

**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
AND RELATED ORGANIZATION**

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

YEARS ENDED SEPTEMBER 30, 2022 AND 2021



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**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
AND RELATED ORGANIZATION
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YEARS ENDED SEPTEMBER 30, 2022 AND 2021**

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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Holt International Children's Services, Inc. and Related Organization (HICS) (a nonprofit corporation), which comprise the consolidated statements of financial position as of September 30, 2022 and 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the years 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 HICS as of September 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis of Opinion

We conducted our audits 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 HICS and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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 HICS' ability to continue as a going concern for one year after the date of 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 HICS' 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 HICS' 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.

Board of Directors
Holt International Children's Services, Inc. and
Holt International Foundation of China

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The 2022 consolidating statement of financial position and consolidating statement of activities are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Portland, Oregon
February 10, 2023

**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
AND RELATED ORGANIZATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2022 AND 2021**

ASSETS	2022	2021
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 853,268	\$ 2,579,078
Receivables, Net	743,053	954,804
Prepaid Expenses and Supplies	1,379,803	941,472
Prepaid Support - Holt Children's Services, Korea	252,435	1,169,610
Investments	5,751,716	8,757,814
Promises to Give, Restricted, Net	165,000	175,000
Total Current Assets	9,145,275	14,577,778
NONCURRENT ASSETS		
Promises to Give, Restricted, Net	302,770	487,088
Charitable Remainder Trust Receivable	25,000	25,000
Property Held for Sale	-	1,254,375
Property and Equipment, Net of Accumulated Depreciation	5,120,467	4,208,056
Total Noncurrent Assets	5,448,237	5,974,519
RESTRICTED ASSETS		
Investments Restricted for Annuity Obligations	542,797	680,940
Investments Restricted for Long-Term Purposes	3,573,297	3,539,922
Total Restricted Assets	4,116,094	4,220,862
Total Assets	\$ 18,709,606	\$ 24,773,159

See accompanying Notes to Consolidated Financial Statements.

**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
AND RELATED ORGANIZATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)
SEPTEMBER 30, 2022 AND 2021**

	2022	2021
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 1,852,820	\$ 1,650,316
International Program Support Payable	59,523	157,518
Deferred Adoption Fees	1,727,184	3,752,174
Annuity Obligations - Current	20,389	20,389
Total Current Liabilities	3,659,916	5,580,397
LONG-TERM LIABILITIES		
Deferred - Other, Less Current Portion	96,060	96,060
Annuity Obligations, Less Current Portion	208,429	228,536
Total Long-Term Liabilities	304,489	324,596
Total Liabilities	3,964,405	5,904,993
NET ASSETS		
Without Donor Restrictions:		
Undesignated	7,099,428	8,908,962
Designated by the Board for Endowment Fund	3,075,468	4,100,603
Total Without Donor Restrictions	10,174,896	13,009,565
With Donor Restrictions	4,570,305	5,858,601
Total Net Assets	14,745,201	18,868,166
Total Liabilities and Net Assets	\$ 18,709,606	\$ 24,773,159

See accompanying Notes to Consolidated Financial Statements.

**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
AND RELATED ORGANIZATION
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2022**

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND OTHER SUPPORT			
Public Support:			
Contributions:			
Sponsorships	\$ 937,621	\$ 15,584,779	\$ 16,522,400
Other Contributions	2,756,109	2,255,916	5,012,025
Grants	-	429,960	429,960
Revenues:			
Adoption Fees, Net	5,595,514	-	5,595,514
Investment Income, Principally Interest, Net	103,092	40,466	143,558
Other Revenue	140,787	-	140,787
Gain (Loss):			
Gain on Sales of Property and Equipment	160,830	-	160,830
Net Unrealized / Realized Loss on Investments	(1,453,028)	(593,442)	(2,046,470)
Net Assets Released from Restrictions	19,005,975	(19,005,975)	-
Total Revenue and Other Support	27,246,900	(1,288,296)	25,958,604
OPERATING EXPENSES			
Program and Support	22,302,233	-	22,302,233
Management and General	2,545,737	-	2,545,737
Fundraising	5,233,599	-	5,233,599
Total Operating Expenses	30,081,569	-	30,081,569
CHANGE IN NET ASSETS	(2,834,669)	(1,288,296)	(4,122,965)
Net Assets - Beginning of Year	13,009,565	5,858,601	18,868,166
NET ASSETS - END OF YEAR	\$ 10,174,896	\$ 4,570,305	\$ 14,745,201

See accompanying Notes to Consolidated Financial Statements.

**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
AND RELATED ORGANIZATION
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2021**

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND OTHER SUPPORT			
Public Support:			
Contributions:			
Sponsorships	\$ 965,716	\$ 15,220,888	\$ 16,186,604
Other Contributions	2,568,125	3,326,977	5,895,102
Grants	-	947,402	947,402
Revenues:			
Adoption Fees, Net	5,609,477	-	5,609,477
Investment Income, Principally Interest, Net	126,501	54,293	180,794
Other Revenue	36,444	-	36,444
Gain:			
Net Unrealized / Realized Gain on Investments	1,238,113	425,284	1,663,397
Nonoperating Revenue			
Gain on Forgiveness of Paycheck Protection Program Loan	2,064,700	-	2,064,700
Net Assets Released from Restrictions	18,721,645	(18,721,645)	-
Total Revenue and Other Support	31,330,721	1,253,199	32,583,920
OPERATING EXPENSES			
U.S. Program	21,183,562	-	21,183,562
Management and General	1,957,151	-	1,957,151
Fundraising	5,855,484	-	5,855,484
Total Operating Expenses	28,996,197	-	28,996,197
CHANGE IN NET ASSETS	2,334,524	1,253,199	3,587,723
Net Assets - Beginning of Year	10,675,041	4,605,402	15,280,443
NET ASSETS - END OF YEAR	\$ 13,009,565	\$ 5,858,601	\$ 18,868,166

See accompanying Notes to Consolidated Financial Statements.

**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
AND RELATED ORGANIZATION
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2022**

	<u>Program Services</u>	<u>Supporting Services</u>		Total Operating Expenses
	Program and Support	Management and General	Fundraising	
Salaries and Wages	\$ 6,991,510	\$ 1,038,726	\$ 1,051,083	\$ 9,081,319
Employee Health and Retirement Benefits	1,072,540	210,139	203,515	1,486,194
Payroll Taxes	425,018	72,323	74,936	572,277
Total Salaries and Related Expenses	8,489,068	1,321,188	1,329,534	11,139,790
Grants and Support	6,719,810	-	-	6,719,810
Child Care, Clothes, and Medicine	788,848	-	-	788,848
Professional Fees and Consulting	2,147,922	759,263	1,170,739	4,077,924
Supplies	268,814	36,617	24,470	329,901
Postage and Shipping	141,821	31,529	187,307	360,657
Internet and Communication	103,857	15,265	7,619	126,741
Facilities, Utilities and Maintenance	528,167	80,409	3,962	612,538
Leases	349,379	6,487	4,500	360,366
Advertising, Outreach, and Printing	947,986	26,164	2,331,635	3,305,785
Travel	591,763	65,548	116,100	773,411
Staff Development	201,743	39,103	1,228	242,074
Bank and Credit Card Fees	504,362	18,287	-	522,649
Other Expenses	225,621	6,464	6,242	238,327
Bad Debt	-	70,500	-	70,500
Total Before Depreciation	22,009,161	2,476,824	5,183,336	29,669,321
Depreciation	293,072	68,913	50,263	412,248
Total Expenses	<u>\$ 22,302,233</u>	<u>\$ 2,545,737</u>	<u>\$ 5,233,599</u>	<u>\$ 30,081,569</u>
2022 Percentage of Total Functional Expenses	74.1%	8.5%	17.4%	100.0%

See accompanying Notes to Consolidated Financial Statements.

**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
AND RELATED ORGANIZATION
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2021**

	<u>Program Services</u>	<u>Supporting Services</u>		Total Operating Expenses
	Program and Support	Management and General	Fundraising	
Salaries and Wages	\$ 7,424,798	\$ 996,551	\$ 903,969	\$ 9,325,318
Employee Health and Retirement Benefits	1,120,265	193,765	176,714	1,490,744
Payroll Taxes	547,358	82,672	75,545	705,575
Total Salaries and Related Expenses	9,092,421	1,272,988	1,156,228	11,521,637
Grants and Support	6,389,338	-	-	6,389,338
Child Care, Clothes, and Medicine	876,597	-	-	876,597
Professional Fees and Consulting	1,958,845	274,084	2,351,178	4,584,107
Supplies	260,239	13,354	29,319	302,912
Postage and Shipping	171,959	7,832	161,031	340,822
Internet and Communication	131,180	1,687	5,971	138,838
Facilities, Utilities and Maintenance	492,165	153,734	3,033	648,932
Leases	343,584	7,145	2,700	353,429
Advertising, Outreach, and Printing	146,171	30,262	2,021,156	2,197,589
Travel	275,796	12,404	42,980	331,180
Tours	186,303	45,959	6,308	238,570
Staff Development	155,909	12,763	6,577	175,249
Bank and Credit Card Fees	496,879	24,982	-	521,861
Bad Debt	-	50,018	-	50,018
Total Before Depreciation	20,977,386	1,907,212	5,786,481	28,671,079
Depreciation	206,176	49,939	69,003	325,118
Total Expenses	<u>\$ 21,183,562</u>	<u>\$ 1,957,151</u>	<u>\$ 5,855,484</u>	<u>\$ 28,996,197</u>
2021 Percentage of Total Functional Expenses	73.1%	6.7%	20.2%	100.0%

See accompanying Notes to Consolidated Financial Statements.

**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
AND RELATED ORGANIZATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2022 AND 2021**

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (4,122,965)	\$ 3,587,723
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation	412,248	325,118
(Gain) Loss on the Sale of Property and Equipment	(160,830)	1,700
Net Unrealized / Realized (Gain) Loss on Investments	2,046,470	(1,663,397)
Gain on Forgiveness of Paycheck Protection Program Loan	-	(2,064,700)
Contributions Restricted for Endowments	(107,798)	(204,185)
Discount on Promises to Give	19,318	7,912
(Increase) Decrease in Asset:		
Receivables	211,751	126,516
Prepaid Expenses and Supplies	(438,331)	(231,127)
Prepaid Support - Holt Children's Services, Korea	917,175	26,523
Promises to Give, Restricted, Net	10,000	(825,000)
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Expenses	202,504	(48,238)
International Program Support Payable	(97,995)	7,252
Deferred Adoption Fee	(2,024,990)	(380,165)
Net Cash Used by Operating Activities	(3,133,443)	(1,334,068)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Property and Equipment	1,409,680	-
Purchases of Property and Equipment	(1,236,515)	(693,316)
Construction in Progress	(82,619)	(868,607)
Proceeds from Sale of Investments	1,205,689	395,886
Purchase of Investments	(141,293)	(350,923)
Net Cash Provided (Used) by Investing Activities	1,154,942	(1,516,960)
CASH FLOWS FROM FINANCING ACTIVITIES		
Endowment Contributions Invested	107,798	204,185
Contributions Restricted for Long-Term Purposes	165,000	175,000
Payments of Annuity Obligations	(20,107)	(20,107)
Principal Payments on EIDL	-	(150,000)
Net Cash Provided by Financing Activities	252,691	209,078
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,725,810)	(2,641,950)
Cash and Cash Equivalents - Beginning of Year	2,579,078	5,221,028
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 853,268	\$ 2,579,078
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for Interest	\$ 12,419	\$ 16,436

See accompanying Notes to Consolidated Financial Statements.

**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
AND RELATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Holt International Children's Services, Inc. (HICS or the Organization) is a nonprofit corporation organized and licensed in the state of Oregon. Oregon is the headquarters and provides national and international support through regional, licensed branch offices located in California, Illinois, Nebraska, Pennsylvania, and Washington. In addition to the states previously mentioned, HICS is licensed or authorized to provide direct services in Alaska, Iowa, Kansas, Missouri, New Jersey, New York, South Dakota, and Wisconsin. HICS coordinates and facilitates child and family services, including adoption from Asia, Latin America, Africa, Europe, and the Caribbean for families in the United States. HICS also coordinates a variety of social service programs in the areas in which it operates.

Principles of Consolidation

The consolidated financial statements include the accounts of HICS and its related organization, HICS 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 years ended September 30, 2022 and 2021. All intercompany accounts and transactions have been eliminated in consolidation.

Basis of Presentation

The accompanying consolidated 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:

Net Assets Without Donor Restrictions – Net assets of HICS that are not subject to donor-imposed restrictions or the donor-imposed restrictions have expired. The only limits on net assets without donor restrictions are broad limits resulting from the nature of HICS and the purposes specified in its articles of incorporation or bylaws. HICS' board of directors (board) 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, they are classified as board-designated endowment.

**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
AND RELATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Net Assets With Donor Restrictions – 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) another class 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. Also included in this category are 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) another class of net assets as a consequence of donor-imposed stipulations. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. 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 restrictions when the assets are placed in service.

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 cash equivalents and has not experienced any losses in such accounts.

Receivables

Receivables reflect amounts due from prospective parents following assignment of the adoptive child. There is no interest charged on these receivables. Substantially all balances are collected before completion of services by HICS. HICS reviews the collectability of receivables on a periodic basis and determines the amount estimated to be uncollectible. Receivables are written off when deemed uncollectable. At September 30, 2022 and 2021, the allowance for doubtful accounts was \$72,870 and \$25,320, respectively. Concentrations of credit risk with respect to these receivables are limited due to a large client base and its geographic dispersion.

**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
AND RELATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 Program and Support.

Investments

Investments, consisting primarily of debt and equity securities with readily determined fair values, are reflected in the consolidated financial statements at fair value. Realized and unrealized gains and losses, and investment income (interest and dividends, net of investment expenses) are included in the consolidated statements of activities. 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.

**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
AND RELATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment Fund Policy (Continued)

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 donor-restricted net assets that are perpetual in nature (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual 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 as net assets restricted in perpetuity is classified as net assets with donor restrictions 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:

- The duration and preservation of the fund
- The purposes of HICS and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of HICS
- The investment policies of HICS

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 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 by HICS' 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.

**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
AND RELATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment Fund Policy (Continued)

HICS has a policy of appropriating for distribution each year amounts not to exceed 5% of its endowment fund's average fair value over the prior three years through the fiscal 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' objective to maintain the fair 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, 2022 and 2021, 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.

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.

**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
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NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment, and Depreciation

Property and equipment in excess of \$1,000 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 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 support without donor restrictions. Depreciation is computed by the straight-line method using the estimated useful lives of the property and equipment, which generally range from 7 to 30 years for buildings and 3 to 10 years for equipment.

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

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

Deferred – Other

Deferred – other represent deposits received to be recognized when related expense has been incurred. It includes deferred transportation fees for amounts billed for transportation charges to be recognized when adopted children arrive in the United States and the related transportation expense has been incurred.

Revenue Recognition

Contributions, including grants are recognized when cash, securities or other assets, an unconditional promise to give, or a notification of a beneficial interest is received. Proceeds from fundraising events are recognized as revenue during the year that the fundraising events occur.

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NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Revenues from HICS' adoption services, which include application fee, processing fee, adoption program fee, study fee, postplacement fee, transportation fee, foster care supervision, and counseling services, are recognized when it satisfies a performance obligation by transferring control over the service to a customer. Advance payments received as part of a contract are recognized as deferred revenue until the control of these services is transferred to a customer. HICS does not have any significant financing components as payment is received at or shortly after the services have been provided or delivered.

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 promises to give. The allowance is based upon prior experience and management's analysis of specific promises made. No allowance for uncollectible promises to give was considered necessary at September 30, 2022 and 2021.

Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

At September 30, 2022, contributions of \$280,000 have not been recognized in the accompanying consolidated statement of activities because the conditions on which they depend have not yet been met. Of the total conditional contributions, \$55,000 depend on raising additional contributions before July 1, 2023, that will be matched dollar-for-dollar. In addition, \$225,000 of contributions depend on achieving the grant goals as determined by the donor based on the review of grant reports and other considerations as it deems relevant and no distribution of the funds if report is overdue.

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NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributed Services and Materials

HICS receives donated services from a variety of unpaid volunteers who assist with programs in nonspecialized roles. Approximately 2,950 hours and 750 hours were donated by unpaid volunteers for the years ended September 30, 2022 and 2021 respectively. 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 consolidated financial statements for donated services as they do not meet the criteria for recognition. HICS pays for most services requiring specific expertise. Donated materials are reflected as in-kind contributions and are valued at the estimated fair value as of the date the item is received. For the years ended September 30, 2022 and 2021, HICS did not recognize any in-kind contributions.

Income Taxes

HICS is a nonprofit 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 consolidated 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 consolidated financial statements as of September 30, 2022 and 2021.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of 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.

Advertising Costs

HICS' advertising costs are expensed as incurred and totaled \$2,715,471 and \$1,568,309 for the years ended September 30, 2022 and 2021, respectively.

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 report net assets.

**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
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NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

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

The Organization has evaluated subsequent events through February 10, 2023, which is the date the consolidated financial statements are available to be issued.

NOTE 2 LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the consolidated statement of financial position date, comprise the following for the years ended September 30:

	2022	2021
Cash and Cash Equivalents	\$ 853,268	\$ 2,579,078
Receivable, Net	743,053	954,804
Total	<u>\$ 1,596,321</u>	<u>\$ 3,533,882</u>

As part of HICS' liquidity management plan, the Organization invests cash in excess of daily requirements in short-term investments and money market funds.

HICS' total net assets at September 30, 2022 and 2021 are \$14,745,201 and \$18,868,166, respectively. Net assets are comprised of both net assets with donor restrictions and net assets without donor restrictions. HICS' net assets with donor restrictions consist of donor-restricted endowments. Board-designated net assets represent dollars approved by the board to be set aside for various initiatives. At September 30, 2022 and 2021, the board-designated net assets totaled \$3,075,468 and \$4,100,603, respectively. While these board-designated net assets are identified for specified use, they can be made available to HICS for other purposes as deemed appropriate by the board.

HICS' donor-restricted endowment totals \$3,720,873 and \$4,187,581 at September 30, 2022 and 2021, respectively (see Note 12).

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NOTE 3 CASH AND CASH EQUIVALENTS

At September 30, cash and cash equivalents consisted of the following:

	<u>2022</u>	<u>2021</u>
Cash on Hand	\$ 7,091	\$ 11,572
Checking Accounts	326,462	540,909
Money Markets	519,715	2,026,597
Total Cash and Cash Equivalents	<u>\$ 853,268</u>	<u>\$ 2,579,078</u>

NOTE 4 INVESTMENTS

For the years ended September 30, return on investments consisted of the following:

	<u>2022</u>	<u>2021</u>
Interest and Dividends, Net	\$ 143,558	\$ 180,794
Unrealized Gain (Loss)	(2,044,180)	1,667,047
Realized Loss	(2,290)	(3,650)
Total Return on Investments	<u>\$ (1,902,912)</u>	<u>\$ 1,844,191</u>

NOTE 5 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:

Description	Fair Value Measurements as of September 30, 2022			
	Level 1	Level 2	Level 3	Total
Money Market Funds	\$ 1,985,851	\$ -	\$ -	\$ 1,985,851
U.S. Corporate Equities	40	-	-	40
U.S. Fixed Income Funds	3,634,590	-	-	3,634,590
U.S. Equity Funds	3,407,812	-	-	3,407,812
International Equity Funds	429,770	-	-	429,770
Foreign Equity	29,862	-	-	29,862
Emerging Foreign Equity	177,861	-	-	177,861
U.S. and Foreign Real Estate Funds	111,818	-	-	111,818
Commodities	86,944	-	-	86,944
Funds Held in Insurance Company	3,262	-	-	3,262
Total Assets at Fair Value	<u>\$ 9,867,810</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,867,810</u>
Total Investments				<u>\$ 9,867,810</u>

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NOTE 5 FAIR VALUE MEASUREMENTS (CONTINUED)

Description	Fair Value Measurements as of September 30, 2021			
	Level 1	Level 2	Level 3	Total
Money Market Funds	\$ 814,594	\$ -	\$ -	\$ 814,594
U.S. Corporate Equities	40	-	-	40
U.S. Fixed Income Funds	5,791,739	-	-	5,791,739
U.S. Equity Funds	4,807,859	-	-	4,807,859
International Equity Funds	654,852	-	-	654,852
Foreign Equity	410,311	-	-	410,311
Emerging Foreign Equity	234,922	-	-	234,922
U.S. and Foreign Real Estate Funds	234,462	-	-	234,462
Commodities	25,779	-	-	25,779
Funds Held in Insurance Company	1,893	-	-	1,893
Total Assets at Fair Value	<u>\$ 12,976,451</u>	<u>\$ -</u>	<u>\$ -</u>	<u>12,976,451</u>
Cash				2,225
Total Investments				<u>\$ 12,978,676</u>

NOTE 6 PROMISES TO GIVE, RESTRICTED

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

	2022	2021
Promises to Give Restricted for Long-Term Purposes	\$ 495,000	\$ 670,000
Discount to Present Value	(27,230)	(7,912)
Promises to Give, Restricted, Net	<u>\$ 467,770</u>	<u>\$ 662,088</u>
Amounts Due in:		
Less Than One Year	\$ 165,000	\$ 175,000
One to Five Years	302,770	487,088
Total Promises to Give, Restricted, Net	<u>\$ 467,770</u>	<u>\$ 662,088</u>

Promises to give, restricted, received after one year were discounted using varied adjusted risk-free interest rates up to 4.39% and 4.41% at September 30, 2022 and 2021, respectively.

In November 2022, HICS received a three-year grant for a total of \$213,500 from a donor which is for the Tuv Province School and Therapeutic Center for Children with Disabilities.

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NOTE 7 PROPERTY AND EQUIPMENT

Property and equipment, including property held for sale (see Note 8), consisted of the following at September 30:

	<u>2022</u>	<u>2021</u>
Land	\$ 766,980	\$ 766,980
Buildings	2,397,094	2,397,094
Office Equipment	700,230	690,748
Technology Equipment	3,840,491	1,706,840
Transportation Equipment	153,648	149,718
Construction in Progress	82,620	910,552
Subtotal	<u>7,941,063</u>	<u>6,621,932</u>
Accumulated Depreciation	<u>(2,820,596)</u>	<u>(2,413,876)</u>
Net Land, Buildings, and Equipment	<u>\$ 5,120,467</u>	<u>\$ 4,208,056</u>

Depreciation expense was \$412,248 and \$325,118 for the years ended September 30, 2022 and 2021, respectively.

NOTE 8 PROPERTY HELD FOR SALE

In September 2019, the Organization formally committed to a plan to sell its Renton, Washington land and building. Accordingly, the land and building, net of accumulated depreciation, of approximately \$1,254,375 have been classified as held for sale at September 30, 2021, pursuant to guidance provided by ASC 360, *Property, Plant, and Equipment*. The property was sold in November 2021 with a gain of \$160,830 which is reported as a gain on sale of property and equipment on the consolidated statement of activities for the year ended September 30, 2022.

NOTE 9 STANDALONE-REVOLVING CREDIT NOTE

On May 15, 2020, HICS entered into a standalone-revolving credit note with a bank for \$1,600,000, secured by substantially all assets, bearing interest at an annual rate equal to the prime rate as determined by the bank (6.25% at September 30, 2022), minus 1.0% payable monthly. The note matures on April 30, 2025.

In November 2022, HICS made a draw of \$300,000 on its standalone-revolving credit note. The outstanding balance of \$300,000 was fully paid off in December 2022.

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NOTE 10 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions that will be met either by actions of HICS or the passage of time consisted of the following at September 30:

	2022	2021
Program:		
Cambodia	\$ -	\$ 37,068
China	-	85,046
Endowment Earnings	147,576	647,659
Gift Annuity	318,978	437,014
Philippines	-	10,000
Thailand	467,874	652,088
Technology	-	296,625
Adoptive Family Grants	62,680	153,179
Total	\$ 997,108	\$ 2,318,679

Net assets with donor restrictions that are perpetual in nature at September 30, 2022 and 2021 totaled \$3,573,297 and \$3,539,922, respectively.

NOTE 11 NET ASSETS RELEASED FROM RESTRICTIONS

Net assets are released from donor restrictions by incurring expenses satisfying the purposes or by occurrence of events specified by the donors, or by the change of restrictions specified by the donors. The majority of funds released from restrictions are related to contributions received and expended in the same fiscal year when restrictions are met. The amounts released for the years ended September 30 are as follows:

	2022	2021
Purpose of Restriction:		
Program and Support	\$ 13,112,393	\$ 14,060,209
Management and General	1,555,745	1,344,839
Fundraising	4,337,837	3,316,597
Total	\$ 19,005,975	\$ 18,721,645

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NOTE 12 ENDOWMENT FUND

A summary of 2022 Endowment Fund activity was as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance - September 30, 2021	\$ 4,100,603	\$ 4,187,581	\$ 8,288,184
Endowment Contributions	74,424	33,374	107,798
Appropriated Expenditures	(248,696)	(52,735)	(301,431)
Investment Returns:			
Unrealized Loss on Endowment	(913,934)	(480,439)	(1,394,373)
Return on Endowment Investments	63,071	33,092	96,163
Investment Returns, Net	<u>(850,863)</u>	<u>(447,347)</u>	<u>(1,298,210)</u>
Balance - September 30, 2022	<u>\$ 3,075,468</u>	<u>\$ 3,720,873</u>	<u>\$ 6,796,341</u>

A summary of 2021 Endowment Fund activity was as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance - September 30, 2020	\$ 3,488,004	\$ 3,909,262	\$ 7,397,266
Endowment Contributions	168,261	35,924	204,185
Appropriated Expenditures	(254,707)	(133,045)	(387,752)
Investment Returns:			
Unrealized Gain on Endowment	609,998	327,506	937,504
Return on Endowment Investments	89,047	47,934	136,981
Investment Returns, Net	<u>699,045</u>	<u>375,440</u>	<u>1,074,485</u>
Balance - September 30, 2021	<u>\$ 4,100,603</u>	<u>\$ 4,187,581</u>	<u>\$ 8,288,184</u>

NOTE 13 FUNCTIONAL EXPENSES, PROGRAM, AND SUPPORTING SERVICES

Expenses for HICS are summarized according to functional classification of program services and supporting services. Certain categories of expenses are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include professional fees, supplies, building occupancy, software and equipment, service and support, telecommunication services, and depreciation, which are allocated among functions based on time devoted to program as well as allocation based on salaries and related expenses by functional activity.

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NOTE 13 FUNCTIONAL EXPENSES, PROGRAM, AND SUPPORTING SERVICES (CONTINUED)

HICS' program services expenses include services incurred in connection with HICS' three pillars of care: Family Strengthening, Orphan Care, and Adoption Services. HICS incurs expenses for US-Based staff and intentionally deployed teams and partners to meet its mission. Expenses include support and guidance for families considering adoption, in the adoption process including family preparation, and post-placement counseling. HICS also provides education to individuals and families concerning children in sponsorship. International work includes adoption services, permanency planning services for children, social work training, assistance for displaced families, and education and training for nutrition.

Payments to other foreign organizations are based on fiscal policies and agreements for support of the respective in-country programs. For the years ended September 30, International Program support and services provided were as follows:

	<u>2022</u>	<u>2021</u>
Cambodia	\$ 817,777	\$ 824,286
China	2,661,077	3,098,275
Taiwan	491,034	453,260
Hong Kong	11,834	35,895
Colombia	976,716	1,078,555
Ethiopia	942,080	697,303
South Africa	68,965	99,681
Haiti	538,288	589,492
Bulgaria	53,347	73,316
India	709,726	839,212
Mongolia	671,770	581,611
Nutrition Program	680,320	412,091
Philippines	486,705	607,817
South Korea	2,440,129	1,947,927
Thailand	953,089	1,022,755
Uganda	417,005	376,959
Vietnam	681,223	893,516
Total International Program and Support	<u>\$ 13,601,085</u>	<u>\$ 13,631,951</u>

Supporting Services

Management and General – Costs not identifiable with a single program or fundraising 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.

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NOTE 14 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. There was no joint cost allocation as of September 30, 2021. These expenses were allocated by their functional classification as follows as of September 30, 2022:

	<u>2022</u>	<u>2021</u>
Program and Support	\$ 1,036,125	\$ -
Fundraising	2,089,073	-
Total Joint Costs Allocated	<u>\$ 3,125,198</u>	<u>\$ -</u>

NOTE 15 RETIREMENT PLAN

Effective January 1, 2022, both the defined contribution money-purchase pension plan and the 403(b) plan were replaced with 401(k) plan (Plan). Employees are eligible to participate must have worked at least 1,000 hours at the end of the 12-month period beginning of the date of hire and have attained age 21. Participants in the Plan are eligible to contribute amount up to the maximum allowed by law on an annual basis. In addition, HICS may make discretionary non-elective contributions as defined by the Plan. Discretionary annual employer contributions amounted to \$439,625 for the year ended September 30, 2022. Total pension expense was \$462,413 for the year ended September 30, 2021.

NOTE 16 COMMITMENTS AND CONTINGENCIES

Operating Leases

Rental expense was \$360,366 and \$353,429 for the years ended September 30, 2022 and 2021, respectively. 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:

<u>Year Ending September 30,</u>	<u>Amount</u>
2023	\$ 223,878
2024	131,691
2025	57,566
2026	886
Total	<u>\$ 414,021</u>

Contract Commitment

HICS has entered into a contract with an unrelated party, in the amount of \$397,200, for technology upgrade. At September 30, 2022, \$334,580 of such contract commitment had not yet been incurred.

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NOTE 17 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' financial position.

NOTE 18 REVENUE

Disaggregation of Revenue

Revenue is disaggregated by timing of satisfaction of performance obligations and type of service for the years ended September 30 as follows:

	<u>2022</u>	<u>2021</u>
Timing of Satisfaction of Performance Obligations:		
Performance Obligations Satisfied at a Point in Time	\$ 3,706,986	\$ 3,503,445
Performance Obligations Satisfied Over Time	2,029,315	2,142,476
Total	<u>\$ 5,736,301</u>	<u>\$ 5,645,921</u>
By Service:		
Adoption Fees, Net	\$ 5,595,514	\$ 5,609,477
Other Revenue	140,787	36,444
Total	<u>\$ 5,736,301</u>	<u>\$ 5,645,921</u>

Revenue from performance obligations satisfied at a point in time consists of application fee, processing fee, adoption program fee for Korea, study fee, transportation fee, foster care supervision, and counseling services. Revenue from performance obligations satisfied over time consists of adoption program fee for other countries and postplacement fee.

Receivables, Net and Deferred Adoption Fees

Receivables, net and deferred adoption fees are shown on the consolidated statements of financial position as follows at September 30:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Receivables, Net			
Adoption Program - Participants			
(Exchange Transactions)	\$ 805,798	\$ 972,873	\$ 1,075,855
Advances to Employees			
(Exchange Transactions)	10,126	7,255	5,465
Allowance	(72,871)	(25,324)	-
Total	<u>\$ 743,053</u>	<u>\$ 954,804</u>	<u>\$ 1,081,320</u>
Deferred Adoption Fees	<u>\$ 1,727,184</u>	<u>\$ 3,752,174</u>	<u>\$ 4,132,339</u>

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NOTE 19 CONCENTRATION OF RISK – ADOPTION SERVICES

Approximately 21.6% and 17.2% of HICS' revenue was derived from the adoption services provided in various countries, including South Korea, China, Thailand, Vietnam, Colombia, and others for the years ended September 30, 2022 and 2021, respectively. A significant delay in the adoption process or the loss of the ability to coordinate adoptions in these countries could adversely affect operations. In 2022 and 2021, COVID-19 restrictions impacted adoption operations worldwide which is reflected in the current year operating results.

NOTE 20 PAYCHECK PROTECTION PROGRAM LOAN AND ECONOMIC INJURY DISASTER LOAN

The Organization received a loan of \$2,064,700 to fund payroll, rent, utilities, and interest on mortgages and existing debt through the Paycheck Protection Program (PPP). The original loan agreement was written prior to the PPP Flexibility Act of 2020 (June 5) and was due over 24 months deferred for six months. Subsequent to this, the law changed the loan deferral terms retroactively. The PPP Flexibility Act and subsequent regulations supersede the loan agreement. The PPP loan bears interest at a fixed rate of 1.0% per annum, has a term of two years, and is unsecured and guaranteed by the U.S. Small Business Administration (SBA). Payment of principal and interest is deferred until the date on which the amount of forgiveness is remitted to the lender or, if the Organization fails to apply for forgiveness within 10 months after the covered period, then payment of principal and interest shall begin on that date. These amounts may be forgiven subject to compliance and approval based on the timing and use of these funds in accordance with the program. The covered period from April 30, 2020 to October 8, 2020, is the time that a business has to spend their PPP loan funds.

The Organization received notification from the SBA on June 8, 2021, that the PPP loan was forgiven. The SBA has up to six years to review the loan. The SBA may review funding eligibility and usage of funds in compliance with the program based on dollar thresholds and other factors. The amount of liability, if any, from potential noncompliance cannot be determined with certainty; however, management is of the opinion that any review will not have a material adverse impact on the company's financial position.

The Organization received a loan of \$150,000 through the Economic Injury Disaster Loan Program (EIDL). The EIDL bears interest at 2.75% and matures in June 2050. Monthly payments of \$641 begin 12 months from the date of the loan. The EIDL was fully paid off during the year ended September 30, 2021.

**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
AND RELATED ORGANIZATION
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2022**

ASSETS	<u>HICS</u>	<u>HIF China</u>	<u>Eliminations</u>	<u>Consolidated</u>
CURRENT ASSETS				
Cash and Cash Equivalents	\$ 784,056	\$ 69,212	\$ -	\$ 853,268
Receivables, Net	743,053	-	-	743,053
Prepaid Expenses and Supplies	1,369,792	10,011	-	1,379,803
Prepaid Support - Holt Children's Services, Korea	252,435	-	-	252,435
Investments	5,751,716	-	-	5,751,716
Promises to Give, Restricted, Net	165,000	-	-	165,000
Total Current Assets	<u>9,066,052</u>	<u>79,223</u>	<u>-</u>	<u>9,145,275</u>
NONCURRENT ASSETS				
Promises to Give, Restricted, Net	302,770	-	-	302,770
Charitable Remainder Trust Receivable	25,000	-	-	25,000
Property and Equipment, Net of Accumulated Depreciation	5,120,467	-	-	5,120,467
Total Noncurrent Assets	<u>5,448,237</u>	<u>-</u>	<u>-</u>	<u>5,448,237</u>
RESTRICTED ASSETS				
Investments Restricted for Annuity Obligations	542,797	-	-	542,797
Investments Restricted for Long-Term Purposes	3,573,297	-	-	3,573,297
Total Restricted Assets	<u>4,116,094</u>	<u>-</u>	<u>-</u>	<u>4,116,094</u>
Total Assets	<u>\$ 18,630,383</u>	<u>\$ 79,223</u>	<u>\$ -</u>	<u>\$ 18,709,606</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts Payable and Accrued Expenses	\$ 1,851,627	\$ 1,193	\$ -	\$ 1,852,820
International Program Support Payable	59,523	-	-	59,523
Deferred Adoption Fees	1,727,184	-	-	1,727,184
Annuity Obligations - Current	20,389	-	-	20,389
Total Current Liabilities	<u>3,658,723</u>	<u>1,193</u>	<u>-</u>	<u>3,659,916</u>
LONG-TERM LIABILITIES				
Deferred - Other, Less Current Portion	96,060	-	-	96,060
Annuity Obligations, Less Current Portion	208,429	-	-	208,429
Total Long-Term Liabilities	<u>304,489</u>	<u>-</u>	<u>-</u>	<u>304,489</u>
Total Liabilities	3,963,212	1,193	-	3,964,405
NET ASSETS				
Without Donor Restrictions:				
Undesignated	7,021,398	78,030	-	7,099,428
Designated by the Board for Endowment Fund	3,075,468	-	-	3,075,468
Total Without Donor Restrictions	<u>10,096,866</u>	<u>78,030</u>	<u>-</u>	<u>10,174,896</u>
With Donor Restrictions	4,570,305	-	-	4,570,305
Total Net Assets	<u>14,667,171</u>	<u>78,030</u>	<u>-</u>	<u>14,745,201</u>
Total Liabilities and Net Assets	<u>\$ 18,630,383</u>	<u>\$ 79,223</u>	<u>\$ -</u>	<u>\$ 18,709,606</u>

**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
AND RELATED ORGANIZATION
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2022**

	<u>HICS</u>	<u>HIF China</u>	<u>Eliminations</u>	<u>Consolidated</u>
REVENUE AND OTHER SUPPORT				
Public Support:				
Contributions:				
Sponsorships	\$ 16,522,400	\$ -	\$ -	\$ 16,522,400
Other Contributions	5,012,025	2,153,491	(2,153,491)	5,012,025
Grants	429,960	-	-	429,960
Revenues:				
Adoption Fees, Net	5,595,514	-	-	5,595,514
Investment Income (Loss), Principally Interest, Net	143,569	(11)	-	143,558
Other Revenue	140,787	-	-	140,787
Gain (Loss):				
Gain on Sales of Property and Equipment	160,830	-	-	160,830
Net Unrealized / Realized Loss on Investments	(2,046,470)	-	-	(2,046,470)
Total Revenue and Other Support	<u>25,958,615</u>	<u>2,153,480</u>	<u>(2,153,491)</u>	<u>25,958,604</u>
OPERATING EXPENSES				
Program and Support	22,352,638	2,103,086	(2,153,491)	22,302,233
Management and General	2,545,737	-	-	2,545,737
Fundraising	5,233,599	-	-	5,233,599
Total Operating Expenses	<u>30,131,974</u>	<u>2,103,086</u>	<u>(2,153,491)</u>	<u>30,081,569</u>
CHANGE IN NET ASSETS	(4,173,359)	50,394	-	(4,122,965)
Net Assets - Beginning of Year	<u>18,840,530</u>	<u>27,636</u>	<u>-</u>	<u>18,868,166</u>
NET ASSETS - END OF YEAR	<u>\$ 14,667,171</u>	<u>\$ 78,030</u>	<u>\$ -</u>	<u>\$ 14,745,201</u>



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