

*REPORT OF INDEPENDENT AUDITORS AND
CONSOLIDATED FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION*

FOR

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

September 30, 2017 and 2016

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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, 2017 and 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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.

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, 2017 and 2016, 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.

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

Moss Adams LLP

Eugene, Oregon
January 22, 2018

**Holt International Children's Services, Inc.
and Related Organization
Consolidated Statements of Financial Position**

	SEPTEMBER 30,	
	2017	2016
<u>ASSETS</u>		
ASSETS		
Cash and cash equivalents	\$ 2,867,524	\$ 2,442,484
Receivables	1,304,074	1,207,587
Prepaid expenses and supplies	431,626	433,539
Prepaid support - Holt Children's Services, Korea	1,206,336	1,225,311
Investments	10,819,055	10,395,233
Promises to give, restricted, net	59,124	58,956
Property held for sale	-	370,420
Land, buildings, and equipment, net of accumulated depreciation	3,159,800	4,100,880
TOTAL ASSETS	\$ 19,847,539	\$ 20,234,410
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable and accrued expenses	\$ 1,118,984	\$ 964,367
International program support payable	279,951	139,501
Deferred adoption fee revenue	4,194,884	4,329,967
Deferred transportation fees	52,600	55,800
Deferred revenue - other	5,000	5,360
Long-term debt	-	2,200,000
Deferred compensation	106,760	112,259
Annuity obligations	326,940	347,572
Total liabilities	6,085,119	8,154,826
Net assets		
Unrestricted net assets:		
Undesignated net assets	5,835,442	4,645,132
Board designated endowment	3,353,498	3,157,292
	9,188,940	7,802,424
Temporarily restricted net assets	1,327,180	1,087,742
Permanently restricted net assets	3,246,300	3,189,418
Total net assets	13,762,420	12,079,584
TOTAL LIABILITIES AND NET ASSETS	\$ 19,847,539	\$ 20,234,410

**Holt International Children's Services, Inc.
And Related Organization
Consolidated Statement of Activities
For The Year Ended September 30, 2017**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other support				
Public support:				
Contributions:				
Sponsorships	\$ 628,178	\$ 11,601,222	\$ -	\$ 12,229,400
Other contributions	1,615,821	2,048,323	56,882	3,721,026
Grants	-	1,061,313	-	1,061,313
Revenues:				
Adoption fees	8,142,894	-	-	8,142,894
Transportation fees	54,200	-	-	54,200
Investment, principally interest, net of investment fees of 79,751 in 2017 (\$75,965 in 2016)	129,622	57,147	-	186,769
Tour charges	571,256	-	-	571,256
Adoptee services	157,905	-	-	157,905
Other revenue	9,351	-	-	9,351
Gains:				
Gain on sale of land and building	601,119	-	-	601,119
Net unrealized/realized gain on investments	500,635	169,897	-	670,532
Net assets released from restrictions	14,698,464	(14,698,464)	-	-
Total revenues and other support	<u>27,109,445</u>	<u>239,438</u>	<u>56,882</u>	<u>27,405,765</u>
Expenses				
Program services:				
U.S. program	8,554,183	-	-	8,554,183
International program	2,903,689	-	-	2,903,689
International program support	6,742,874	-	-	6,742,874
Total program services	<u>18,200,746</u>	<u>-</u>	<u>-</u>	<u>18,200,746</u>
Supporting services:				
Management and general	2,948,444	-	-	2,948,444
Fundraising	4,573,739	-	-	4,573,739
Total supporting services	<u>7,522,183</u>	<u>-</u>	<u>-</u>	<u>7,522,183</u>
Total operating expenses	<u>25,722,929</u>	<u>-</u>	<u>-</u>	<u>25,722,929</u>
Change in net assets	1,386,516	239,438	56,882	1,682,836
Net assets, beginning of year	<u>7,802,424</u>	<u>1,087,742</u>	<u>3,189,418</u>	<u>12,079,584</u>
Net assets, end of year	<u>\$ 9,188,940</u>	<u>\$ 1,327,180</u>	<u>\$ 3,246,300</u>	<u>\$ 13,762,420</u>

**Holt International Children's Services, Inc.
And Related Organization
Consolidated Statement of Activities
For The Year Ended September 30, 2016**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other support				
Public support:				
Contributions:				
Sponsorships	\$ 652,803	\$ 11,319,914	\$ -	\$ 11,972,717
Other contributions	1,548,787	1,662,739	76,602	3,288,128
Grants	-	847,537		847,537
Revenues:				
Adoption fees	8,343,043	-	-	8,343,043
Transportation fees	50,400	-	-	50,400
Investment, principally interest, net of investment fees of \$75,965 in 2016	137,486	55,440	-	192,926
Tour charges	472,500	-	-	472,500
Adoptee services	125,750	-	-	125,750
Other revenue	5,588	-	-	5,588
Gains:				
Gain on sale of land	135,462	-	-	135,462
Net unrealized/realized gain on investments	290,127	123,107	-	413,234
Net assets released from restrictions	14,636,092	(14,576,092)	(60,000)	-
Total revenues and other support	<u>26,398,038</u>	<u>(567,355)</u>	<u>16,602</u>	<u>25,847,285</u>
Expenses				
Program services:				
U.S. program	7,896,282	-	-	7,896,282
International program	2,572,840	-	-	2,572,840
International program support	6,656,673	-	-	6,656,673
Total program services	<u>17,125,795</u>	<u>-</u>	<u>-</u>	<u>17,125,795</u>
Supporting services:				
Management and general	3,003,230	-	-	3,003,230
Fundraising	4,386,403	-	-	4,386,403
Total supporting services	<u>7,389,633</u>	<u>-</u>	<u>-</u>	<u>7,389,633</u>
Total operating expenses	<u>24,515,428</u>	<u>-</u>	<u>-</u>	<u>24,515,428</u>
Change in net assets	1,882,610	(567,355)	16,602	1,331,857
Net assets, beginning of year	5,919,814	1,655,097	3,172,816	10,747,727
Net assets, end of year	<u>\$ 7,802,424</u>	<u>\$ 1,087,742</u>	<u>\$ 3,189,418</u>	<u>\$ 12,079,584</u>

**Holt International Children's Services, Inc.
And Related Organization
Consolidated Statements of Cash Flows**

	YEAR ENDED SEPTEMBER 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,682,836	\$ 1,331,857
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	263,999	252,350
Provision for uncollectible promises to give	-	60,000
Gain on sale of land and building	(601,119)	(135,462)
Realized (gain)/loss on investments	(5,854)	3,750
Unrealized gain on investments	(664,678)	(416,984)
Contributions restricted for annuity agreement	-	(14,751)
Contributions restricted for endowments	(56,882)	(76,602)
(Increase) decrease in:		
Receivables	(96,487)	120,369
Prepaid expenses and supplies	1,913	(5,085)
Prepaid support - Holt Children's Services, Korea	18,975	47,120
Increase (decrease) in:		
Accounts payable and accrued expenses	154,617	209,443
International program support payable	140,450	(6,296)
Deferred adoption fee revenue	(135,083)	6,727
Deferred revenue - other	(360)	1,610
Deferred transportation fees	(3,200)	7,200
Deferred compensation	(5,499)	(1,439)
Net cash provided by operating activities	<u>693,628</u>	<u>1,383,807</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of land and building	1,821,539	793,177
Purchases of equipment	(172,920)	(235,712)
Proceeds from sale of investments	602,603	207,398
Purchase of investments	(355,893)	(488,961)
Net cash provided by investing activities	<u>1,895,329</u>	<u>275,902</u>
CASH FLOWS FOR FINANCING ACTIVITIES		
Proceeds from contributions restricted for:		
Investment subject to annuity agreements	-	120,000
Endowment contributions invested	56,715	54,272
Contributions restricted for long-term purposes	-	12,600
Payment of long-term debt	(2,200,000)	(760,717)
Payments of annuity obligations	(20,632)	(17,830)
Net cash used by financing activities	<u>(2,163,917)</u>	<u>(591,675)</u>
Net increase in cash and cash equivalents	425,040	1,068,034
CASH AND CASH EQUIVALENTS, beginning of year	<u>2,442,484</u>	<u>1,374,450</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 2,867,524</u>	<u>\$ 2,442,484</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH INFORMATION		
Cash paid during the year for interest	<u>\$ 79,201</u>	<u>\$ 117,089</u>

Holt International Children's Services, Inc.
Consolidated Statement of Functional Expenses
For the Year Ended September 30, 2017

	Program Services				Supporting Services			Total Program and Support
	U.S. Program	International Program	International Program Support	Total	Management and General	Fundraising	Total	
Salaries	\$ 4,148,328	\$ 947,164	\$ -	\$ 5,095,492	\$ 946,449	\$ 823,481	\$ 1,769,930	\$ 6,865,422
Employee health and retirement benefits	728,546	39,657	-	768,203	182,474	157,863	340,337	1,108,540
Payroll taxes	334,202	31,984	-	366,186	76,542	66,476	143,018	509,204
Total salaries and related expenses	5,211,076	1,018,805	-	6,229,881	1,205,465	1,047,820	2,253,285	8,483,166
Grants and support	-	-	6,742,874	6,742,874	-	-	-	6,742,874
Intercountry transportation	54,200	-	-	54,200	-	-	-	54,200
Child care, clothes, and medicine	167,268	264,849	-	432,117	-	-	-	432,117
Professional fees	798,310	448,686	-	1,246,996	466,224	434,773	900,997	2,147,993
Supplies	83,639	68,072	-	151,711	57,465	20,684	78,149	229,860
Postage and shipping	176,398	3,945	-	180,343	7,266	89,862	97,128	277,471
Telephone	58,234	33,222	-	91,456	40,650	8,230	48,880	140,336
Building occupancy	161,950	121,751	-	283,701	396,117	8,700	404,817	688,518
Rental of equipment	3,093	4,030	-	7,123	74,532	-	74,532	81,655
Printing, publication, and other graphics	1,072,388	4,621	-	1,077,009	18,323	2,731,862	2,750,185	3,827,194
Travel and allowances:								
Staff	501,721	374,371	-	876,092	103,816	169,520	273,336	1,149,428
Board	60,240	46,760	-	107,000	40,107	7,595	47,702	154,702
Bad Debt	32,302	505,033	-	537,335	488,190	23,891	512,081	1,049,416
Total before depreciation	8,380,819	2,894,145	6,742,874	18,017,838	2,898,155	4,542,937	7,441,092	25,458,930
Depreciation	173,364	9,544	-	182,908	50,289	30,802	81,091	263,999
Total expenses	\$ 8,554,183	\$ 2,903,689	\$ 6,742,874	\$ 18,200,746	\$ 2,948,444	\$ 4,573,739	\$ 7,522,183	\$ 25,722,929
2017 percentage of total functional expenses	33.3%	11.3%	26.2%	70.8%	11.5%	17.7%	29.2%	100%
2016 percentage of total functional expenses	32.2%	10.5%	27.2%	69.9%	12.2%	17.9%	30.1%	100%

See accompanying notes.

Holt International Children's Services, Inc.
Consolidated Statement of Functional Expenses
For the Year Ended September 30, 2016

	Program Services			Supporting Services			Total Program and Support	
	U.S. Program	International Program	International Program Support	Total	Management and General	Fundraising		Total
Salaries	\$ 3,595,361	\$ 818,167	\$ -	\$ 4,413,528	\$ 962,999	\$ 732,565	\$ 1,695,564	\$ 6,109,092
Employee health and retirement benefits	643,154	27,302	-	670,456	190,256	142,152	332,408	1,002,864
Payroll taxes	289,467	32,068	-	321,535	77,694	57,593	135,287	456,822
Total salaries and related expenses	4,527,982	877,537	-	5,405,519	1,230,949	932,310	2,163,259	7,568,778
Grants and support	-	-	6,656,673	6,656,673	-	-	-	6,656,673
Intercountry transportation	48,000	-	-	48,000	-	-	-	48,000
Child care, clothes, and medicine	107,574	254,350	-	361,924	-	-	-	361,924
Professional fees	815,711	504,104	-	1,319,815	402,807	366,658	769,465	2,089,280
Supplies	91,601	29,947	-	121,548	64,575	12,533	77,108	198,656
Postage and shipping	181,953	5,066	-	187,019	10,235	119,524	129,759	316,778
Telephone	60,826	14,749	-	75,575	40,590	8,769	49,359	124,934
Building occupancy	170,495	105,245	-	275,740	377,886	-	377,886	653,626
Rental of equipment	2,028	1,071	-	3,099	66,233	-	66,233	69,332
Printing, publication, and other graphics	1,061,191	6,399	-	1,067,590	12,666	2,788,438	2,801,104	3,868,694
Travel and allowances:								
Staff	546,253	320,279	-	866,532	46,678	109,141	155,819	1,022,351
Board	-	-	-	-	42,986	-	42,986	42,986
Staff development	54,562	44,267	-	98,829	26,839	5,767	32,606	131,435
Bad debt	-	-	-	-	105,184	-	105,184	105,184
Tours and other expenses	67,178	402,414	-	469,592	521,508	13,347	534,855	1,004,447
Total before depreciation	7,735,354	2,565,428	6,656,673	16,957,455	2,949,136	4,356,487	7,305,623	24,263,078
Depreciation	160,928	7,412	-	168,340	54,094	29,916	84,010	252,350
Total expenses	\$ 7,896,282	\$ 2,572,840	\$ 6,656,673	\$ 17,125,795	\$ 3,003,230	\$ 4,386,403	\$ 7,389,633	\$ 24,515,428
2016 percentage of total functional expenses	32.2%	10.5%	27.2%	69.9%	12.2%	17.9%	30.1%	100%

See accompanying notes.

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, Latin America, 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, 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 years ending September 30, 2017 and 2016. 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 and therefore, no allowance has been recorded. 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, consisting primarily of debt and equity securities with readily determined fair value, are reflected in the financial statements at fair 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 by 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 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'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, 2017 and 2016, 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 \$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 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.
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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.
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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 55,000 hours were donated by unpaid volunteers for 2017 and 2016. 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 2017 and 2016, 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, 2017 or 2016.

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 \$3,291,554 and \$3,331,062 for September 30, 2017 and 2016, respectively.

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 consolidated 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 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 statement of financial position but arose after the statement of financial position date and before the consolidated financial statements are available to be issued.

**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 22, 2018, which is the date the consolidated financial statements are available to be issued.

Note 2 - Cash and Cash Equivalents

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

	SEPTEMBER 30,	
	2017	2016
Cash on hand	\$ 17,506	\$ 9,662
Checking accounts	626,064	364,003
Money markets	2,223,954	2,068,819
Total cash and cash equivalents	<u>\$ 2,867,524</u>	<u>\$ 2,442,484</u>

Note 3 - Investments

At September 30, HICS’s investments consisted of the following:

	SEPTEMBER 30,	
	2017	2016
Certificates of deposit	\$ 55,785	\$ 55,334
Equity securities	43	43
Mutual funds (various funds):		
Cetera Advisors, LLC	7,376,490	7,251,651
U.S. Bank	3,384,533	3,084,775
Other funds	2,204	3,430
Total investments	<u>\$ 10,819,055</u>	<u>\$ 10,395,233</u>

**Holt International Children's Services, Inc.
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Notes to Consolidated Financial Statements**

Note 3 - Investments (continued)

At September 30, HICS classified investment balances are as follows:

	SEPTEMBER 30,	
	2017	2016
Investments, short-term	\$ 55,785	\$ 55,334
Investments, long-term	6,891,674	6,473,376
Investments, restricted, long-term	3,246,679	3,262,453
Investments restricted for trust and annuity obligations, long-term	624,917	604,070
Total investments	<u>\$ 10,819,055</u>	<u>\$ 10,395,233</u>

At September 30, a summary of investment activity was as follows:

	SEPTEMBER 30,	
	2017	2016
Balance, October 1	<u>\$ 10,395,233</u>	<u>\$ 9,700,436</u>
Investment activity:		
Purchase of investments	355,893	488,961
Sale of investments	<u>(602,603)</u>	<u>(207,398)</u>
Net principal (decrease) increase	<u>(246,710)</u>	<u>281,563</u>
Investment returns:		
Realized and unrealized losses, net	<u>670,532</u>	<u>413,234</u>
Balance, September 30	<u>\$ 10,819,055</u>	<u>\$ 10,395,233</u>

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

	SEPTEMBER 30,	
	2017	2016
Interest and dividends	\$ 186,769	\$ 192,926
Unrealized gains	664,678	416,984
Realized gains/(losses)	<u>5,854</u>	<u>(3,750)</u>
Total return on investments	<u>\$ 857,301</u>	<u>\$ 606,160</u>

**Holt International Children's Services, Inc.
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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:

Description	FAIR VALUE MEASUREMENTS AS OF SEPTEMBER 30, 2017			
	Level 1	Level 2	Level 3	Total
Cash and money market funds	\$ 275,939	\$ -	\$ -	\$ 275,939
Certificates of deposit	-	55,785	-	55,785
U.S. corporate equities	43	-	-	43
U.S. fixed income funds	3,267,111	-	-	3,267,111
U.S. equity funds	4,352,120	-	-	4,352,120
International equity funds	2,702,803	-	-	2,702,803
U.S. & foreign real estate funds	163,050	-	-	163,050
Funds held in insurance company	2,204	-	-	2,204
	<u>\$ 10,763,270</u>	<u>\$ 55,785</u>	<u>\$ -</u>	<u>\$ 10,819,055</u>

Description	FAIR VALUE MEASUREMENTS AS OF SEPTEMBER 30, 2016			
	Level 1	Level 2	Level 3	Total
Cash and money market funds	\$ 316,886	\$ -	\$ -	\$ 316,886
Certificates of deposit	-	55,334	-	55,334
U.S. corporate equities	43	-	-	43
U.S. fixed income funds	3,987,297	-	-	3,987,297
U.S. equity funds	4,106,313	-	-	4,106,313
International equity funds	1,747,999	-	-	1,747,999
U.S. & foreign real estate funds	177,931	-	-	177,931
Funds held in insurance company	3,430	-	-	3,430
	<u>\$ 10,339,899</u>	<u>\$ 55,334</u>	<u>\$ -</u>	<u>\$ 10,395,233</u>

**Holt International Children's Services, Inc.
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Notes to Consolidated Financial Statements**

Note 5 - Promises to Give

Promises to give consisted of the following at September 30, 2017:

	SEPTEMBER 30,	
	2017	2016
Promises to give restricted for long term purposes	\$ 62,474	\$ 62,574
Discount to present value	(3,350)	(3,618)
Net promises to give	<u>\$ 59,124</u>	<u>\$ 58,956</u>
<u>Amounts due in:</u>		
Less than one year	\$ 41,996	\$ 29,847
One to five years	17,128	29,109
Total promises to give	<u>\$ 59,124</u>	<u>\$ 58,956</u>

Pledges received after one year were discounted using varied adjusted risk-free interest rates up to 1.92% and 1.14% for September 30, 2017 and 2016, respectively.

Note 6 - Land, Buildings and Equipment

Land, buildings and equipment consisted of the following at September 30:

	SEPTEMBER 30,	
	2017	2016
Land	\$ 766,980	\$ 1,616,980
Buildings	2,221,671	2,972,160
Office equipment	544,962	519,040
Technology equipment	1,226,307	1,089,902
Transportation equipment	137,444	133,104
	<u>4,897,364</u>	<u>6,331,186</u>
Accumulated depreciation	<u>(1,737,564)</u>	<u>(2,230,306)</u>
Net land, buildings and equipment	<u>\$ 3,159,800</u>	<u>\$ 4,100,880</u>

Depreciation expense was \$263,999 and \$252,350 for September 30, 2017 and 2016, respectively.

**Holt International Children's Services, Inc.
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Notes to Consolidated Financial Statements**

Note 7 - Long-Term Debt

Long-term debt consisted of the following:

	SEPTEMBER 30,	
	2017	2016
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. Paid in full during 2017.	\$ -	\$ 2,200,000
	\$ -	\$ 2,200,000

Interest expense is included in other expenses and totaled \$70,009 and \$113,214 for September 30, 2017 and 2016, respectively.

Note 8 - Temporarily Restricted Net Assets

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

	SEPTEMBER 30,	
	2017	2016
Program		
Cambodia	\$ 178,999	\$ 148,110
China	90,792	132,132
Endowment earnings	489,390	430,102
Ethiopia	-	22,500
Gift Annuity	297,977	256,497
Guatemala	-	17,813
India	-	25,000
Nepal	-	885
North Korea	-	9,168
South Korea	4,000	24,775
Special Needs Adoption Fund	55,051	18,074
Nutrition Program	42,688	-
Empowering Women and Strengthening Families	165,088	-
US Programs	3,195	2,686
	\$ 1,327,180	\$ 1,087,742
Total temporarily restricted net assets		

**Holt International Children's Services, Inc.
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Notes to Consolidated Financial Statements**

Note 9 - Permanently Restricted Net Assets

Permanently restricted net assets at September 30, 2017 and 2016, of \$3,246,300 and \$3,189,418 consisted of endowment funds which are permanently restricted as stipulated by the donors.

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. Majority funds released from restrictions are related to contributions received and expended in the same fiscal year when restrictions are met. The amounts released during the year are as follows:

	SEPTEMBER 30,	
	2017	2016
Purpose of restriction:		
Program services:		
U.S. Program	\$ 3,508,594	\$ 4,000,502
International Program	2,595,697	2,565,429
International Program support	5,443,650	5,469,360
Supporting services:		
Management and general	511,760	736,106
Fundraising	2,638,763	1,803,495
Acquisition of assets:		
Building improvement	-	1,200
	\$ 14,698,464	\$ 14,576,092

Note 11 - Endowment Fund

At September 30, 2017, the Endowment Fund consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTAL
Donor-restricted endowment funds	\$ -	\$ 489,390	\$ 3,246,300	\$ 3,735,690
Board-designated endowment funds	3,353,498	-	-	3,353,498
Total Endowment Fund	\$ 3,353,498	\$ 489,390	\$ 3,246,300	\$ 7,089,188

**Holt International Children's Services, Inc.
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Notes to Consolidated Financial Statements**

Note 11 - Endowment Fund (continued)

At September 30, 2016, the Endowment Fund consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTAL
Donor-restricted endowment funds	\$ -	\$ 430,102	\$ 3,189,418	\$ 3,619,520
Board-designated endowment funds	3,157,292	-	-	3,157,292
Total Endowment Fund	<u>\$ 3,157,292</u>	<u>\$ 430,102</u>	<u>\$ 3,189,418</u>	<u>\$ 6,776,812</u>

A summary of 2017 Endowment Fund activity was as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTAL
Balance, October 1, 2016	\$ 3,157,292	\$ 430,102	\$ 3,189,418	\$ 6,776,812
Endowment contributions	82,170	-	56,882	139,052
	<u>82,170</u>	<u>-</u>	<u>56,882</u>	<u>139,052</u>
Appropriated expenditures	(233,158)	(113,773)	-	(346,931)
	<u>(233,158)</u>	<u>(113,773)</u>	<u>-</u>	<u>(346,931)</u>
Investment returns:				
Unrealized gain on endowment	242,419	120,862	-	363,281
Return on endowment investments	104,775	52,199	-	156,974
Investment returns, net	<u>347,194</u>	<u>173,061</u>	<u>-</u>	<u>520,255</u>
Balance, September 30, 2017	<u>\$ 3,353,498</u>	<u>\$ 489,390</u>	<u>\$ 3,246,300</u>	<u>\$ 7,089,188</u>

A summary of 2016 Endowment Fund activity was as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTAL
Balance, October 1, 2016	\$ 3,040,771	\$ 389,619	\$ 3,172,816	\$ 6,603,206
Endowment contributions	33,738	-	76,602	110,340
	<u>33,738</u>	<u>-</u>	<u>76,602</u>	<u>110,340</u>
Appropriated expenditures	(229,897)	(112,040)	-	(341,937)
Write-off pledge	-	-	(60,000)	(60,000)
	<u>(229,897)</u>	<u>(112,040)</u>	<u>(60,000)</u>	<u>(401,937)</u>
Investment returns:				
Unrealized gain on endowment	211,079	49,561	-	260,640
Return on endowment investments	101,601	102,962	-	204,563
Investment returns, net	<u>312,680</u>	<u>152,523</u>	<u>-</u>	<u>465,203</u>
Balance, September 30, 2017	<u>\$ 3,157,292</u>	<u>\$ 430,102</u>	<u>\$ 3,189,418</u>	<u>\$ 6,776,812</u>

**Holt International Children’s Services, Inc.
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Notes to Consolidated Financial Statements**

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.

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 were as follows:

	SEPTEMBER 30,	
	2017	2016
Cambodia	\$ 182,656	\$ 136,479
China	1,287,426	1,238,150
Ethiopia	294,288	266,129
Haiti	169,667	164,060
India	42,977	53,753
Mongolia	136,277	66,720
South Korea	230,605	210,583
Uganda	70,107	25,322
Vietnam	489,686	411,644
Total International Program services provided	<u>\$ 2,903,689</u>	<u>\$ 2,572,840</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 the year ended September 30, support provided was as follows:

	SEPTEMBER 30,	
	2017	2016
Cambodia	\$ 144,020	\$ 130,388
China	2,319,543	2,486,311
Ethiopia	287,411	218,859
Guatemala	17,812	71,250
Haiti	78,247	73,564
India	517,856	497,102
Mongolia	153,040	97,405
North Korea	230,400	225,000
Philippines	397,026	376,697
Russia	-	10,000
South Korea	2,011,815	1,911,111
Thailand	493,965	483,058
Uganda	63,039	63,428
Ghana	16,200	-
Vietnam	12,500	12,500
	\$ 6,742,874	\$ 6,656,673
Total International Program support		

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.
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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 at September 30:

	SEPTEMBER 30,	
	2017	2016
Adoption program	\$ 840,000	\$ 855,000
Fundraising	1,764,350	1,767,000
Total joint costs allocated	\$ 2,604,350	\$ 2,622,000

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 \$319,818 and \$288,570 for September 30, 2017 and 2016, respectively.

Note 15 - Commitments and Contingencies

Operating leases - Rental expense was \$308,030 and \$291,204 for 2017 and 2016, 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:

2018		\$ 150,872
2019		94,380
2020		19,050
		\$ 264,302

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 2017 and 2016, respectively, \$2,630,017 and \$2,703,860 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.
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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 29.7 percent in 2017 and 32.3 percent in 2016 of HICS's revenue was derived from the adoption services it provided in various countries, including Korea, China, Thailand, and Vietnam. 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 City View property, located in Eugene, Oregon. Accordingly, the property, net of accumulated depreciation of approximately \$370,420 was classified as held for sale as of September 30, 2016 pursuant to guidance provided by ASC 360, *Property, Plant and Equipment*.

In February 2017, the Organization entered into a Purchase and Sale Agreement with a private party to sell the City View property. The Organization sold the property with a net book value of \$370,420 for \$1.5 million, resulting in a gain of \$1,032,012, net of selling expenses. Proceeds in the amount of approximately \$1,402,433 were subsequently used to pay off the note payable with Pacific Continental Bank.

Supplementary Information

Holt International Children's Services, Inc. and Related Organization
Consolidating Statement of Financial Position
September 30, 2017

ASSETS

	<u>HICS</u>	<u>HIF CHINA</u>	<u>ELIMINATIONS</u>	<u>CONSOLIDATED</u>
Cash and cash equivalents	\$ 2,844,653	\$ 22,871	\$ -	\$ 2,867,524
Receivables, net	1,304,074	-	-	1,304,074
Prepaid expenses and supplies	411,451	20,175	-	431,626
Prepaid support - Holt Children's Services, Korea	1,206,336	-	-	1,206,336
Investments	10,819,055	-	-	10,819,055
Promises to give, restricted, net of discount	59,124	-	-	59,124
Property held for sale	-	-	-	-
Land, building, and equipment, net of accumulated depreciation	3,156,716	3,084	-	3,159,800
TOTAL ASSETS	\$ 19,801,409	\$ 46,130	\$ -	\$ 19,847,539
<u>LIABILITIES AND NET ASSETS</u>				
<u>LIABILITIES</u>				
Accounts payable and accrued expenses	\$ 1,117,333	\$ 1,651	\$ -	\$ 1,118,984
International Program support payable	279,951	-	-	279,951
Deferred adoption fee revenue	4,194,884	-	-	4,194,884
Deferred transportation fees	52,600	-	-	52,600
Deferred revenue - other	5,000	-	-	5,000
Long-term debt	-	-	-	-
Deferred compensation	106,760	-	-	106,760
Annuity obligation	326,940	-	-	326,940
Total liabilities	6,083,468	1,651	-	6,085,119
<u>Net assets</u>				
<u>Unrestricted net assets:</u>				
Undesignated net assets	5,790,963	44,479	-	5,835,442
Board designated endowment	3,353,498	-	-	3,353,498
	9,144,461	44,479	-	9,188,940
Temporarily restricted net assets	1,327,180	-	-	1,327,180
Permanently restricted net assets	3,246,300	-	-	3,246,300
Total net assets	13,717,941	44,479	-	13,762,420
TOTAL LIABILITIES AND NET ASSETS	\$ 19,801,409	\$ 46,130	\$ -	\$ 19,847,539

Holt International Children's Services, Inc. and Related Organization
Consolidating Statement of Activities
For the Year Ended September 30, 2017

	<u>HICS</u>	<u>HIF CHINA</u>	<u>ELIMINATIONS</u>	<u>CONSOLIDATED</u>
Revenues and other support				
Public support:				
Contributions:				
Sponsorships	\$ 12,229,400	\$ -	\$ -	\$ 12,229,400
Other contributions	3,721,026	-	-	3,721,026
Grants	1,061,313	3,313,303	(3,313,303)	1,061,313
Revenues:				
Adoption fees	8,142,894	-	-	8,142,894
Transportation fees	54,200	-	-	54,200
Investment, principally interest, net of investment fees of of 79,751 in 2017 (\$75,965 in 2016)	186,602	167	-	186,769
Tour charges	571,256	-	-	571,256
Adoptee services	157,905	-	-	157,905
Other revenue	9,351	-	-	9,351
Gains (losses):				
Gain on sale of assets	601,119	-	-	601,119
Net unrealized/realized loss on investments	670,532	-	-	670,532
Total revenues and other support	<u>27,405,598</u>	<u>3,313,470</u>	<u>(3,313,303)</u>	<u>27,405,765</u>
Expenses				
Program services:				
U.S. Program	8,554,183	-	-	8,554,183
International Program	1,920,907	982,782	-	2,903,689
International Program Support	7,736,634	2,319,543	(3,313,303)	6,742,874
Total program services	<u>18,211,724</u>	<u>3,302,325</u>	<u>(3,313,303)</u>	<u>18,200,746</u>
Supporting services:				
Management and general	2,948,444	-	-	2,948,444
Fundraising	4,573,739	-	-	4,573,739
Total supporting services	<u>7,522,183</u>	<u>-</u>	<u>-</u>	<u>7,522,183</u>
Total operating expenses	<u>25,733,907</u>	<u>3,302,325</u>	<u>(3,313,303)</u>	<u>25,722,929</u>
Change in net assets	1,671,691	11,145	-	1,682,836
Net assets, beginning of year	<u>12,046,252</u>	<u>33,332</u>	<u>-</u>	<u>12,079,584</u>
Net assets, end of year	<u>\$ 13,717,943</u>	<u>\$ 44,477</u>	<u>\$ -</u>	<u>\$ 13,762,420</u>

**Holt International Children's Services, Inc.
and Related Organization
Schedule of Indirect Cost Rate
For The Year Ended September 30, 2017**

Salaries	\$ 946,449
Employee health and retirement benefits	182,474
Payroll taxes	<u>76,542</u>
Total salaries and related expenses	1,205,465
Professional fees	466,224
Supplies	57,465
Postage and shipping	7,266
Telephone	40,650
Building occupancy	396,117
Rental of equipment	74,532
Printing, publications, and graphics	18,323
Travel and allowances:	
Staff	66,654
Board	37,162
Staff development	40,107
Tours and other expenses, less unallowable costs	430,955
Depreciation	<u>50,289</u>
Total allowable management and general expenses	<u>\$ 2,891,209</u>
Total direct U.S. and International Program services	\$ 11,457,872
Fundraising	<u>4,573,739</u>
Total direct program services and fund raising expenses	<u>\$ 16,031,611</u>
Indirect cost rate	<u>18.0%</u>

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 Year Ended September 30, 2017**

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:

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