

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

**CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**YEARS ENDED SEPTEMBER 30, 2023 AND 2022**



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**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.  
AND RELATED ORGANIZATION  
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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, 2023 and 2022, and the related consolidated statements of activities and changes in net assets, 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, 2023 and 2022, 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.

#### ***Change in Accounting Principle***

As discussed in Note 1 to the consolidated financial statements, in 2023 HICS adopted new accounting guidance for leases. The guidance requires lessees to recognize a right-of-use asset and corresponding liability for all operating and finance leases with lease terms greater than one year. Our conclusion is not modified with respect to this matter.

#### ***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 2023 consolidating statement of financial position and consolidating statement of activities and changes in net assets 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.

***Other Information Included in the Annual Report***

Management is responsible for the other information included in the annual report, the other information comprises the financial information on the consolidated statements of financial position and the consolidated statements of activities and changes in net assets and incorporates by reference the consolidated financial statements and our auditors' report but does not include the consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.



**CliftonLarsonAllen LLP**

Lake Oswego, Oregon  
March 15, 2024

**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.  
AND RELATED ORGANIZATION  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
SEPTEMBER 30, 2023 AND 2022**

<b>ASSETS</b>	2023	2022
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 1,161,677	\$ 853,268
Receivables, Net	1,045,453	743,053
Prepaid Expenses and Supplies	963,544	1,379,803
Prepaid Support - Holt Children's Services, Korea	179,460	252,435
Investments	6,141,893	5,751,716
Promises to Give, Restricted, Net	150,000	165,000
Total Current Assets	9,642,027	9,145,275
<b>NONCURRENT ASSETS</b>		
Promises to Give, Restricted, Net	361,715	302,770
Charitable Remainder Trust Receivable	25,000	25,000
Property and Equipment, Net of Accumulated Depreciation	4,895,221	5,120,467
Operating Right-of-Use Asset, Net	306,258	-
Total Noncurrent Assets	5,588,194	5,448,237
<b>RESTRICTED ASSETS</b>		
Investments Restricted for Annuity Obligations	570,407	542,797
Investments Restricted for Long-Term Purposes	3,596,807	3,573,297
Total Restricted Assets	4,167,214	4,116,094
Total Assets	\$ 19,397,435	\$ 18,709,606

See accompanying Notes to Consolidated Financial Statements.

**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.  
AND RELATED ORGANIZATION  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)  
SEPTEMBER 30, 2023 AND 2022**

	2023	2022
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Expenses	\$ 1,495,351	\$ 1,852,820
International Program Support Payable	84,490	59,523
Deferred Adoption Fees	1,792,736	1,727,184
Annuity Obligations - Current	20,389	20,389
Line of Credit	350,000	-
Current Portion of Lease Liabilities - Operating	205,887	-
Total Current Liabilities	3,948,853	3,659,916
<b>LONG-TERM LIABILITIES</b>		
Deferred - Other, Less Current Portion	96,060	96,060
Annuity Obligations, Less Current Portion	188,322	208,429
Long-Term Lease Liabilities - Operating, Net of Current Portion	89,709	-
Total Long-Term Liabilities	374,091	304,489
Total Liabilities	4,322,944	3,964,405
<b>NET ASSETS</b>		
Without Donor Restrictions:		
Undesignated	7,177,713	7,099,428
Designated by the Board for Endowment Fund	3,123,834	3,075,468
Total Without Donor Restrictions	10,301,547	10,174,896
With Donor Restrictions	4,772,944	4,570,305
Total Net Assets	15,074,491	14,745,201
Total Liabilities and Net Assets	\$ 19,397,435	\$ 18,709,606

See accompanying Notes to Consolidated Financial Statements.

**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.  
AND RELATED ORGANIZATION  
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
YEAR ENDED SEPTEMBER 30, 2023**

	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUE AND OTHER SUPPORT</b>			
Public Support:			
Contributions:			
Sponsorships	\$ 1,037,539	\$ 15,180,513	\$ 16,218,052
Other Contributions	2,628,583	2,460,377	5,088,960
Grants	-	253,295	253,295
Revenues:			
Adoption Fees, Net	4,392,404	-	4,392,404
Investment Income, Principally Interest, Net	174,209	78,833	253,042
Other Revenue	417,858	-	417,858
Gain (Loss):			
Gain on Sales of Property and Equipment	1,641	-	1,641
Net Unrealized / Realized Gain on Investments	340,903	104,322	445,225
Net Assets Released from Restrictions	17,874,701	(17,874,701)	-
Total Revenue and Other Support	<u>26,867,838</u>	<u>202,639</u>	<u>27,070,477</u>
<b>OPERATING EXPENSES</b>			
Program and Support	20,422,782	-	20,422,782
Management and General	2,338,085	-	2,338,085
Fundraising	3,980,320	-	3,980,320
Total Operating Expenses	<u>26,741,187</u>	<u>-</u>	<u>26,741,187</u>
<b>CHANGE IN NET ASSETS</b>	126,651	202,639	329,290
Net Assets - Beginning of Year	<u>10,174,896</u>	<u>4,570,305</u>	<u>14,745,201</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 10,301,547</u>	<u>\$ 4,772,944</u>	<u>\$ 15,074,491</u>

See accompanying Notes to Consolidated Financial Statements.



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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>REVENUE AND OTHER SUPPORT</b>			
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	<u>27,246,900</u>	<u>(1,288,296)</u>	<u>25,958,604</u>
<b>OPERATING EXPENSES</b>			
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	<u>30,081,569</u>	<u>-</u>	<u>30,081,569</u>
<b>CHANGE IN NET ASSETS</b>	(2,834,669)	(1,288,296)	(4,122,965)
Net Assets - Beginning of Year	<u>13,009,565</u>	<u>5,858,601</u>	<u>18,868,166</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 10,174,896</u>	<u>\$ 4,570,305</u>	<u>\$ 14,745,201</u>

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, 2023**

	Program Services	Supporting Services		Total Operating Expenses
	Program and Support	Management and General	Fundraising	
Salaries and Wages	\$ 6,836,712	\$ 970,283	\$ 717,355	\$ 8,524,350
Employee Health and Retirement Benefits	957,604	169,936	138,747	1,266,287
Payroll Taxes	516,518	78,800	66,436	661,754
Total Salaries and Related Expenses	8,310,834	1,219,019	922,538	10,452,391
Grants and Support	5,248,272	-	-	5,248,272
Child Care, Clothes, and Medicine	777,995	-	-	777,995
Professional Fees and Consulting	2,199,643	625,257	1,033,848	3,858,748
Supplies	271,036	40,990	111,576	423,602
Postage and Shipping	128,458	13,044	191,056	332,558
Internet and Communication	90,287	7,577	2,856	100,720
Facilities, Utilities and Maintenance	461,399	99,174	1,325	561,898
Leases	402,181	6,605	2,695	411,481
Advertising, Outreach, and Printing	437,965	5,715	1,501,547	1,945,227
Travel	587,419	90,648	94,915	772,982
Tours	189,159	-	-	189,159
Staff Development	256,593	19,668	847	277,108
Bank and Credit Card Fees	496,809	19,530	-	516,339
Other Expenses	51,648	5,779	5,181	62,608
Bad Debt	-	52,450	-	52,450
Total Before Depreciation	19,909,698	2,205,456	3,868,384	25,983,538
Depreciation	513,084	132,629	111,936	757,649
Total Expenses	<u>\$ 20,422,782</u>	<u>\$ 2,338,085</u>	<u>\$ 3,980,320</u>	<u>\$ 26,741,187</u>
2023 Percentage of Total Functional Expenses	76.4%	8.7%	14.9%	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, 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 STATEMENTS OF CASH FLOWS  
YEARS ENDED SEPTEMBER 30, 2023 AND 2022**

	2023	2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 329,290	\$ (4,122,965)
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation	757,649	412,248
Noncash Lease Expense	(10,662)	-
(Gain) on the Sale of Property and Equipment	(1,641)	(160,830)
Net Unrealized / Realized (Gain) Loss on Investments	(445,225)	2,046,470
Contributions Restricted for Endowments	(83,088)	(107,798)
Discount on Promises to Give	11,055	19,318
(Increase) Decrease in Asset:		
Receivables	(302,400)	211,751
Prepaid Expenses and Supplies	416,259	(438,331)
Prepaid Support - Holt Children's Services, Korea	72,975	917,175
Promises to Give, Restricted, Net	(283,500)	10,000
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Expenses	(357,469)	202,504
International Program Support Payable	24,967	(97,995)
Deferred Adoption Fee	65,552	(2,024,990)
Net Cash Provided (Used) by Operating Activities	193,762	(3,133,443)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from Sale of Property and Equipment	3,570	1,409,680
Purchases of Property and Equipment	(534,332)	(1,236,515)
Construction in Progress	-	(82,619)
Proceeds from Sale of Investments	516,149	1,205,689
Purchase of Investments	(512,221)	(141,293)
Net Cash Provided (Used) by Investing Activities	(526,834)	1,154,942
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Endowment Contributions Invested	83,088	107,798
Contributions Restricted for Long-Term Purposes	228,500	165,000
Payments of Annuity Obligations	(20,107)	(20,107)
Proceeds from Line of Credit	350,000	-
Net Cash Provided by Financing Activities	641,481	252,691
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	308,409	(1,725,810)
Cash and Cash Equivalents - Beginning of Year	853,268	2,579,078
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 1,161,677	\$ 853,268
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash Paid During the Year for Interest	\$ 16,216	\$ 12,419

See accompanying Notes to Consolidated Financial Statements.

**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.  
AND RELATED ORGANIZATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2023 AND 2022**

**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 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, 2023 and 2022. 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, 2023 AND 2022**

**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, 2023 and 2022, the allowance for doubtful accounts was \$50,440 and \$72,870, 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, 2023 AND 2022**

**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  
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**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.



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**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, 2023 and 2022, 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.

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**NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Property and Equipment, and Depreciation**

Property and equipment in excess of \$2,000 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.

**Leases**

The Organization leases office space and equipment. The Organization determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (ROU) assets, other current liabilities, and operating lease liabilities on the consolidated statement of financial position.

ROU assets represent the Organization's right to use an underlying asset for the lease term and lease liabilities represent the Organization's obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. As most leases do not provide an implicit rate, the Organization uses a risk-free rate based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Organization has elected to recognize payments for short-term leases with a lease term of 12 months or less as expense as incurred and these leases are not included as lease liabilities or right of use assets on the consolidated statement of financial position.

The Organization has elected not to separate nonlease components from lease components and instead accounts for each separate lease component and the nonlease component as a single lease component.

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**NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

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, 2023 and 2022.

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.

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**NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Promises to Give (Continued)**

At September 30, 2023, contributions of \$379,433 have not been recognized in the accompanying consolidated statement of activities and changes in net assets because the conditions on which they depend have not yet been met. Of the total conditional contributions, \$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. In addition, \$154,433 of contributions depend on incurring the qualifying expenditures in compliance with specific contract or grant provisions.

**Contributed Services and Materials**

HICS receives donated services from a variety of unpaid volunteers who assist with programs in nonspecialized roles. Approximately 2,041 hours and 2,950 hours were donated by unpaid volunteers for the years ended September 30, 2023 and 2022 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, 2023 and 2022, 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, 2023 and 2022.

**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 \$1,414,276 and \$2,715,471 for the years ended September 30, 2023 and 2022, respectively.

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**NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

**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 March 15, 2024, which is the date the consolidated financial statements are available to be issued.

**Adoption of New Accounting Standards**

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-02, *Leases (ASC 842)*. The new standard increases transparency and comparability among organizations by requiring the recognition of ROU assets and lease liabilities on the consolidated statement of financial position. Most prominent of the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Organization adopted the requirements of the guidance effective October 1, 2022, and has elected to apply the provisions of this standard to the beginning of the period of adoption, through a cumulative effect adjustment, with certain practical expedients available. Lease disclosures for the year ended September 30, 2022 are made under prior lease guidance in FASB ASC 840.

The Organization has elected to adopt the package of practical expedients available in the year of adoption. The Organization has elected not to adopt the available practical expedient to use hindsight in determining the lease term and in assessing impairment of the Organization's ROU assets.

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**NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Adoption of New Accounting Standards (Continued)**

The Organization elected the available practical expedients to account for existing capital leases and operating leases as finance leases and operating leases, respectively, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

As a result of the adoption of the new lease accounting guidance, the Organization recognized on October 1, 2022 the total lease liability of \$549,697, which represents the present value of the remaining operating lease payments of \$576,145, discounted using a risk-free rate in a range of 3.46% and 4.12%, and the total ROU asset of \$569,519. The difference between the additional lease assets and lease liabilities was not material to the consolidated financial statements.

The standard had a material impact on the consolidated statement of financial position but did not have an impact on the consolidated statement of activities and changes in net assets, nor consolidated statement of cash flows. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases.

**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:

	<u>2023</u>	<u>2022</u>
Cash and Cash Equivalents	\$ 1,161,677	\$ 853,268
Receivable, Net	1,045,453	743,053
Total	<u>\$ 2,207,130</u>	<u>\$ 1,596,321</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, 2023 and 2022 are \$15,074,491 and \$14,745,201, 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, 2023 and 2022, the board-designated net assets totaled \$3,123,834 and \$3,075,468, 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.

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**NOTE 2 LIQUIDITY AND AVAILABILITY (CONTINUED)**

HICS' donor-restricted endowment totals \$3,796,553 and \$3,720,873 at September 30, 2023 and 2022, respectively (see Note 12).

**NOTE 3 CASH AND CASH EQUIVALENTS**

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

	2023	2022
Cash on Hand	\$ 6,643	\$ 7,091
Checking Accounts	453,836	326,462
Money Markets	701,198	519,715
Total Cash and Cash Equivalents	\$ 1,161,677	\$ 853,268

**NOTE 4 INVESTMENTS**

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

	2023	2022
Interest and Dividends, Net	\$ 253,042	\$ 143,558
Unrealized Gain (Loss)	450,315	(2,044,180)
Realized Loss	(5,090)	(2,290)
Total Return on Investments	\$ 698,267	\$ (1,902,912)

**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, 2023			
	Level 1	Level 2	Level 3	Total
Money Market Funds	\$ 1,726,994	\$ -	\$ -	\$ 1,726,994
U.S. Corporate Equities	40	-	-	40
U.S. Fixed Income Funds	4,613,161	-	-	4,613,161
U.S. Equity Funds	2,869,808	-	-	2,869,808
Developed Markets Equity	474,887	-	-	474,887
Emerging Markets Equity	209,635	-	-	209,635
U.S. and Foreign Real Estate Funds	126,335	-	-	126,335
Funds Held in Insurance Company	3,262	-	-	3,262
Total Assets at Fair Value	\$ 10,024,122	\$ -	\$ -	10,024,122
Cash				284,985
Total Investments				\$ 10,309,107

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**NOTE 5 FAIR VALUE MEASUREMENTS (CONTINUED)**

Description	Fair Value Measurements as of September 30, 2022			
	Level 1	Level 2	Level 3	Total
Money Market Funds	\$ 53,173	\$ -	\$ -	\$ 53,173
U.S. Corporate Equities	40	-	-	40
U.S. Fixed Income Funds	3,634,590	-	-	3,634,590
U.S. Equity Funds	3,447,826	-	-	3,447,826
Developed Markets Equity	419,619	-	-	419,619
Emerging Markets 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>\$ 7,935,133</u>	<u>\$ -</u>	<u>\$ -</u>	<u>7,935,133</u>
Cash				1,932,677
Total Investments				<u>\$ 9,867,810</u>

**NOTE 6 PROMISES TO GIVE, RESTRICTED**

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

	2023	2022
Promises to Give Restricted for Long-Term Purposes	\$ 550,000	\$ 495,000
Discount to Present Value	(38,285)	(27,230)
Promises to Give, Restricted, Net	<u>\$ 511,715</u>	<u>\$ 467,770</u>
Amounts Due in:		
Less Than One Year	\$ 150,000	\$ 165,000
One to Five Years	361,715	302,770
Total Promises to Give, Restricted, Net	<u>\$ 511,715</u>	<u>\$ 467,770</u>

Promises to give, restricted, received after one year were discounted using varied adjusted risk-free interest rates up to 5.46% and 4.39% at September 30, 2023 and 2022, respectively.



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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>2023</u>	<u>2022</u>
Land	\$ 766,980	\$ 766,980
Buildings	2,446,504	2,397,094
Office Equipment	702,488	700,230
Technology Equipment	4,338,751	3,840,491
Transportation Equipment	153,648	153,648
Construction in Progress	-	82,620
Subtotal	<u>8,408,371</u>	<u>7,941,063</u>
Accumulated Depreciation	<u>(3,513,150)</u>	<u>(2,820,596)</u>
Net Land, Buildings, and Equipment	<u>\$ 4,895,221</u>	<u>\$ 5,120,467</u>

Depreciation expense was \$757,649 and \$412,248 for the years ended September 30, 2023 and 2022, 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 (8.5% at September 30, 2023), minus 1.0% payable monthly. The note matures on April 30, 2025. At September 30, 2023 and 2022, the outstanding balance is \$350,000 and \$0, respectively. The outstanding balance at September 30, 2023 was fully paid off in December 2023.

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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:

	<u>2023</u>	<u>2022</u>
Program:		
Cambodia	\$ 24,830	\$ -
Mongolia	138,722	-
Endowment Earnings	199,746	147,576
Gift Annuity	366,695	318,978
Korea	12,783	-
Thailand	380,681	467,874
Adoptive Family Grants	52,680	62,680
Total	<u>\$ 1,176,137</u>	<u>\$ 997,108</u>

Net assets with donor restrictions that are perpetual in nature at September 30, 2023 and 2022 totaled \$3,596,807 and \$3,573,297, 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:

	<u>2023</u>	<u>2022</u>
Purpose of Restriction:		
Program and Support	\$ 14,343,675	\$ 13,112,393
Management and General	750,310	1,555,745
Fundraising	2,780,716	4,337,837
Total	<u>\$ 17,874,701</u>	<u>\$ 19,005,975</u>

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**NOTE 12 ENDOWMENT FUND**

A summary of 2023 Endowment Fund activity was as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance - September 30, 2022	\$ 3,075,468	\$ 3,720,873	\$ 6,796,341
Endowment Contributions	59,578	23,510	83,088
Appropriated Expenditures	(242,601)	(71,043)	(313,644)
Investment Returns:			
Unrealized Gain on Endowment	102,216	53,817	156,033
Return on Endowment Investments	129,173	69,396	198,569
Investment Returns, Net	<u>231,389</u>	<u>123,213</u>	<u>354,602</u>
Balance - September 30, 2023	<u>\$ 3,123,834</u>	<u>\$ 3,796,553</u>	<u>\$ 6,920,387</u>

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>

**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>2023</u>	<u>2022</u>
Cambodia	\$ 807,225	\$ 817,777
China	2,130,299	2,661,077
Taiwan	536,527	491,034
Hong Kong	65,500	11,834
Colombia	957,816	976,716
Ethiopia	865,109	942,080
South Africa	82,772	68,965
Haiti	523,337	538,288
Bulgaria	70,451	53,347
India	660,491	709,726
Mongolia	786,116	671,770
Nutrition Program	877,423	680,320
Philippines	544,358	486,705
South Korea	1,281,657	2,440,129
Thailand	1,044,646	953,089
Uganda	444,407	417,005
Vietnam	725,315	681,223
Total International Program and Support	<u>\$ 12,403,449</u>	<u>\$ 13,601,085</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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SEPTEMBER 30, 2023 AND 2022**

**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. These expenses were allocated by their functional classification as follows:

	2023	2022
Program and Support	\$ 545,065	\$ 1,036,125
Fundraising	1,182,423	2,089,073
Total Joint Costs Allocated	\$ 1,727,488	\$ 3,125,198

**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 be \$400,321 and \$439,625 for the years ended September 30, 2023 and 2022, respectively.

**NOTE 16 COMMITMENTS AND CONTINGENCIES**

**Contract Commitment**

HICS entered a contract with an unrelated party, in the amount of \$397,200, for technology upgrade during the year ended September 30, 2022. The contract commitment was met for the year-ended September 30, 2023.

**NOTE 17 LEASES – ASC 842**

The Organization leases equipment as well as certain operating and office facilities for various terms under long-term, non-cancelable lease agreements. The leases expire at various dates through 2026 and provide for renewal options. In the normal course of business, it is expected that these leases will be renewed or replaced by similar leases. Additionally, the agreements generally require the Organization to pay real estate taxes, insurance, and repairs.

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**NOTE 17 LEASES – ASC 842 (CONTINUED)**

The following table provides quantitative information concerning the Organization's leases for the year ended September 30:

	<u>2023</u>
Lease Costs	
Operating Lease Costs	\$ 280,360
Short-Term Lease Costs	64,458
Variable Lease Costs	64,709
Total Lease Costs	<u>\$ 409,527</u>
Other Information:	
Cash Paid for Amounts Included in the Measurement of Lease Liabilities:	
Operating Cash Flows from Operating Lease	\$ 271,200
Right-of-Use Assets Obtained in Exchange for New Operating Lease Liabilities	\$ 569,519
Weighted-Average Remaining Lease Term - Operating Lease	1.5 years
Weighted-Average Discount Rate - Operating Lease	4.11%

The Organization classifies the total undiscounted lease payments that are due in the next 12 months as current. A maturity analysis of annual undiscounted cash flows for lease liabilities as of September 30, 2023, is as follows:

<u>Year Ending September 30,</u>	<u>Operating Leases</u>
2024	\$ 213,337
2025	90,249
2026	1,358
Total Lease Payments	304,944
Less: Interest	(9,348)
Present Value of Lease Liabilities	<u>\$ 295,596</u>
Current Portion of Lease Liabilities - Operating	\$ 205,887
Long-Term Lease Liabilities - Operating	89,709
	<u>\$ 295,596</u>

As of September 30, 2023, the Organization has an additional operating office lease, that has not yet commenced which the monthly payments will be \$1,180. The operating and finance leases will commence between fiscal year 2024 with lease terms of 2 years.

**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.  
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**NOTE 18 LEASES – ASC 840**

The Organization elected to apply the provisions of FASB ASC 842 to the beginning of the period of adoption, through a cumulative effect adjustment, with certain practical expedients available. Lease disclosures for the year ended September 30, 2022 are made under prior lease guidance in FASB ASC 840.

Rental expense was \$360,366 for the year ended September 30, 2022. 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>
2024	\$ 131,691
2025	57,566
2026	886
Total	<u>\$ 190,143</u>

**NOTE 19 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 20 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>2023</u>	<u>2022</u>
Timing of Satisfaction of Performance Obligations:		
Performance Obligations Satisfied at a Point in Time	\$ 3,311,677	\$ 3,706,986
Performance Obligations Satisfied Over Time	1,498,585	2,029,315
Total	<u>\$ 4,810,262</u>	<u>\$ 5,736,301</u>
By Service:		
Adoption Fees, Net	\$ 4,392,404	\$ 5,595,514
Other Revenue	417,858	140,787
Total	<u>\$ 4,810,262</u>	<u>\$ 5,736,301</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.

**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2023 AND 2022**

**NOTE 20 REVENUE (CONTINUED)**

**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>2023</u>	<u>2022</u>	<u>2021</u>
Receivables, Net			
Adoption Program - Participants			
(Exchange Transactions)	\$ 1,073,265	\$ 805,798	\$ 972,873
Advances to Employees			
(Exchange Transactions)	22,629	10,126	7,255
Allowance	<u>(50,441)</u>	<u>(72,871)</u>	<u>(25,324)</u>
Total	<u>\$ 1,045,453</u>	<u>\$ 743,053</u>	<u>\$ 954,804</u>
Deferred Adoption Fees	<u>\$ 1,792,736</u>	<u>\$ 1,727,184</u>	<u>\$ 3,752,174</u>

**NOTE 21 CONCENTRATION OF RISK – ADOPTION SERVICES**

Approximately 16.2% and 21.6% 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, 2023 and 2022, respectively. International adoption continues to decrease due to working to keep the child in-country with International Adoption as the last resort.



**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.  
AND RELATED ORGANIZATION  
CONSOLIDATING STATEMENT OF FINANCIAL POSITION  
SEPTEMBER 30, 2023**

<b>ASSETS</b>	<u>HICS</u>	<u>HIF China</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>CURRENT ASSETS</b>				
Cash and Cash Equivalents	\$ 1,086,887	\$ 74,790	\$ -	\$ 1,161,677
Receivables, Net	1,045,453	-	-	1,045,453
Prepaid Expenses and Supplies	963,269	275	-	963,544
Prepaid Support - Holt Children's Services, Korea	179,460	-	-	179,460
Investments	6,141,893	-	-	6,141,893
Promises to Give, Restricted, Net	150,000	-	-	150,000
Total Current Assets	<u>9,566,962</u>	<u>75,065</u>	<u>-</u>	<u>9,642,027</u>
<b>NONCURRENT ASSETS</b>				
Promises to Give, Restricted, Net	361,715	-	-	361,715
Charitable Remainder Trust Receivable	25,000	-	-	25,000
Property and Equipment, Net of Accumulated Depreciation	4,895,221	-	-	4,895,221
Operating Right-of-Use Asset, Net	248,694	57,564	-	306,258
Total Noncurrent Assets	<u>5,530,630</u>	<u>57,564</u>	<u>-</u>	<u>5,588,194</u>
<b>RESTRICTED ASSETS</b>				
Investments Restricted for Annuity Obligations	570,407	-	-	570,407
Investments Restricted for Long-Term Purposes	3,596,807	-	-	3,596,807
Total Restricted Assets	<u>4,167,214</u>	<u>-</u>	<u>-</u>	<u>4,167,214</u>
Total Assets	<u>\$ 19,264,806</u>	<u>\$ 132,629</u>	<u>\$ -</u>	<u>\$ 19,397,435</u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>CURRENT LIABILITIES</b>				
Accounts Payable and Accrued Expenses	\$ 1,410,270	85,081	\$ -	\$ 1,495,351
International Program Support Payable	84,490	-	-	84,490
Deferred Adoption Fees	1,792,736	-	-	1,792,736
Annuity Obligations - Current	20,389	-	-	20,389
Line of Credit	350,000	-	-	350,000
Current Portion of Lease Liability - Operating	177,733	28,154	-	205,887
Total Current Liabilities	<u>3,835,618</u>	<u>113,235</u>	<u>-</u>	<u>3,948,853</u>
<b>LONG-TERM LIABILITIES</b>				
Deferred - Other, Less Current Portion	96,060	-	-	96,060
Annuity Obligations, Less Current Portion	188,322	-	-	188,322
Long-Term Lease Liability - Operating, Net of Current Portion	66,743	22,966	-	89,709
Total Long-Term Liabilities	<u>351,125</u>	<u>22,966</u>	<u>-</u>	<u>374,091</u>
Total Liabilities	4,186,743	136,201	-	4,322,944
<b>NET ASSETS</b>				
Without Donor Restrictions:				
Undesignated	7,181,285	(3,572)	-	7,177,713
Designated by the Board for Endowment Fund	3,123,834	-	-	3,123,834
Total Without Donor Restrictions	<u>10,305,119</u>	<u>(3,572)</u>	<u>-</u>	<u>10,301,547</u>
With Donor Restrictions	4,772,944	-	-	4,772,944
Total Net Assets	<u>15,078,063</u>	<u>(3,572)</u>	<u>-</u>	<u>15,074,491</u>
Total Liabilities and Net Assets	<u>\$ 19,264,806</u>	<u>\$ 132,629</u>	<u>\$ -</u>	<u>\$ 19,397,435</u>

**HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.  
AND RELATED ORGANIZATION  
CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
YEAR ENDED SEPTEMBER 30, 2023**

	<u>HICS</u>	<u>HIF China</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>REVENUE AND OTHER SUPPORT</b>				
Public Support:				
Contributions:				
Sponsorships	\$ 16,218,052	\$ -	\$ -	\$ 16,218,052
Other Contributions	5,088,960	1,592,726	(1,592,726)	5,088,960
Grants	253,295	-	-	253,295
Revenues:				
Adoption Fees, Net	4,392,404	-	-	4,392,404
Investment Income,				
Principally Interest, Net	252,862	180	-	253,042
Other Revenue	417,858	-	-	417,858
Gain (Loss):				
Gain on Sales of Property and Equipment	1,641	-	-	1,641
Net Unrealized / Realized Gain on				
Investments	445,225	-	-	445,225
Total Revenue and Other Support	<u>27,070,297</u>	<u>1,592,906</u>	<u>(1,592,726)</u>	<u>27,070,477</u>
<b>OPERATING EXPENSES</b>				
Program and Support	20,341,000	1,674,508	(1,592,726)	20,422,782
Management and General	2,338,085	-	-	2,338,085
Fundraising	3,980,320	-	-	3,980,320
Total Operating Expenses	<u>26,659,405</u>	<u>1,674,508</u>	<u>(1,592,726)</u>	<u>26,741,187</u>
<b>CHANGE IN NET ASSETS</b>	410,892	(81,602)	-	329,290
Net Assets - Beginning of Year	<u>14,667,171</u>	<u>78,030</u>	<u>-</u>	<u>14,745,201</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 15,078,063</u>	<u>\$ (3,572)</u>	<u>\$ -</u>	<u>\$ 15,074,491</u>



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