

CHILDHELP, INC. AND AFFILIATES
CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022



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**CHILDHELP, INC. AND AFFILIATES
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YEAR ENDED JUNE 30, 2022**

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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Childhelp, Inc. and Affiliates, which comprise the consolidated statement of financial position as of June 30, 2022, 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Childhelp, Inc. and Affiliates, as of June 30, 2022, and the changes in their 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). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Childhelp, Inc. and Affiliates 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 Childhelp, Inc. and Affiliates' ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' 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 auditors' 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 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, 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 Childhelp, Inc. and Affiliates' 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 Childhelp, Inc. and Affiliates' 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.

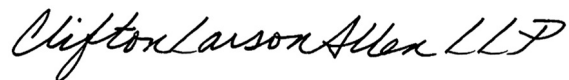
Other Matter

Report on Summarized Comparative Information

We have previously audited Childhelp's 2021 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated February 10, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Emphasis-of-Matter

The consolidated financial statements have been prepared assuming that Childhelp will continue as a going concern. As discussed in Note 17 to the consolidated financial statements, Childhelp has suffered actual and projected losses from operations as of June 30, 2022, and through June 30, 2023. Additionally, Childhelp has increased their outstanding debt through March 30, 2023. Management's evaluation of the events and conditions and management's plans to mitigate these matters are also described in Note 17. Our opinion is not modified with respect to this matter.



CliftonLarsonAllen LLP

Phoenix, Arizona
March 31, 2023

CHILDHELP, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2022
(WITH COMPARATIVE TOTALS AT JUNE 30, 2021)

	2022	2021
ASSETS		
Cash and Cash Equivalents	\$ 1,260,080	\$ 1,313,858
Restricted Cash Held for Endowment	400,088	150,000
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$1,170,684	4,507,339	5,476,976
Contributions Receivable, Net	367,000	-
Prepaid Expenses	1,073,269	894,753
Bequests Receivable, Net	3,095,332	3,219,317
Deposits and Other Assets	953,498	1,040,276
Assets Held in Trusts	1,691,367	2,111,599
Donated Use of Facility, Utilities, and Curriculum	2,478,504	3,013,328
Property, Plant, and Equipment, Net	10,938,927	10,248,544
 Total Assets	 \$ 26,765,404	 \$ 27,468,651
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 993,859	\$ 1,000,374
Accrued Expenses	4,311,119	5,567,496
Deferred Revenues	526,657	1,204,824
Line of Credit, Net of Deferred Financing Costs	3,800,000	-
Notes Payable, Net of Deferred Financing Costs	11,158,258	11,442,142
Total Liabilities	20,789,893	19,214,836
NET ASSETS		
Without Donor Restrictions	(2,448,105)	(1,170,736)
With Donor Restrictions	8,423,616	9,424,551
Total Net Assets	5,975,511	8,253,815
 Total Liabilities and Net Assets	 \$ 26,765,404	 \$ 27,468,651

See accompanying Notes to Consolidated Financial Statements.

CHILDHELP, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2022
(WITH COMPARATIVE TOTALS AT JUNE 30, 2021)

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2022	2021
SUPPORT AND REVENUES				
Program Income – Federal, State, and Local Contracts	\$ 26,497,982	\$ -	\$ 26,497,982	\$ 34,816,961
Special Events and Chapter Fundraising (Net of Direct Donor Expenses of \$2,580,071 for 2022)	11,919,915	-	11,919,915	5,800,056
Foundations, Corporations, Individuals, and Organizations	8,963,221	676,562	9,639,783	7,394,340
Contributed Goods and Services	1,926,178	-	1,926,178	1,877,314
Change in Value of Assets Held in Trust	(420,232)	-	(420,232)	413,065
Other	202,086	-	202,086	155,215
Total Support and Revenues	49,089,150	676,562	49,765,712	50,456,951
NET ASSETS RELEASED FROM RESTRICTIONS	1,677,497	(1,677,497)	-	-
Total Support and Revenues and Net Assets Released from Restrictions	50,766,647	(1,000,935)	49,765,712	50,456,951
FUNCTIONAL EXPENSES AND GAINS AND LOSSES				
Program Services:				
Residential Treatment	22,253,083	-	22,253,083	25,726,987
Hotline	2,122,291	-	2,122,291	2,142,126
Public Awareness and Educational Programs	5,299,697	-	5,299,697	5,206,507
Foster Care	4,504,449	-	4,504,449	4,126,471
Advocacy/Diagnostic Services	5,431,378	-	5,431,378	5,148,385
Mental Health	2,681,506	-	2,681,506	-
Total Program Services	42,292,404	-	42,292,404	42,350,476
Support Services:				
Management and General	4,838,028	-	4,838,028	3,704,951
Fundraising	5,133,689	-	5,133,689	4,517,684
Total Support Services	9,971,717	-	9,971,717	8,222,635
Total Functional Expenses	52,264,121	-	52,264,121	50,573,111
Gains and Losses:				
(Gain) Loss on Sale of Assets	676	-	676	(5,148)
Gain on Bad Debt Recovery	(220,781)	-	(220,781)	-
Loss on Disposal of Assets	-	-	-	103,522
Gain on Insurance Settlement	-	-	-	(1,400,000)
Provision for Doubtful Accounts	-	-	-	232,543
Settlement and Other Non Operating Losses	-	-	-	(68,660)
Total Functional Expenses and Net (Gains) Losses	52,044,016	-	52,044,016	49,435,368
CHANGES IN NET ASSETS	(1,277,369)	(1,000,935)	(2,278,304)	1,021,583
Net Assets (Deficiency) - Beginning of Year	(1,170,736)	9,424,551	8,253,815	7,232,232
NET ASSETS - END OF YEAR	<u>\$ (2,448,105)</u>	<u>\$ 8,423,616</u>	<u>\$ 5,975,511</u>	<u>\$ 8,253,815</u>

See accompanying Notes to Consolidated Financial Statements.

CHILDHELP, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2022
(WITH COMPARATIVE TOTALS AT JUNE 30, 2021)

	Program Services						Support Services			Total Functional Expenses		
	Residential Treatment	Hotline	Public Awareness and Educational Programs	Foster Care	Advocacy/Diagnostic Services	Mental Health	Total Program Services	Management and General	Fundraising	Total Support Services	2022	2021
Salaries and Benefits	\$ 16,038,120	\$ 1,542,458	\$ 4,094,553	\$ 1,807,115	\$ 2,311,039	\$ 2,175,182	\$ 27,968,467	\$ 3,061,627	\$ 2,436,539	\$ 5,498,166	\$ 33,466,633	\$ 33,604,673
Clothing/Personal Needs	199,540	-	6,037	24,222	4,166	7,277	241,242	-	-	-	241,242	360,696
Conferences/Meetings	64,469	2,596	4,758	7,135	41,808	1,448	122,214	31,877	10,669	42,546	164,760	113,907
Dues/Subscriptions	158,326	86,694	84,738	34,745	45,700	25,937	436,140	114,739	110,041	224,780	660,920	592,204
Food Service	617,481	-	146,836	2,620	9,161	193	776,291	341,538	1,103	342,641	1,118,932	1,210,954
Foster Care	-	-	1,631	2,047,466	-	-	2,049,097	-	-	-	2,049,097	1,801,738
Gift In-Kind Expense	55,323	-	-	10,196	2,343,956	-	2,409,475	-	51,111	51,111	2,460,586	2,465,767
Insurance/Taxes	727,591	27,635	141,429	67,148	60,854	108,879	1,133,536	205,948	50,772	256,720	1,390,256	1,033,930
Interest and Bank Fees	565,835	1,048	54,241	3,193	94,898	83,001	802,216	40,714	584,559	625,273	1,427,489	1,056,262
Licensing	27,080	-	4,796	11,318	1,247	915	45,356	12,496	-	12,496	57,852	78,465
Maintenance/Repairs	1,025,542	2,912	42,473	49,733	52,203	3,531	1,176,394	56,334	11,529	67,863	1,244,257	1,244,789
Medical	105,559	-	9,542	1,029	4,259	8,375	128,764	100	-	100	128,864	111,988
Miscellaneous and Other Expenses	8,183	-	1,632	-	676	-	10,491	-	899,779	899,779	910,270	473,752
Postage	9,434	-	143	204	-	20	9,801	12,568	40,721	53,289	63,090	41,579
Printing/Publishing	9,246	1,306	21,534	820	6,081	-	38,987	4,825	130,255	135,080	174,067	152,360
Professional Services	430,977	255,863	386,581	79,734	88,861	144,913	1,386,929	348,295	2,423,461	2,771,756	4,158,685	3,354,776
Promotions	19,014	111,359	1,702	6,437	8,600	27	147,139	1,548	227,143	228,691	375,830	267,608
Recruiting	123,869	435	1,293	2,603	831	-	129,031	124,582	381	124,963	253,994	125,738
Recreation/Special Education	234,437	-	3,117	45,198	-	935	283,687	-	-	-	283,687	168,542
Rent	397,450	62,633	99,641	128,870	18,442	25,643	732,679	154,663	412,635	567,298	1,299,977	1,146,632
Scholarships	-	-	-	-	-	-	-	-	8,000	8,000	8,000	1,160
Supplies	249,200	7,045	64,425	27,789	75,870	31,540	455,869	69,144	27,808	96,952	552,821	530,789
Telephone/Telecommunications	133,545	7,328	26,487	66,310	41,964	14,982	290,616	77,763	20,738	98,501	389,117	389,500
Travel/Automobile	237,854	9,171	24,583	39,242	24,090	6,875	341,815	95,430	245,498	340,928	682,743	306,045
Utilities	367,555	-	55,788	29,819	8,826	38,211	500,199	7,900	10,975	18,875	519,074	476,893
Depreciation and Amortization	447,453	3,808	21,737	11,503	187,846	3,622	675,969	75,937	10,043	85,980	761,949	805,765
Provision for Doubtful Accounts	-	-	-	-	-	-	-	-	-	-	-	232,543
Total Functional Expenses	22,253,083	2,122,291	5,299,697	4,504,449	5,431,378	2,681,506	42,292,404	4,838,028	7,713,760	12,551,788	54,844,192	52,149,055
Less: Direct Donor Expenses	-	-	-	-	-	-	-	-	(2,580,071)	(2,580,071)	(2,580,071)	(1,343,401)
Total Functional Expenses Net of Direct Donor Benefits	22,253,083	2,122,291	5,299,697	4,504,449	5,431,378	2,681,506	42,292,404	4,838,028	5,133,689	9,971,717	52,264,121	50,805,654
Less: Provision for Doubtful Accounts	-	-	-	-	-	-	-	-	-	-	-	(232,543)
Total Functional Expenses as Shown on the Consolidated Statement of Activities and Changes in Net Assets	\$ 22,253,083	\$ 2,122,291	\$ 5,299,697	\$ 4,504,449	\$ 5,431,378	\$ 2,681,506	\$ 42,292,404	\$ 4,838,028	\$ 5,133,689	\$ 9,971,717	\$ 52,264,121	\$ 50,573,111
Total Functional Expenses												

See accompanying Notes to Consolidated Financial Statements.

CHILDHELP, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2022

CASH FLOWS FROM OPERATING ACTIVITIES

Changes in Net Assets	\$ (2,278,304)
Adjustments to Reconcile Changes in Net Assets to Net Cash Used by Operating Activities	
Gain on Recovery of Doubtful Accounts	(220,781)
Loss on Disposal of Assets	676
Depreciation and Amortization	761,949
Interest Expense - Amortization of Loan Fees	9,619
Change in Value of Assets Held in Trust	420,232
Bequests Receivable	123,985
Contributions Restricted for Long-Term Endowment Assets	(250,000)
Amortization of Facility Rent Receivable	534,824
Increase (Decrease) in Cash Resulting from Changes in:	
Accounts Receivable	1,190,418
Contributions Receivable	(367,000)
Prepays	(178,516)
Deposits and Other Assets	86,778
Accounts Payable	(6,515)
Accrued Expenses	(1,256,377)
Deferred Revenues	(678,167)
Net Cash Used by Operating Activities	<u>(2,107,179)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of Property and Equipment	(1,453,008)
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CASH FLOWS FROM FINANCING ACTIVITIES

Net Increase in Line of Credit	3,800,000
Principal Payments of Notes Payable	(293,503)
Contributions Restricted for Long-Term Endowment Assets	250,000
Net Cash Provided by Financing Activities	<u>3,756,497</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS

196,310

Cash and Cash Equivalents - Beginning of Year

1,463,858

CASH AND CASH EQUIVALENTS - END OF YEAR

\$ 1,660,168

Cash and Cash Equivalents Consist of the Following:

Cash and Cash Equivalents	\$ 1,260,080
Restricted Cash Held for Endowment	400,088
Cash and Cash Equivalents - End of Year	<u>\$ 1,660,168</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash Paid During the Year for Interest	<u>\$ 726,518</u>
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See accompanying Notes to Consolidated Financial Statements.

CHILDHHELP, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 ORGANIZATION

Childhelp, Inc. (Childhelp, a registered name used throughout, or the Organization) is a California nonprofit corporation. During fiscal year 2022, 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.

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.

CHILDHELP, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 ORGANIZATION (CONTINUED)

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, 2022. 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 2022 Childhelp helped around 235,000 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 81 cents are invested into serving the children in need of our program services using approximately 9 cents for administration and approximately 10 cents for fundraising.

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.

CHILDHELP, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

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, 2022, management believes all contributions receivable are collectible within 12 months of year-end.

CHILDHELP, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions (Continued)

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, 2022, was \$1,587,878.

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.

CHILDHELP, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 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, 2022, are as follows:

Deferred Financing Costs	\$ 247,148
Accumulated Amortization	<u>(61,926)</u>
Deferred Financing Costs, Net	<u><u>\$ 185,222</u></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 \$9,619 for the year ended June 30, 2022.

CHILDHELP, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Expense Allocation

Expenses that can be specifically identified with a particular program or supporting service are charged directly to the related program or supporting service. Expenses, 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.

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.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

Change in Accounting Principle – Adoption of ASU 2020-07

In September 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The update increases transparency around contributed nonfinancial assets (also known as gifts-in-kind) received by nonprofit organizations, including transparency on how those assets are used and how they are valued. The adoption of this standard did not impact Childhelp's reported revenue.

CHILDHELP, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022

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, 2022, available to meet general expenses within one year of the consolidated statement of financial position date.

Financial Assets:	
Cash and Cash Equivalents	\$ 1,260,080
Accounts Receivable, Net	4,507,339
Contributions Receivable	367,000
Bequests Receivable, Net	3,095,332
Assets Held in Trusts	1,691,367
Donated Use of Facility, Utilities, and Curriculum	<u>2,478,504</u>
Total Financial Assets	13,399,622
Less: Net Assets With Donor Restrictions	(8,423,616)
Add: Donated Use of Facility, Utilities, and Curriculum	566,778
Add: With Donor-Restricted Net Assets Available for Promotions and Education	149,207
Add: With Donor-Restricted Net Assets Available for Residential Treatment	<u>172,372</u>
Financial Assets Available to Meet Cash Needs for General Expenses Within One Year	<u><u>\$ 5,864,363</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, 2022, 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.

CHILDHELP, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 4 BEQUESTS RECEIVABLE

Bequests receivable consist of three bequests totaling \$3,095,332 at June 30, 2022 and are recorded at net present value. During the year ended June 30, 2022 Childhelp received \$-0- in cash flow from bequests. An allowance for doubtful accounts has been established based on management's assessment of the collectability and aging of the bequests of \$343,926 as of June 30, 2022.

NOTE 5 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, 2022 as follows:

Remainder Trust Held by a Third Party	\$ 814,224
Perpetual Trust	<u>877,143</u>
Total	<u><u>\$ 1,691,367</u></u>

NOTE 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;

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

CHILDHELP, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 6 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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, 2022:

	Fair Value Measurements Using:			Total
	Level 1	Level 2	Level 3	
Beneficial Interest in Remainder Trusts	\$ -	\$ 814,224	\$ -	\$ 814,224

NOTE 7 PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment consist of the following at June 30, 2022:

Land	\$ 3,921,797
Building and Improvements	19,439,813
Furniture, Fixtures, and Equipment	4,616,084
Vehicles	679,559
Construction in Progress	305,379
Copyrights/Trademark	449,364
Total	<u>29,411,996</u>
Less: Accumulated Depreciation and Amortization	<u>(18,473,069)</u>
Property, Plant, and Equipment, Net of Accumulated Depreciation and Amortization	<u>\$ 10,938,927</u>

Childhelp has approximately 70 acres of undeveloped land in Beaumont, California and 100 acres of undeveloped land in Carefree, Arizona with total cost of \$2,611,411 that is not used in operations and is available for future sale. The land available for future sale is reported in the land category above.

CHILDHELP, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 7 PROPERTY, PLANT, AND EQUIPMENT (CONTINUED)

Total depreciation and amortization expense was \$761,949 for the year ended June 30, 2022. Childhelp has not capitalized interest expense on the construction in progress due to its immateriality.

NOTE 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 October 24, 2024. The credit line is secured by deeds of trust on real property, assignment of rents, and assignment of depository accounts. As of June 30, 2022, the interest rate was 5.00% and the outstanding balance on the Line of Credit was \$3,800,000.

Childhelp is 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, 2022. Additionally, the annual audit and tax return filing requirements imposed by the line of credit for the year ended June 30, 2022, was subsequently extended through March 31, 2023.

NOTE 9 NOTES PAYABLE

Notes payable consist of the following:

Description

Note payable to a bank; secured by Baker St. group home; original amount of \$365,000; fixed interest at 3.125%; payable monthly at \$1,570.54. A balloon payment of all outstanding principal and accrued interest is due on August 30, 2030. \$ 346,763

Note payable to a bank; secured by Joann St. group home; original amount of \$380,000; fixed interest at 3.125%; payable monthly at \$1,639.48. A balloon payment of all outstanding principal and accrued interest is due on August 30, 2030. 374,828

Note payable to a bank; secured by Johnson Ave. group home; original amount of \$388,000; fixed interest at 3.125%; payable monthly at \$1,669.50. A balloon payment of all outstanding principal and accrued interest is due on August 30, 2030. 367,013

CHILDHELP, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 9 NOTES PAYABLE (CONTINUED)

Description

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 \$19,404.84. 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.

2,938,270

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.

7,316,606

Total

11,343,480

Less: Unamortized Deferred Financing Costs

(185,222)

Notes Payable, Net

\$ 11,158,258

Future maturities of notes payable are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2023	\$ 310,657
2024	326,643
2025	346,813
2026	366,579
2027	387,534
Thereafter	<u>9,605,254</u>
Total	<u><u>\$ 11,343,480</u></u>

The annual audit filing requirement imposed by loan covenants for the year ended June 30, 2022, were subsequently extended through March 31, 2023.

CHILDHELP, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 10 OPERATING LEASES

Childhelp rents certain facilities and equipment under various operating lease agreements maturing November 2038. 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>
2023	\$ 650,881
2024	568,304
2025	500,045
2026	62,973
Total	<u>\$ 1,782,203</u>

Lease expense for all operating leases was approximately \$1,043,882 for the year ended June 30, 2022. 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 2022.

NOTE 11 NET ASSETS

Net Assets With Donor Restrictions

Net assets with donor restriction are available for the following purposes or periods at June 30, 2022:

Subject to Expenses for Specified Purpose:

Capital Expenditures	\$ 427,901
Residential Treatment Program	172,372
Education and Prevention Programs	<u>149,207</u>
Total	749,480

Subject to the Passage of Time:

Assets Held in External Remainder Trust Not Held by Childhelp	809,224
Time Restricted Including Donated Office Space and Curriculum	2,492,437
Bequest Receivables	<u>3,095,332</u>
Total	6,396,993

Donor-Restricted Endowment Funds:

Perpetual Trust Corpus Not Held by Childhelp	877,752
Bluth Endowment	250,000
Hotline Endowment	<u>150,000</u>
Total Donor-Restricted Endowment Funds Corpus	1,277,752
Accumulated Investment Gains	<u>(609)</u>
Total	<u>1,277,143</u>

Total Net Assets With Donor Restrictions	<u>\$ 8,423,616</u>
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CHILDHELP, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 11 NET ASSETS (CONTINUED)

Net Assets With Donor Restrictions (Continued)

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	\$ 538,632
Assets Held in External Remainder Trust Not Held by Childhelp	425,233
Education and Prevention Programs	25,912
Time Restricted Including Donated Office Space	570,891
Bequest Receivable	116,829
Total	<u>\$ 1,677,497</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.

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

CHILDHELP, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 11 NET ASSETS (CONTINUED)

Endowments (Continued)

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-Restricted Endowment Funds:			
Perpetual Trust Not Held			
by Childhelp	\$ -	\$ 877,143	\$ 877,143
Bluth Endowment	-	250,000	250,000
Hotline Endowment	-	150,000	150,000
Total	<u>\$ -</u>	<u>\$ 1,277,143</u>	<u>\$ 1,277,143</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.

Changes in Endowment net assets for the year ended June 30, 2022, are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment Net Assets - June 30, 2021	\$ -	\$ 1,181,095	\$ 1,181,095
Endowment Contribution	-	250,000	250,000
Investment Return:			
Dividends and Interest Income	-	52,249	52,249
Distributions	-	(43,527)	(43,527)
Net Appreciation (Realized and Unrealized)	-	(162,674)	(162,674)
Endowment Net Assets - June 30, 2022	<u>\$ -</u>	<u>\$ 1,277,143</u>	<u>\$ 1,277,143</u>

CHILDHELP, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 12 CONTRIBUTED GOODS AND SERVICES

For the year ended June 30, 2022, contributed goods and services recognized within the consolidated statement of activities included:

	2022	Utilization In Programs and Activities	Donor Restrictions	Valuation Techniques and Inputs
Commodities	\$ 8,416	Residential Treatment Villages	No associated donor restrictions	Childhelp estimates the value of donated commodities using the fair market value provided by the U.S. Department of Agriculture.
Medical Services	1,636,540	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	161,176	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.
Printed Materials	2,845	Fundraising Activities	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.
Donated Auction Items	4,705	Fundraising Activities	Restricted for use in specific special events	Childhelp estimated the fair value on the basis of estimates of wholesale values that would be paid for purchasing similar products.
Toys, Clothing, and Other Child Related Needs	112,496	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>\$ 1,926,178</u>			

he changes in the donated facility space receivable and associated discount for the year ended June 30, 2022 follows:

	Donated Facility Space Receivable	Unamortized Discount	Net Receivable
Beginning Balance	\$ 3,013,904	\$ (576)	\$ 3,013,328
In-Kind Rent Expense	(696,000)	-	(696,000)
Amortization of Discount - Contributed Goods and Services	-	161,176	161,176
Ending Balance	<u>\$ 2,317,904</u>	<u>\$ 160,600</u>	<u>\$ 2,478,504</u>
Amounts Due in:			
Less than One Year	\$ 566,778		
Over One Year	1,911,726		
Total	<u>\$ 2,478,504</u>		

CHILDHELP, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 13 DEFINED CONTRIBUTION PLANS

Childhelp sponsors defined contribution plans that cover employees who meet each plan's eligibility requirements. Childhelp contributed \$375,500 to the plans in total during the year ended June 30, 2022.

NOTE 14 RELATED PARTY TRANSACTIONS

During the year ended June 30, 2022, Childhelp had the following related party transactions:

- The board of directors' members provided \$1,574,055 in contributions and bequests to Childhelp.
- Insurance and benefits transactions totaling \$1,018,307, 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 \$40,932 to board of directors' members.

NOTE 15 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 18% of total special events and chapter fundraising was received from one donor. Additionally, approximately 50% of total support and revenue was derived from agencies of several different federal, state, and county sources for the year ended June 30, 2022.

NOTE 16 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.

CHILDHELP, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 16 CONTINGENCIES, RISKS, AND UNCERTAINTIES (CONTINUED)

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.

NOTE 17 GOING CONCERN

As shown in the accompanying consolidated financial statements, Childhelp incurred a net loss of \$2,278,304 during the year ended June 30, 2022. Subsequent to June 30, 2022, Childhelp incurred actual and projected losses of approximately \$11,000,000 through June 30, 2023. Additionally, subsequent to June 30, 2022, Childhelp drew an additional \$3,700,000 on their line of credit and incurred an additional \$4,400,000 in demand notes payable to a board member (Note 19) to fund the losses. The losses are directly attributable to a license revocation notice received pertaining to its residential treatment center in Beaumont, California and staffing difficulties resulting from the coronavirus pandemic. Those factors create a substantial doubt about Childhelp's ability to continue as a going concern for the year following the date the consolidated financial statements are available to be issued. Management of Childhelp has evaluated these conditions and has proposed the following plans to mitigate the substantial doubt:

1. Management and the Board of Directors have agreed to close the residential treatment center in Beaumont, California effective March 30, 2023. The process to close the facility and programs will take 60 days to finalize.
2. Management has listed one hundred acres of undeveloped land in Carefree, Arizona for sale (Note 7). The land is not used in any of Childhelp's programs and is unencumbered as of June 30, 2022. The land is estimated to sell for approximately \$2,300,000.
3. Management has approximately seventy acres of undeveloped land in Beaumont, California that it is willing to list for sale (Note 7) to help cover cash flow needs. After determining the cost and cash flow effects from the closure of the residential treatment program in California and sale of Carefree land, management will determine if and when the undeveloped land in Beaumont will be listed for sale.
4. Management has applied for federal employer retention tax credits (ERC) totaling approximately \$10,000,000.

The ability of Childhelp to continue as a going concern and meet its obligations as they become due is dependent on management's ability to successfully implement their plans. The consolidated financial statements do not include any adjustments that might be necessary if Childhelp is unable to continue as a going concern.

CHILDHELP, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 18 NEW AUTHORITATIVE ACCOUNTING LITERATURE

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, 2023. Early adoption is permitted. Management is evaluating the impact of the amended lease guidance on Childhelp's consolidated financial statements.

NOTE 19 SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 31, 2023, the date the consolidated financial statements were available to be issued. The following events occurred subsequent to June 30, 2022:

Childhelp drew \$3,700,000 and repaid \$301,181 on its line of credit subsequent to June 30, 2022. As of March 31, 2023, the outstanding balance of the credit line was \$7,198,819.

Childhelp entered into a \$4,400,000, noninterest-bearing note payable to a board member due on demand. Childhelp drew \$4,400,000 and repaid \$650,000 on the note payable subsequent to June 30, 2022. As of March 31, 2023, the note payable balance was \$3,750,000.



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