



Report of Independent Auditors and Consolidated Financial
Statements with Supplementary Information for

**Holt International Children's Services, Inc.
and Related Organization**

For the nine months ended September 30, 2015

MOSS ADAMS_{LLP}

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Holt International Children's Services, Inc. and
Holt International Foundation of China
Eugene, Oregon

Report on Financial Statements

We have audited the accompanying consolidated financial statements of Holt International Children's Services, Inc. and related organization, ("HICS"), which comprise the consolidated statements of financial position as of September 30, 2015, and the related consolidated statements of activities, functional expenses, and cash flows for the nine months then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Holt International Children's Services, Inc. and related organization as of September 30, 2015, and the results of their operations and their cash flows for the nine months then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Consolidating Statement of Financial Position, the Consolidating Statement of Activities, and the Schedule of Indirect Cost Rate are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Moss Adams LLP

Eugene, Oregon
January 27, 2016

**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
AND RELATED ORGANIZATION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2015**

ASSETS

ASSETS

Cash and cash equivalents	\$ 1,374,450
Receivables, net	1,327,956
Prepaid expenses and supplies	428,454
Prepaid support - Holt Children's Services, Korea	1,272,431
Investments	9,700,436
Promises to give, restricted, net of discount	109,226
Property held for sale	1,028,136
Land, buildings, and equipment, net of accumulated depreciation	<u>4,117,517</u>

TOTAL ASSETS	<u><u>\$ 19,358,606</u></u>
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LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$ 754,924
International Program support payable	145,797
Deferred adoption fee revenue	4,323,240
Deferred transportation fees	48,600
Deferred revenue - other	3,750
Long-term debt	2,960,717
Deferred compensation	113,698
Annuity obligation	<u>260,153</u>
Total liabilities	<u>8,610,879</u>

Net assets

Unrestricted net assets:	
Undesignated net assets	2,879,043
Board designated endowment	<u>3,040,771</u>
	5,919,814
Temporarily restricted net assets	1,655,097
Permanently restricted net assets	<u>3,172,816</u>
Total net assets	<u>10,747,727</u>

TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 19,358,606</u></u>
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**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
AND RELATED ORGANIZATION
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other support				
Public support:				
Contributions:				
Sponsorships	\$ 363,884	\$ 8,300,996	\$ -	\$ 8,664,880
Other contributions	714,236	909,728	70,634	1,694,598
Grants received:				
Other	-	470,504	-	470,504
Revenues:				
Adoption fees	5,503,807	-	-	5,503,807
Transportation fees	24,000	-	-	24,000
Investment, principally interest, net of investment fees of \$59,863 in 2015	82,545	29,991	-	112,536
Tour charges	325,396	-	-	325,396
Adoptee services	138,155	-	-	138,155
Other revenue	4,340	-	-	4,340
Gains (losses):				
Loss on sale of assets	(1,920)	-	-	(1,920)
Net unrealized/realized loss on investments	(400,173)	(129,760)	-	(529,933)
Net assets released from restrictions	9,454,352	(9,454,352)	-	-
Total revenues and other support	<u>16,208,622</u>	<u>127,107</u>	<u>70,634</u>	<u>16,406,363</u>
Expenses				
Program services:				
U.S. Program	5,598,058	-	-	5,598,058
International Program	1,680,635	-	-	1,680,635
International Program Support	4,609,309	-	-	4,609,309
Total program services	<u>11,888,002</u>	<u>-</u>	<u>-</u>	<u>11,888,002</u>
Supporting services:				
Management and general	2,158,458	-	-	2,158,458
Fundraising	3,159,858	-	-	3,159,858
Total supporting services	<u>5,318,316</u>	<u>-</u>	<u>-</u>	<u>5,318,316</u>
Total operating expenses	<u>17,206,318</u>	<u>-</u>	<u>-</u>	<u>17,206,318</u>
Change in net assets	(997,696)	127,107	70,634	(799,955)
Net assets, beginning of year	<u>6,917,510</u>	<u>1,527,990</u>	<u>3,102,182</u>	<u>11,547,682</u>
Net assets, end of year	<u>\$ 5,919,814</u>	<u>\$ 1,655,097</u>	<u>\$ 3,172,816</u>	<u>\$ 10,747,727</u>

**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
AND RELATED ORGANIZATION
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015**

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (799,955)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Depreciation	176,373
Loss on disposal of equipment	1,920
Realized gain on investments	(11,594)
Unrealized loss on investments	541,527
Contributions restricted for endowments	(101,591)
(Increase) decrease in:	
Receivables	147,375
Prepaid expenses and supplies	271,295
Prepaid support - Holt Children's Services, Korea	(56,735)
Other promises to give	2,500
Increase (decrease) in:	
Accounts payable and accrued expenses	(47,134)
International Program support payable	(118,852)
Deferred adoption fee revenue	484,074
Deferred revenue - other	(11,250)
Deferred transportation fees	1,800
Deferred compensation	2,730
Net cash provided by operating activities	<u>482,483</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of equipment	(324,650)
Proceeds from sale of investments	383,315
Purchase of investments	(228,327)
Net cash used by investing activities	<u>(169,662)</u>
CASH FLOWS FOR FINANCING ACTIVITIES	
Endowment contributions invested	101,591
Contributions restricted for long-term purposes	6,041
Payments of annuity obligations	(13,387)
Net cash provided by financing activities	<u>94,245</u>
Net increase in cash and cash equivalents	407,066
CASH AND CASH EQUIVALENTS, beginning of year	<u>967,384</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 1,374,450</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH INFORMATION	
Cash paid during the year for interest	<u>\$ 111,780</u>

HOLT INTERNATIONAL CHILDREN'S SERVICES, INC. AND RELATED ORGANIZATION
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Nine Months Ended September 30, 2015

	Program Services				Supporting Services			Total Program and Support
	U.S. Program	International Program	International Program Support	Total	Management and General	Fundraising	Total	
Salaries	\$ 2,522,445	\$ 484,181	\$ -	\$ 3,006,626	\$ 677,484	\$ 562,502	\$ 1,239,986	\$ 4,246,612
Employee health and retirement benefits	472,953	15,103	-	488,056	135,008	114,127	249,135	737,191
Payroll taxes	213,793	21,989	-	235,782	57,294	50,176	107,470	343,252
Total salaries and related expenses	3,209,191	521,273	-	3,730,464	869,786	726,805	1,596,591	5,327,055
Grants and support	-	-	4,609,309	4,609,309	-	-	-	4,609,309
Intercountry transportation	24,000	-	-	24,000	-	-	-	24,000
Child care, clothes, and medicine	114,455	122,234	-	236,689	-	-	-	236,689
Professional fees	557,289	371,655	-	928,944	324,864	225,736	550,600	1,479,544
Supplies	22,923	20,700	-	43,623	52,753	7,037	59,790	103,413
Postage and shipping	152,789	2,983	-	155,772	4,547	66,848	71,395	227,167
Telephone	43,233	17,628	-	60,861	31,870	6,913	38,783	99,644
Building occupancy	147,495	68,910	-	216,405	287,080	1,500	288,580	504,985
Rental of equipment	2,918	810	-	3,728	42,420	-	42,420	46,148
Printing, publication, and other graphics	823,477	5,008	-	828,485	8,427	2,044,346	2,052,773	2,881,258
Travel and allowances:								
Staff	307,755	191,279	-	499,034	36,788	48,661	85,449	584,483
Board	-	-	-	-	23,736	-	23,736	23,736
Staff development	28,170	37,308	-	65,478	12,611	3,176	15,787	81,265
Tours and other expenses	55,937	314,751	-	370,688	426,520	4,041	430,561	801,249
Total before depreciation	5,489,632	1,674,539	4,609,309	11,773,480	2,121,402	3,135,063	5,256,465	17,029,945
Depreciation	108,426	6,096	-	114,522	37,056	24,795	61,851	176,373
Total expenses	\$ 5,598,058	\$ 1,680,635	\$ 4,609,309	\$ 11,888,002	\$ 2,158,458	\$ 3,159,858	\$ 5,318,316	\$ 17,206,318
2015 percentage of total functional expenses	32.5%	9.8%	26.8%	69.1%	12.5%	18.4%	30.9%	100%

**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
AND RELATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Holt International Children's Services, Inc. (HICS or the Organization) is a not-for-profit corporation organized in the state of Oregon, with offices in Oregon, Washington, California, Illinois, Nebraska, Iowa, South Dakota, Arkansas, Kansas, Missouri, New Jersey and Pennsylvania. HICS coordinates and facilitates child and family services, including adoption from Africa, Asia, and Latin America for families in the United States. HICS also coordinates a variety of social service programs in the areas in which it operates.

During the year, the Organization changed its fiscal year end from December 31 to September 30; accordingly, the Organization's current period operations are for the nine month period ended September 30, 2015. All references to 2015 relate to the fiscal year September 30, 2015.

Principles of consolidation - The consolidated financial statements include the accounts of HICS and its related organization, Holt International Foundation of China ("Foundation"), a nonprofit organization formed in 2011 to conduct adoption and humanitarian activities within China. The activities of the Foundation have been consolidated with HICS for purposes of financial reporting for the nine months ended September 30, 2015. All inter-company accounts and transactions have been eliminated in consolidation.

Basis of presentation - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues and expenses are recognized in the period in which they are incurred. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of HICS including changes therein are classified and reported as follows:

Undesignated unrestricted net assets - Net assets of HICS that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations - that is, the part of net assets resulting from (a) all revenues, expenses, gains and losses that are not changes in permanently restricted or temporarily restricted net assets and (b) reclassifications from (or to) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of HICS pursuant to those stipulations. The only limits on unrestricted net assets are broad limits resulting from the nature of HICS and the purposes specified in its articles of incorporation or bylaws.

Board Designated Endowment - HICS's Board of Directors has designated a portion of bequests to be held in perpetuity to benefit the general purposes of the organization according to policies adopted by the Board of Directors.

**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
AND RELATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

Temporarily Restricted Net Assets - Net assets of HICS resulting from (a) contributions and other inflows of assets whose use by HICS is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of HICS pursuant to those stipulations, (b) other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) reclassifications to (or from) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of HICS pursuant to those stipulations.

Permanently Restricted Net Assets - Net assets of HICS resulting from (a) contributions and other inflows of assets whose use by HICS is limited by donor-imposed stipulations that neither expire by passage of time, nor can be fulfilled or otherwise removed by actions of HICS, (b) other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) reclassification from (or to) other classes of net assets as a consequence of donor-imposed stipulations.

Cash and cash equivalents - Cash primarily consists of interest-bearing demand deposits with a regional financial institution, as well as a variety of minor cash accounts located in the countries where HICS operates. Cash equivalents consist of highly liquid investments with original maturities of three months or less. These deposits may, from time to time, exceed the limits of depository insurance, which would subject HICS to credit risk; however, management makes deposits with institutions which have not historically incurred credit losses. HICS does not believe it is exposed to any significant credit risk on cash, and has not experienced any losses in such accounts.

Receivables - HICS's accounts receivable reflect amounts due from prospective parents following assignment of the adoptive child. There is no interest charged on these accounts receivable. Substantially all balances are collected before completion of services by HICS; therefore, management believes the potential for risk of loss to HICS for uncollectible balances is not significant. Concentrations of credit risk with respect to these receivables are limited due to a large client base and its geographic dispersion.

Prepaid support - A portion of International Program support payments become payable to Holt Children's Services - Korea (HCS - Korea), a Korean corporation independent of HICS, when adoption fees for Korean children are received by HICS from the adopting family. Amounts paid and payable under this agreement are recorded as prepaid support until the arrival date of the child, at which time they are expensed as International Program support.

Prepaid expenses and supplies - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Amortization of these costs occurs during the year.

**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
AND RELATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

Investments - Investments consist primarily of debt and equity securities with readily determined fair value are reflected in the financial statements at fair market value. Realized and unrealized gains and losses, and investment income (interest and dividends) are included in the statement of activities. Certificates of deposit, which are included in investments, are invested with federally insured financial institutions in amounts substantially covered by deposit insurance. Investment transactions are recorded on a trade-date basis. The cost of securities sold is based on specific identification. Interest is accrued as earned and dividends are recorded on the ex-dividend date.

In that HICS investments are comprised primarily of mutual funds and public equities, significant changes in prevailing interest rates and market conditions may adversely affect the timing and amount of cash flows on such investments and their related values. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that change in values in the near term could materially affect HICS financial position and the amounts reported.

Restricted investments represent amounts held for endowment fund purposes.

Endowment fund policy - HICS endowment consists of donor-restricted endowment funds for a variety of purposes and board-designated endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of HICS has interpreted the Oregon Uniform Prudent Management of Institutional Funds Act (OUPMIFA) 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, HICS classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by HICS in a manner consistent with the standard of prudence prescribed by OUPMIFA. In accordance with OUPMIFA, HICS considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- a. The duration and preservation of the fund
- b. The purposes of HICS and the donor-restricted endowment fund
- c. General economic conditions
- d. The possible effect of inflation and deflation
- e. The expected total return from income and the appreciation of investments
- f. Other resources of HICS
- g. The investment policies of HICS

**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
AND RELATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

HICS has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the fair market value of the endowment assets.

Endowment assets include those assets of donor-restricted funds that HICS must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. HICS endowment investment strategy is to emphasize long-term growth as measured by total return, while avoiding excessive risk. The primary investment objective is to achieve a balanced return of income consistent with principal growth and to achieve a rate of return, net of fees, to exceed a return of relevant indices or other benchmarks as determined HICS's Finance Committee and the Investment Manager.

To satisfy its long-term rate-of-return objectives, HICS 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). HICS targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

HICS has a policy of appropriating for distribution each year amounts not to exceed five percent of its endowment fund's average fair value over the prior three years through the calendar year-end in which the distribution is planned. In establishing this policy, HICS expects the current spending policy to allow its endowment to grow while also providing a predictable stream of funding to programs supported by the endowment. This is consistent with HICS's objective to maintain the fair market value of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

The Board of Directors has established guidelines for the utilization of the Endowment Fund maintained to benefit the general purposes of HICS. The policy sets forth that HICS shall accept current and deferred gifts to the Endowment Fund. HICS policy is to maintain the principal of the fund in perpetuity. As of September 30, 2015, there were no endowed funds in which the fair value of the endowed assets was less than the related donor restricted amounts.

Endowment fund investments are limited to individual marketable securities or funds in cash equivalents, fixed income securities, equity securities, mutual funds, and real estate investment trusts.

**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
AND RELATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

Fair value of financial instruments - The Organization has adopted Financial Accounting Standards Board ("FASB") authoritative guidance that defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The fair values of HICS financial instruments have generally been determined to fall within Level 1 of the valuation hierarchy.

Property held for sale - Assets are classified as held for sale when management approves and commits to a formal plan of sale, and expects that the sale will be completed within one year. The Organization measures assets held for sale at the lower of their carrying amount or estimated fair value less costs to sell. Fair value may be determined from appraisals or market pricing of comparable assets, when available, or the discounted value of estimated future cash flows. A loss provision is recognized when the carrying amount exceeds the estimated fair value, less costs to sell. See Note 18.

Land, buildings, equipment, and depreciation - Land, building, and equipment in excess of \$500 are capitalized at cost. Major renewals or betterments are capitalized, while replacements, maintenance and repairs which do not improve or extend the useful lives of the respective assets are charged to expense. Contributed property and equipment is capitalized at its fair market value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. Depreciation is computed by the straight-line method using the estimated useful lives of the building and equipment, which generally range from 7 to 30 years for buildings and 3 to 10 years for equipment.

**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
AND RELATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount 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 net cash flows expected to be generated by the asset. If an asset is considered to be impaired, the loss recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Deferred adoption fee revenue, public support, revenue, and gains - The portion of Korean children adoption fee revenue relating to International Program support is deferred at time of assignment and recognized when the child arrives from Korea. The balance of the Korean children adoption fees and the adoption fees for children from other countries is deferred at the time of assignment. The deferred adoption fees are recognized into revenue ratably between the date of assignment and the date which adoption is finalized by the court.

Deferred transportation fees - Deferred transportation fees represent the amounts billed for transportation charges to be recognized as revenue when adopted children arrive in the United States and the related transportation expense has been incurred.

Revenue recognition - Contributions received are recorded at their estimated fair value at the date of donation as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Donor-restricted support is recorded as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose of restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Fee for service revenue is recognized when the service is performed. Proceeds from fundraising events are recognized as revenue during the fiscal year that the fundraising events occur.

Promises to give - Pledges receivable are unconditional promises to give. Unconditional promises that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed at a rate commensurate with the risks involved and upon the rate applicable to the year in which the promise is received. Amortization of the discount is reported in subsequent periods as additional contributions.

HICS uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based upon prior experience and management's analysis of specific promises made.

**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
AND RELATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Contributed services and materials - HICS receives donated services from a variety of unpaid volunteers who assist with programs in non-specialized roles. Approximately 20,000 hours were donated by unpaid volunteers for 2015. In addition to these volunteer hours, HICS also receives donated services from a variety of unpaid volunteers who help with fundraising events throughout the year. No amounts have been reflected in the financial statements for donated services as they do not meet the criteria for recognition in the consolidated financial statements. HICS pays for most services requiring specific expertise. Donated materials are reflected as in-kind contributions and are valued at the estimated fair market value as of the date the item is received. In 2015, HICS did not recognize any donated materials.

Income taxes - HICS is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes. HICS has also been classified as an entity that is not a private foundation within the meaning of the Internal Revenue Code. Accordingly, no provision has been made for income taxes in the financial statements pursuant to Accounting Standards Codification (ASC) 740, *Income Taxes*. HICS generally evaluates any uncertain tax positions consistent with the accounting and disclosure requirements of ASC 450, *Contingencies*. HICS did not have any uncertain tax positions in connection with these financial statements as of September 30, 2015. Generally, the Organization is subject to examination by U.S. federal, state, and local income tax authorities for three years from the filing of a tax return.

Use of estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Advertising costs - HICS's advertising costs are expensed as incurred and totaled \$2,590,650 in 2015.

Subsequent events - Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are available to be issued. The Organization recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The Organization's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before financial statements are available to be issued. Note 18 provides disclosure of significant subsequent events.

**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
AND RELATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

The Organization has evaluated subsequent events through January 27, 2016, which is the date the financial statements are available to be issued.

NOTE 2 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following at September 30, 2015:

Cash on hand	\$ 7,419
Checking accounts	115,864
Money markets	<u>1,251,167</u>
Total cash and cash equivalents	<u><u>\$ 1,374,450</u></u>

NOTE 3 - INVESTMENTS

HICS's investments consisted of the following at September 30, 2015:

Certificates of deposit	\$ 54,838
Equity securities	1,696
Mutual funds (various funds):	
Cetera Advisors, LLC	6,786,447
U.S. Bank	2,366,312
Other funds	<u>491,143</u>
Total investments	<u><u>\$ 9,700,436</u></u>

HICS classified investment balances are as follows:

Investments, short-term	\$ 54,838
Investments, long-term	5,977,475
Investments, restricted, long-term	3,180,775
Investments restricted for trust and annuity obligations, long-term	<u>487,348</u>
Total investments	<u><u>\$ 9,700,436</u></u>

**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
AND RELATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 3 - INVESTMENTS (Continued)

A summary of investment activity was as follows:

Balance, January 1	<u>\$ 10,385,357</u>
Investment activity:	
Purchase of investments	228,327
Sale of investments	<u>(383,315)</u>
Net principal decrease	<u>(154,988)</u>
Investment returns:	
Realized and unrealized losses, net	<u>(529,933)</u>
Balance, September 30	<u><u>\$ 9,700,436</u></u>

For 2015, return on investments consisted of the following:

Interest and dividends	\$ 112,536
Unrealized losses	(541,527)
Realized gains	<u>11,594</u>
Total return on investments	<u><u>\$ (417,397)</u></u>

**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
AND RELATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 4 - FAIR VALUE MEASUREMENTS

The Organization classifies its investments in accordance with the fair value hierarchy discussed in Note 1. The following table discloses by level the fair value hierarchy as of September 30, 2015:

Description	Level 1	Level 2	Level 3	Total
Cash and money market funds	\$ 304,660	\$ -	\$ -	\$ 304,660
Certificates of deposit	54,838	-	-	54,838
U.S. corporate equities	1,696	-	-	1,696
U.S. fixed income funds	4,139,524	-	-	4,139,524
U.S. equity funds	2,878,135	-	-	2,878,135
International equity funds	2,172,058	-	-	2,172,058
U.S. & Foreign Real Estate funds	145,730	-	-	145,730
Funds held in insurance company	3,795	-	-	3,795
	<u>\$ 9,700,436</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,700,436</u>

NOTE 5 - PROMISES TO GIVE

Promises to give consisted of the following at September 30, 2015:

Promises to give restricted for long term purposes	\$ 277,874
Less allowance for uncollectible promises to give	(165,200)
Discount to present value	<u>(3,448)</u>
Net promises to give	<u>\$ 109,226</u>
<u>Amounts Due In:</u>	
Less than one year	\$ 184,931
One to five years	92,943
More than five years	<u>-</u>
Total promises to give	<u>\$ 277,874</u>

Pledges receivable after one year were discounted using varied adjusted risk-free interest rates up to 1.65%.

**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
AND RELATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 6 - LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consisted of the following:

Land	\$ 1,616,980
Buildings	2,172,359
Office equipment	477,422
Technology equipment	1,026,943
Transportation equipment	<u>131,834</u>
	5,425,538
Accumulated depreciation	<u>(1,308,021)</u>
Net land, buildings and equipment	<u><u>\$ 4,117,517</u></u>

Depreciation expense for 2015 was \$176,373.

NOTE 7 - LONG-TERM DEBT

Long-term debt consisted of the following at September 30, 2015:

Line of credit with Pacific Continental Bank, with monthly payments of interest only at 4.0%, payable in full on or before October 2017, secured by property. Paid in full in October 2015. See Note 18.	\$ 760,717
Note payable with Pacific Continental Bank, with monthly payments of interest only at 4.0%, payable in full on or before October 2017, secured by property.	<u>2,200,000</u>
	2,960,717
Less current portion	<u>-</u>
	<u><u>\$ 2,960,717</u></u>

Interest expense is included in other expenses and totaled \$111,613 for 2015.

In April 2015, the Organization entered into a line of credit agreement with Pacific Continental Bank with maximum borrowings up to \$500,000. The agreement requires monthly interest only payments at 4.25% with a balloon payment due upon maturity on April 20, 2016. Collateral is provided primarily by the general assets of the Organization. There was no outstanding balance on the line of credit as of September 30, 2015.

**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
AND RELATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS

At September 30, 2015 components of temporarily restricted net assets consisted of the following:

Program	
Cambodia	\$ 130,018
China	86,314
Endowment earnings	389,619
Ethiopia	2,500
Gift Annuity	227,195
Guatemala	17,812
India	206,498
Mongolia	69,047
Nepal	885
North Korea	3,677
Orphan Nutrition Program	97,100
South Korea	29,231
Thailand	10,921
Uganda	106,108
US Programs	3,608
Vietnam	<u>274,564</u>
 Total temporarily restricted net assets	 <u><u>\$ 1,655,097</u></u>

NOTE 9 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets at September 30, 2015 of \$3,172,816, consisted of endowment funds which are permanently restricted as stipulated by the donors.

**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
AND RELATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 10 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors, or by the change of restrictions specified by the donors. The amounts released during 2015 are as follows:

Purpose of restriction:		
Program services:		
U.S. Program		\$ 1,861,480
International Program		1,562,344
International Program support		3,029,331
Supporting services:		
Management and general		394,162
Fundraising		2,563,812
Acquisition of assets:		
Building purchase		<u>43,223</u>
		<u><u>\$ 9,454,352</u></u>

NOTE 11 - ENDOWMENT FUND

At September 30, 2015, the Endowment Fund consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>TOTAL</u>
Donor-restricted endowment funds	\$ -	\$ 389,619	\$ 3,172,816	\$ 3,562,435
Board-designated endowment funds	<u>3,040,771</u>	<u>-</u>	<u>-</u>	<u>3,040,771</u>
Total Endowment Fund	<u><u>\$ 3,040,771</u></u>	<u><u>\$ 389,619</u></u>	<u><u>\$ 3,172,816</u></u>	<u><u>\$ 6,603,206</u></u>

**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
AND RELATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 11 - ENDOWMENT FUND (Continued)

A summary of 2015 Endowment Fund activity was as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>TOTAL</u>
Balance, January 1, 2015	\$ 3,397,581	\$ 577,873	\$ 3,102,182	\$ 7,077,636
Endowment contributions	31,916		70,634	102,550
	<u>31,916</u>	<u>-</u>	<u>70,634</u>	<u>102,550</u>
Appropriated expenditures	(230,580)	(110,853)	-	(341,433)
	<u>(230,580)</u>	<u>(110,853)</u>	<u>-</u>	<u>(341,433)</u>
Investment returns:				
Unrealized loss on endowment	(212,886)	(103,642)	-	(316,528)
Return on endowment investments	54,740	26,241	-	80,981
Investment returns, net	<u>(158,146)</u>	<u>(77,401)</u>	<u>-</u>	<u>(235,547)</u>
Balance, September 30, 2015	<u>\$ 3,040,771</u>	<u>\$ 389,619</u>	<u>\$ 3,172,816</u>	<u>\$ 6,603,206</u>

NOTE 12 - FUNCTIONAL EXPENSES, PROGRAM, AND SUPPORTING SERVICES

Expenses for HICS are summarized according to function classification of program services and supporting services. Certain expenses are allocated among functions based on a variety of methods. Program services include U.S. Program and International Program expenses. Support services include management and general, and fundraising expenses.

Program Services

U.S. Program

U.S. Program services consist of United States based expenses for professional services incurred in connection with placing children for adoption, including family preparation, post-placement counseling, and international processing, which includes transportation, public education concerning adoption issues, providing information to sponsors concerning their sponsored child, and management assistance and program development for international programs.

**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
AND RELATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 12 - FUNCTIONAL EXPENSES, PROGRAM, AND SUPPORTING SERVICES (Continued)

International Program

International Program services consist of direct expenses incurred by HICS in other countries for adoption services, permanency planning services for children, social work training for indigenous staff, counseling and assistance for displaced families and individuals, and management assistance and program development for international programs.

International Program services provided for 2015 were as follows:

Cambodia	\$ 52,306
China	1,013,020
Ethiopia	165,302
Haiti	59,944
India	17,073
South Korea	130,997
Uganda	7,654
Vietnam	<u>234,339</u>
 Total International Program services provided	 <u><u>\$ 1,680,635</u></u>

**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
AND RELATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 12 - FUNCTIONAL EXPENSES, PROGRAM, AND SUPPORTING SERVICES (Continued)

Payments to other foreign organizations are based on fiscal policies and agreements for support of the respective in-country programs. For 2015, support provided was as follows:

Cambodia	\$ 62,379
China	1,822,204
Ethiopia	135,248
Guatemala	53,438
Haiti	18,133
India	305,357
Mongolia	105,750
North Korea	112,498
Philippines	264,747
South Korea	1,383,761
Thailand	304,909
Uganda	28,385
Vietnam	<u>12,500</u>
 Total International Program support	 <u><u>\$ 4,609,309</u></u>

Supporting Services

Management and general - Costs not identifiable with a single program or fund raising activity, but are indispensable to those activities and to the organization.

Fundraising - Costs incurred to obtain contributions for which the contributor will receive no direct economic benefit.

**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
AND RELATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 13 - JOINT COST ALLOCATION

The Organization incurred expenses that were identifiable with a particular function but served joint purposes. Expenses relate to certain events that jointly support adoption recruitment and advocacy or fundraising. These expenses were allocated by their functional classification as follows:

Adoption program	\$ 705,000
Fundraising	<u>1,456,998</u>
Total joint costs allocated	<u><u>\$ 2,161,998</u></u>

NOTE 14 - PENSION PLAN

Substantially all employees with two years of service are covered by a defined contribution money-purchase pension plan. HICS makes monthly contributions to the plan equal to the accrued pension cost. Pension expense represents 7 percent of an eligible employee's salary. Total pension expense was \$219,368 for 2015.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Operating leases - Rental expense was \$224,965 for 2015. HICS is obligated under certain noncancelable operating leases which call for periodic adjustments to the minimum rental payments. Estimated future minimum rental payments are as follows:

2016	\$ 132,625
2017	90,448
2018	87,480
2019	80,374
2020	13,454
Thereafter	<u>-</u>
	<u><u>\$ 404,381</u></u>

Contract commitments - In August, 2014, HICS entered into five-year contracts (2014-2019) with unrelated parties to promote its international adoption services and acquire sponsorship donors. For 2015, \$2,177,431 was incurred and paid associated with these contracts. It is anticipated that HICS will pay total fees of approximately \$11.6 million over the five-year contract term.

**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
AND RELATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 16 - GRANTS

Amounts received or receivable from grantor agencies are subject to audit and adjustment by such agencies. Any disallowed costs could become a liability of HICS. Management believes that unallowable costs, if any, would not be significant and would not have a material effect on HICS's financial position.

NOTE 17 - CONCENTRATION OF RISK - ADOPTION SERVICES

Approximately 34 percent of HICS's revenue in 2015 was derived from the adoption services it provided in various countries, including Korea, China, Ethiopia and India. A significant delay in the adoption process or the loss of the ability to coordinate adoptions in these countries could adversely affect operations. However, management believes it has good relations with these countries, and does not expect any significant delays or hindrances in providing these services.

NOTE 18 - PROPERTY HELD FOR SALE

During 2015, the Organization formally committed to a plan to sell its International Way and City View properties, located in Springfield, Oregon and Eugene, Oregon, respectively. Accordingly, the properties, net of accumulated depreciation of approximately \$754,800 have been classified as held for sale as of September 30, 2015 pursuant to guidance provided by ASC 360, *Property, Plant and Equipment*.

In October 2015, the Organization entered into a Purchase and Sale Agreement with a private party to sell the International Way property. The Organization sold the property with a net book value of \$658,000, for \$826,500, resulting in a gain of \$135,000, net of selling expenses. Proceeds in the amount of approximately \$761,000 were subsequently used to pay off the line of credit with Pacific Continental Bank.

SUPPLEMENTARY INFORMATION

HOLT INTERNATIONAL CHILDREN'S SERVICES, INC. AND RELATED ORGANIZATION
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2015

ASSETS

	<u>HICS</u>	<u>HIF CHINA</u>	<u>ELIMINATIONS</u>	<u>CONSOLIDATED</u>
Cash and cash equivalents	\$ 1,371,279	\$ 3,171	\$ -	\$ 1,374,450
Receivables, net	1,327,956	-	-	1,327,956
Prepaid expenses and supplies	414,719	13,735	-	428,454
Prepaid support - Holt Children's Services, Korea	1,272,431	-	-	1,272,431
Investments	9,700,436	-	-	9,700,436
Promises to give, restricted, net of discount	109,226	-	-	109,226
Property held for sale	1,028,136	-	-	1,028,136
Land, building, and equipment, net of accumulated depreciation	4,110,765	6,752	-	4,117,517
TOTAL ASSETS	\$ 19,334,948	\$ 23,658	\$ -	\$ 19,358,606
<u>LIABILITIES AND NET ASSETS</u>				
<u>LIABILITIES</u>				
Accounts payable and accrued expenses	\$ 744,188	\$ 10,736	\$ -	\$ 754,924
International Program support payable	145,797	-	-	145,797
Deferred adoption fee revenue	4,323,240	-	-	4,323,240
Deferred transportation fees	48,600	-	-	48,600
Deferred revenue - other	3,750	-	-	3,750
Long-term debt	2,960,717	-	-	2,960,717
Deferred compensation	113,698	-	-	113,698
Annuity obligation	260,153	-	-	260,153
Total liabilities	8,600,143	10,736	-	8,610,879
<u>Net assets</u>				
<u>Unrestricted net assets:</u>				
Undesignated net assets	2,866,121	12,922	-	2,879,043
Board designated endowment	3,040,771	-	-	3,040,771
	5,906,892	12,922	-	5,919,814
Temporarily restricted net assets	1,655,097	-	-	1,655,097
Permanently restricted net assets	3,172,816	-	-	3,172,816
Total net assets	10,734,805	12,922	-	10,747,727
TOTAL LIABILITIES AND NET ASSETS	\$ 19,334,948	\$ 23,658	\$ -	\$ 19,358,606

HOLT INTERNATIONAL CHILDREN'S SERVICES, INC. AND RELATED ORGANIZATION
CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015

	<u>HICS</u>	<u>HIF CHINA</u>	<u>ELIMINATIONS</u>	<u>CONSOLIDATED</u>
Revenues and other support				
Public support:				
Contributions:				
Sponsorships	\$ 8,664,880	\$ 2,563,865	\$ (2,563,865)	\$ 8,664,880
Other contributions	1,694,598	-	-	1,694,598
Grants received:				
Other	470,504	-	-	470,504
Revenues:				
Adoption fees	5,503,807	-	-	5,503,807
Transportation fees	24,000	-	-	24,000
Investment, principally interest, net of investment fees of of \$59,863 in 2015	112,383	153	-	112,536
Tour charges	325,396	-	-	325,396
Adoptee services	138,155	-	-	138,155
Other revenue	4,340	-	-	4,340
Gains (losses):				
Loss on sale of assets	(1,920)	-	-	(1,920)
Net unrealized/realized loss on investments	(529,933)	-	-	(529,933)
Net assets released from restrictions	-	-	-	-
	<u>16,406,210</u>	<u>2,564,018</u>	<u>(2,563,865)</u>	<u>16,406,363</u>
Total revenues and other support				
Expenses				
Program services:				
U.S. Program	5,598,058	-	-	5,598,058
International Program	846,056	834,579	-	1,680,635
International Program Support	5,350,970	1,822,204	(2,563,865)	4,609,309
	<u>11,795,084</u>	<u>2,656,783</u>	<u>(2,563,865)</u>	<u>11,888,002</u>
Total program services				
Supporting services:				
Management and general	2,158,458	-	-	2,158,458
Fundraising	3,159,858	-	-	3,159,858
	<u>5,318,316</u>	<u>-</u>	<u>-</u>	<u>5,318,316</u>
Total supporting services				
Total operating expenses	<u>17,113,400</u>	<u>2,656,783</u>	<u>(2,563,865)</u>	<u>17,206,318</u>
Change in net assets	(707,190)	(92,765)	-	(799,955)
Net assets, beginning of year	<u>11,441,995</u>	<u>105,687</u>	<u>-</u>	<u>11,547,682</u>
Net assets, end of year	<u>\$ 10,734,805</u>	<u>\$ 12,922</u>	<u>\$ -</u>	<u>\$ 10,747,727</u>

**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
AND RELATED ORGANIZATION
SCHEDULE OF INDIRECT COST RATE
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015**

Salaries	\$ 677,484
Employee health and retirement benefits	135,008
Payroll taxes	57,294
Total salaries and related expenses	869,786
Professional fees	324,864
Supplies	52,753
Postage and shipping	4,547
Telephone	31,870
Building occupancy	287,080
Rental of equipment	42,420
Printing, publications, and graphics	8,427
Travel and allowances:	
Staff	36,788
Board	23,736
Staff development	12,611
Tours and other expenses, less unallowable costs	314,907
Depreciation	37,056
Total allowable management and general expenses	\$ 2,046,845
Total direct U.S. and International Program services	\$ 7,278,693
Fundraising	3,159,858
Total direct program services and fund raising expenses	\$ 10,438,551
Indirect cost rate	19.6%

Indirect Cost Pool

Indirect costs (management and general) represent expenses incurred at the corporate headquarters and United States branch offices of HICS, which benefit all of the Organization's programs and projects. These costs are maintained in one pool, which is then allocated between program services and fundraising. Both functions benefit to approximately the same degree and, therefore, only one indirect cost rate is calculated.

The indirect cost pool excludes the following unallowable costs:

- Fundraising expenses
- Entertainment expenses
- Interest expense
- Bad debt allowance

**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
AND RELATED ORGANIZATION
SCHEDULE OF INDIRECT COST RATE (Continued)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015**

Indirect Cost Base

The base amount used in calculating the indirect cost rate is the total direct program service cost incurred for both U.S. and International Program operations, excluding International Program support for HICS overseas affiliate programs and capital expenditures.

Rate Calculation

The indirect cost rate is calculated as follows:

$$\frac{\text{Total Management and General Costs}}{\text{Total Program Service Costs plus Total Fund Raising Expenses}} = \frac{\text{Indirect Cost Rate}}{\underline{\underline{\hspace{2cm}}}}$$