements to be submitted by December 31 and maintaining a minimum debt service coverage ratio of 1.15x.	2,829,908
Note payable to a lender; secured by deed of trust on properties in Tennessee and California; fixed interest at 6.5%; original amount of \$8,239,000; payable monthly at \$54,514 through October 2042. Childhelp is subject to certain loan covenants requiring audited financial statements to be submitted by December 31.	7,139,420
Employee retention tax credit (ERTC) term loan; loan is secured by substantially all Childhelp assets and all ERTC proceeds; The loan is interest only until ERTC proceeds are received and payment of loan is required upon receipt of ERTC; fixed interest rate of 24%; payable monthly of \$80,000.	<u>4,000,000</u>
Total	15,035,703
Less unamortized deferred financing costs	<u>(175,457)</u>
Notes payable, net	<u>\$ 14,860,246</u>

Future maturities of notes payable are as follows:

Year ending June 30,	
2024	\$ 4,328,862
2025	348,730
2026	368,507
2027	389,470
2028	410,564
Thereafter	<u>9,189,570</u>
Total	<u>\$ 15,035,703</u>

Subsequent to year-end all of the notes payable were paid off in full.

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11) Leases

The Company leases facilities, vehicles, and equipment from third parties under long-term and short-term lease arrangements, which are recognized in accordance with Topic 842.

The components of lease costs for the year ended June 30, 2023, consisted of the following:

Operating lease costs	
Fixed lease costs	\$ 724,472
Variable lease costs	17,292
Short-term lease costs	<u>216,710</u>
Total lease costs	<u>\$ 958,474</u>

A summary of the weighted-average lease term and discount rate for operating leases as of June 30, 2023, is as follows:

- Weighted-average remaining lease term (in years): 3.31
- Weighted-average discount rate: 4.83%

Future minimum lease payments for the operating lease liability as of June 30, 2023, consisted of the following:

Year Ending December 31,	
2024	\$ 729,714
2025	674,042
2026	320,713
2027	253,025
2028	<u>120,688</u>
Total lease payments	2,098,182
Less imputed interest	<u>(156,872)</u>
Total lease obligations	<u>\$ 1,941,310</u>

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12) Net Assets

Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes or periods at June 30, 2023:

Subject to expenses for specified purpose	
Capital expenditures	\$ 497,430
Residential treatment program	269,401
Education and prevention programs	<u>104,783</u>
Total	<u>871,614</u>
Subject to the passage of time	
Assets held in external remainder trust not held by Childhelp	1,119,622
Time restricted including donated office space and curriculum	1,911,725
Bequest receivables	<u>2,715,102</u>
Total	<u>5,746,449</u>
Donor-restricted endowment funds	
Perpetual trust corpus not held by Childhelp	906,574
Bluth endowment	250,000
Hotline endowment	<u>150,000</u>
Total donor-restricted endowment funds corpus	<u>1,306,574</u>
Total net assets with donor restrictions	<u>\$ 7,924,637</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	\$ 110,470
Residential treatment program	178,972
Education and prevention programs	94,425
Time restricted including donated office space	580,712
Bequest receivable	<u>503,466</u>
Total	<u>\$ 1,468,045</u>

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.

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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 retains in perpetuity (a) the original value of initial and subsequent gift amounts (including promises to give net of discount and allowance for doubtful accounts including promises to give at fair value) donated to the endowments and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by us in a manner consistent with the standard of prudence prescribed by SPMIFA. Childhelp considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- The possible effects of market volatility
- The expected total return from income and the appreciation of investments
- The investment policies of the Organization

As of June 30, 2023, Childhelp had the following endowment net asset composition by type of fund:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds			
Perpetual trust not held by Childhelp	\$ -	\$ 906,574	\$ 906,574
Bluth endowment	-	250,000	250,000
Hotline endowment	-	150,000	150,000
Total	<u>\$ -</u>	<u>\$ 1,306,574</u>	<u>\$ 1,306,574</u>

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.

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Changes in endowment net assets for the year ended June 30, 2023, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - June 30, 2022	\$ -	\$ 1,277,143	\$ 1,277,143
Endowment contribution investment return			
Dividends and interest income	-	55,166	55,166
Distributions	-	(82,164)	(82,164)
Net appreciation (realized and unrealized)	-	56,429	56,429
Endowment net assets - June 30, 2023	<u>\$ -</u>	<u>\$ 1,306,574</u>	<u>\$ 1,306,574</u>

13) Contributed Goods and Services

For the year ended June 30, 2023, contributed goods and services recognized within the consolidated statement of activities included:

	2023	Utilization in Programs and Activities	Donor Restrictions	Valuation Techniques and Inputs
Medical services	\$ 1,862,574	Children's Advocacy and Medical Care Programs	No associated Donor restrictions	Contributed medical services are valued using the fair market value provided by the donor.
Rent	129,222	Children's Advocacy and Medical Care Programs	No associated Donor restrictions	In valuing the contributed building rent, which is located in the Phoenix Metropolitan Area, Childhelp estimated the fair value based on the rental rates of comparable buildings in the Phoenix Metropolitan Area.
Backpacks, toys, clothing, and other child related needs	654,694	Residential Treatment Villages	No associated Donor restrictions	Childhelp estimated the fair value on the basis of estimates of wholesale values that would be paid for purchasing similar products.
Total contributed goods and services	<u>\$ 2,646,490</u>			

The changes in the donated facility space receivable and associated discount for the year ended June 30, 2023, follows:

	Donated Facility Space Receivable	Unamortized Discount	Net Receivable
Beginning balance	\$ 2,784,001	\$ (305,498)	\$ 2,478,503
In-kind rent expense	(696,000)	-	(696,000)
Amortization of discount - contributed good and services	-	129,222	129,222
Ending balance	<u>\$ 2,088,001</u>	<u>\$ (176,276)</u>	<u>\$ 1,911,725</u>
Amounts due in			
Less than one year	\$ 600,641		
Over one year	1,311,084		
Total	<u>\$ 1,911,725</u>		

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14) Defined Contribution Plans

Childhelp sponsors defined contribution plans that cover employees who meet each plan's eligibility requirements. Childhelp contributed \$0 to the plans in total during the year ended June 30, 2023.

15) Related-Party Transactions

During the year ended June 30, 2023, Childhelp had the following related-party transactions:

- The board of directors' members provided approximately \$1,339,000 in contributions and bequests to Childhelp.
- Insurance and benefits transactions totaling \$572,095, pertaining to various insurance policies were paid to companies whose principal is a member of the board of directors for Childhelp. Commissions paid under these policies were subsequently contributed back to Childhelp and are included in the board of directors' contributions.
- Childhelp owed \$3,500,000 to board of directors' members and \$250,000 to a founder of Childhelp as discussed in footnote 9.

16) Concentrations

Credit Risk

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 15% of total special events and chapter fundraising was received from one donor. Additionally, approximately 49% of total support and revenue was derived from agencies of several different federal, state, and county sources for the year ended June 30, 2023.

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17) Contingencies, Risks, and Uncertainties

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 or reviews. 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 or reviews.

18) Restatement

Since 2019 Childhelp has been receiving in-kind pledges from a 3rd party company to provide backpacks on demand for Childhelp to deliver to Children in need. The 3rd party company solicits donors to purchase a backpack that will then be donated to Childhelp on behalf of the 3rd party company. The backpack pledges were inadvertently omitted from the consolidated financial statements in prior years. As a result of this prior year omission, a restatement of \$1,369,248 to increase beginning net assets is reflected in the accompanying statement of activities. As of June 30, 2023, Childhelp has \$1,852,854 in backpacks receivable recorded in other receivables on the statement of financial position. For the year ended June 30, 2023, Childhelp received \$530,022 of in-kind pledges for backpacks and supplied \$46,416 worth of backpacks to children in need, included as in-kind expense on the accompanying statement of activities.

Additionally, approximately \$692,000 of revenue was improperly excluded from the June 30, 2022 statement of activities and as a result beginning net assets were restated by this amount on the accompanying statement of activities.

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19) Management's Plan in Relation to Going Concern and Subsequent Events

As shown in the accompanying consolidated financial statements, Childhelp incurred a net loss of approximately \$9,400,000 during the year ended June 30, 2023. To alleviate the substantial doubt that the Organization will continue as a going concern, management has taken the following actions subsequent to the year ended June 30, 2023.

- Childhelp sold the Beaumont operations and the undeveloped land effective July 1, 2023, yielding a gain of approximately \$24,400,000 with a positive cash flow of approximately \$26,600,000 (net of closing costs). The funds were used to pay off all of the Organizations notes payable and Childhelp remains debt free as of the date of this report.
- Subsequent to year-end Childhelp received approximately \$9,000,000 in net proceeds from previously applied federal employee retention tax credits (ERC). The ERC funds were invested in low risk money market accounts with an anticipated rate of return of 5% per annum.

Management continues to look for ways to reduce costs and increase grants and donations to improve operations on a go forward basis.

Management has evaluated subsequent events through August 8, 2024, the date the consolidated financial statements were available to be issued.