

CHILDHELP, INC. AND AFFILIATE
Scottsdale, Arizona

CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 and 2008

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
 FINANCIAL STATEMENTS	
Consolidated Statements of Financial Position	2
Consolidated Statements of Activities and Changes in Net Assets	3
Consolidated Statements of Functional Expenses	5
Consolidated Statements of Cash Flows.....	7
Notes to Consolidated Financial Statements.....	9
 SUPPLEMENTAL INFORMATION	 24
Consolidating Schedule of Financial Position.....	25
Consolidating Schedule of Activities and Changes in Net Assets.....	26
Schedule of Financial Position Based on Estimated Assessor Value	28
Schedule of Assessor Value	29

Independent Auditor's Report

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

We have audited the accompanying consolidated statements of financial position of Childhelp, Inc. and Affiliate (Childhelp) as of June 30, 2009 and 2008, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the years then ended. These consolidated financial statements are the responsibility of Childhelp's management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Childhelp, Inc. and Affiliate as of June 30, 2009 and 2008, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information, contained on pages 25, 26 and 27, is presented for purposes of additional analysis of the consolidating information rather than to present the financial position, changes in net assets, and cash flows of the individual locations. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements, and, in our opinion, is presented fairly, in all material respects, in relation to the consolidated financial statements taken as a whole.

The supplemental information accompanying the consolidated financial statements contained on pages 28 and 29 is presented only for additional analysis purposes. We have not audited or reviewed the accompanying supplemental information and, accordingly, do not express an opinion or any other form of assurance on such information.

Clifton Gunderson LLP

Phoenix, Arizona
April 9, 2010

CHILDHELP, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2009 and 2008

ASSETS

ASSETS	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	\$ 1,279,847	\$ 1,507,180
Restricted cash and cash equivalents	12,764	12,764
Accounts receivable, net of allowance for doubtful accounts of \$225,218 in 2009 and \$197,644 in 2008	3,663,944	3,251,535
Contributions receivable	59,000	46,305
Investments	-	200,365
Property, plant and equipment, net	9,515,530	10,169,739
Other assets	<u>451,752</u>	<u>534,423</u>
TOTAL ASSETS	<u>\$ 14,982,837</u>	<u>\$ 15,722,311</u>

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable	\$ 2,554,912	\$ 1,534,184
Accrued expenses	2,033,361	1,959,131
Line of credit	1,757,284	-
Notes payable	9,541,161	9,722,193
Deferred revenues	271,701	98,329
Liability to partnership in excess of basis	<u>297,068</u>	<u>355,915</u>
Total liabilities	<u>16,455,487</u>	<u>13,669,752</u>
NET ASSETS		
Unrestricted – partially designated	(1,881,135)	1,172,562
Temporarily restricted	224,726	322,177
Permanently restricted	<u>183,759</u>	<u>557,820</u>
Total net assets	<u>(1,472,650)</u>	<u>2,052,559</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 14,982,837</u>	<u>\$ 15,722,311</u>

The accompanying notes are an integral part of the consolidated financial statements.

CHILDHELP, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Years Ended June 30, 2009 and 2008

	2009			Total
	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	
SUPPORT AND REVENUES				
Program income – government assistance	\$ 26,563,683	\$ -	\$ -	\$ 26,563,683
Special events	4,374,185	3,543	-	4,377,728
Direct mail and other	199,251	-	-	199,251
Foundations, corporations, individuals and organizations	4,204,056	339,869	33,759	4,577,684
Contributed goods and services	1,134,900	-	-	1,134,900
Other	369,011	-	-	369,011
Total support and revenues	36,845,086	343,412	33,759	37,222,257
NET ASSETS RELEASED FROM RESTRICTION	440,863	(440,863)	-	-
RECLASSIFICATION OF BOARD DESIGNATED AMOUNTS	407,820	-	(407,820)	-
Total support and revenues and net assets released from restrictions	37,693,769	(97,451)	(374,061)	37,222,257
FUNCTIONAL EXPENSES AND LOSSES				
Program services				
Residential treatment	20,557,031	-	-	20,557,031
Hotline	877,339	-	-	877,339
Public awareness	1,061,069	-	-	1,061,069
Educational programs	3,255,561	-	-	3,255,561
Foster care	3,791,820	-	-	3,791,820
Advocacy/diagnostic services	6,820,052	-	-	6,820,052
Total program services	36,362,872	-	-	36,362,872
Support services				
Management and general	1,679,469	-	-	1,679,469
Fund-raising	2,562,152	-	-	2,562,152
Total support services	4,241,621	-	-	4,241,621
Total functional expenses	40,604,493	-	-	40,604,493
Losses				
Provision for doubtful accounts	142,973	-	-	142,973
Total functional expenses and losses	40,747,466	-	-	40,747,466
CHANGES IN NET ASSETS	(3,053,697)	(97,451)	(374,061)	(3,525,209)
NET ASSETS, BEGINNING OF YEAR	1,172,562	322,177	557,820	2,052,559
MERGER OF SOUTHWEST LEADERSHIP	-	-	-	-
NET ASSETS, END OF YEAR	<u>\$ (1,881,135)</u>	<u>\$ 224,726</u>	<u>\$ 183,759</u>	<u>\$ (1,472,650)</u>

2008			
Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
\$ 24,268,157	\$ -	\$ -	\$ 24,268,157
3,772,339	-	-	3,772,339
245,555	-	-	245,555
3,284,633	89,498	-	3,374,131
1,307,400	-	-	1,307,400
4,799,786	-	-	4,799,786
<u>37,677,870</u>	<u>89,498</u>	<u>-</u>	<u>37,767,368</u>
330,238	(330,238)	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>38,008,108</u>	<u>(240,740)</u>	<u>-</u>	<u>37,767,368</u>
20,889,596	-	-	20,889,596
793,697	-	-	793,697
1,692,037	-	-	1,692,037
2,771,808	-	-	2,771,808
3,234,025	-	-	3,234,025
6,275,896	-	-	6,275,896
<u>35,657,059</u>	<u>-</u>	<u>-</u>	<u>35,657,059</u>
1,304,204	-	-	1,304,204
<u>2,207,838</u>	<u>-</u>	<u>-</u>	<u>2,207,838</u>
<u>3,512,042</u>	<u>-</u>	<u>-</u>	<u>3,512,042</u>
39,169,101	-	-	39,169,101
<u>203,867</u>	<u>-</u>	<u>-</u>	<u>203,867</u>
<u>39,372,968</u>	<u>-</u>	<u>-</u>	<u>39,372,968</u>
(1,364,860)	(240,740)	-	(1,605,600)
2,711,395	562,917	557,820	3,832,132
<u>(173,973)</u>	<u>-</u>	<u>-</u>	<u>(173,973)</u>
<u>\$ 1,172,562</u>	<u>\$ 322,177</u>	<u>\$ 557,820</u>	<u>\$ 2,052,559</u>

The accompanying notes are an integral part of the consolidated financial statements.

CHILDHHELP, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2009

	Program Services						Support Services			Total Functional Expenses	
	Residential Treatment	Hotline	Public Awareness	Educational Programs	Foster Care	Advocacy/Diagnostic Services	Total Program Services	Management and General	Fund-Raising		Total Support Services
Salaries	\$ 12,918,594	\$ 506,483	\$ 358,893	\$ 2,216,836	\$ 1,357,010	\$ 2,938,199	\$ 20,296,015	\$ 810,361	\$ 771,021	\$ 1,581,382	\$ 21,877,397
Payroll taxes and employee benefits	2,425,295	67,737	49,033	331,393	229,226	502,014	3,604,698	118,497	95,943	214,440	3,819,138
Total salaries and related expenses	15,343,889	574,220	407,926	2,548,229	1,586,236	3,440,213	23,900,713	928,858	866,964	1,795,822	25,696,535
Automobiles and travel	198,014	11,921	84,987	49,670	107,811	121,357	573,760	55,345	68,087	123,432	697,192
Children's clothing and related needs	273,837	-	-	-	62,482	41,247	377,566	-	-	-	377,566
Cost of materials for resale	-	-	-	-	-	71,188	71,188	-	-	-	71,188
Conferences and meetings	21,616	66	982	2,297	10,986	35,748	71,695	926	648	1,574	73,269
Dues and subscriptions	28,962	1,082	2,687	2,565	19,729	22,729	77,754	4,769	4,863	9,632	87,386
Food	794,044	-	-	254,915	1,208	31,272	1,081,439	-	-	-	1,081,439
Foster care	-	-	-	-	1,373,381	-	1,373,381	-	-	-	1,373,381
Insurance and taxes	186,809	3,676	4,862	31,874	12,431	42,969	282,621	4,058	3,871	7,929	290,550
Interest	315,596	21,193	27,000	41,105	49,755	95,304	549,953	365,980	15,135	381,115	931,068
Licensing	12,341	460	608	996	8,903	2,880	26,188	605	482	1,087	27,275
Maintenance and repairs	562,126	16,141	8,549	61,591	38,810	139,368	826,585	19,813	78,413	98,226	924,811
Medical	306,986	-	-	-	419	996,913	1,304,318	-	-	-	1,304,318
Miscellaneous	34,656	2,053	6,021	4,632	6,699	44,331	98,392	4,756	20,040	24,796	123,188
Parent activities assistance	20	-	-	-	-	-	20	-	-	-	20
Postage	36,380	3,869	29,996	4,685	14,210	34,267	123,407	10,196	16,961	27,157	150,564
Printing and publishing	3,971	2,135	43,336	90	9,208	19,721	78,461	16,670	4,880	21,550	100,011
Professional services	473,239	41,315	307,555	60,924	198,255	528,920	1,610,208	116,754	98,228	214,982	1,825,190
Promotion and recruitment	34,923	639	17,655	2,452	51,527	7,614	114,810	15,236	9,773	25,009	139,819
Recreation and special education	202,639	-	-	31,904	1,413	1,930	237,886	-	-	-	237,886
Rent	262,198	79,752	75,911	11,311	97,341	692,360	1,218,873	77,860	69,782	147,642	1,366,515
Supplies	161,993	6,116	19,215	104,192	39,330	96,878	427,724	20,114	14,899	35,013	462,737
Telephone	135,935	98,548	12,879	21,415	45,643	71,738	386,158	19,241	12,326	31,567	417,725
Utilities	448,572	7,085	6,517	19,946	31,621	101,817	615,558	11,605	3,113	14,718	630,276
Other expenses	-	-	-	-	-	1,985	1,985	-	1,271,581	1,271,581	1,273,566
Total functional expenses before depreciation and amortization	19,838,746	870,271	1,056,686	3,254,793	3,767,398	6,642,749	35,430,643	1,672,786	2,560,046	4,232,832	39,663,475
Depreciation and amortization	718,285	7,068	4,383	768	24,422	177,303	932,229	6,683	2,106	8,789	941,018
TOTAL FUNCTIONAL EXPENSES	\$ 20,557,031	\$ 877,339	\$ 1,061,069	\$ 3,255,561	\$ 3,791,820	\$ 6,820,052	\$ 36,362,872	\$ 1,679,469	\$ 2,562,152	\$ 4,241,621	\$ 40,604,493

The accompanying notes are an integral part of the consolidated financial statements.

CHILDHELP, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2008

	Program Services						Support Services			Total Functional Expenses	
	Residential Treatment	Hotline	Public Awareness	Educational Programs	Foster Care	Advocacy/Diagnostic Services	Total Program Services	Management and General	Fund-Raising		Total Support Services
Salaries	\$ 13,082,265	\$ 464,054	\$ 440,885	\$ 2,001,325	\$ 1,128,633	\$ 2,603,375	\$ 19,720,537	\$ 514,605	\$ 594,173	\$ 1,108,778	\$ 20,829,315
Payroll taxes and employee benefits	2,591,288	61,824	74,022	313,306	197,754	411,621	3,649,815	71,623	75,775	147,398	3,797,213
Total salaries and related expenses	15,673,553	525,878	514,907	2,314,631	1,326,387	3,014,996	23,370,352	586,228	669,948	1,256,176	24,626,528
Automobiles and travel	294,894	13,735	199,662	47,113	98,569	139,503	793,476	38,968	55,439	94,407	887,883
Children's clothing and related needs	266,518	-	-	-	15,608	61,149	343,275	-	-	-	343,275
Cost of materials for resale	-	-	-	-	-	85,768	85,768	-	-	-	85,768
Conferences and meetings	53,152	952	601	3,766	9,085	31,577	99,133	1,397	219	1,616	100,749
Dues and subscriptions	28,240	1,117	2,448	1,796	14,899	31,173	79,673	7,414	2,750	10,164	89,837
Food	830,349	-	-	113,359	403	19,758	963,869	-	20,364	20,364	984,233
Foster care	446	-	-	429	1,121,932	-	1,122,807	-	-	-	1,122,807
Insurance and taxes	167,719	1,986	7,210	24,790	24,843	54,169	280,717	5,016	4,925	9,941	290,658
Interest	298,528	7,030	8,241	28,062	37,010	82,599	461,470	359,043	2,223	361,266	822,736
Licensing	14,667	1,391	1,839	1,833	7,935	2,656	30,321	1,831	1,458	3,289	33,610
Maintenance and repairs	603,553	8,882	26,586	29,942	40,622	198,198	907,783	29,143	49,382	78,525	986,308
Medical	179,658	-	-	-	6,495	1,010,038	1,196,191	-	-	-	1,196,191
Miscellaneous	38,061	3,189	7,524	5,683	10,756	(4,861)	60,352	2,961	21,947	24,908	85,260
Parent activities assistance	-	-	-	-	-	-	-	-	-	-	-
Postage	32,283	3,906	31,490	4,245	14,174	32,786	118,884	6,172	17,478	23,650	142,534
Printing and publishing	5,479	3,278	81,720	860	4,816	23,605	119,758	1,092	25,128	26,220	145,978
Professional services	387,456	36,887	536,602	49,455	167,619	438,562	1,616,581	149,213	376,223	525,436	2,142,017
Promotion and recruitment	47,806	1,384	15,783	2,669	107,889	10,416	185,947	23,089	39,995	63,084	249,031
Recreation and special education	213,178	-	-	2,892	101	2,578	218,749	-	-	-	218,749
Rent	224,840	78,633	107,630	25,543	88,287	614,856	1,139,789	49,173	54,721	103,894	1,243,683
Supplies	202,797	8,256	48,817	84,552	45,041	89,531	478,994	18,015	24,264	42,279	521,273
Telephone	174,309	84,094	12,148	17,287	35,617	72,820	396,275	9,744	9,936	19,680	415,955
Utilities	417,102	6,391	8,386	11,997	29,702	98,527	572,105	9,576	2,987	12,563	584,668
Other expenses	-	-	71,637	-	-	566	72,203	-	825,610	825,610	897,813
Total functional expenses before depreciation and amortization	20,154,588	786,989	1,683,231	2,770,904	3,207,790	6,110,970	34,714,472	1,298,075	2,204,997	3,503,072	38,217,544
Depreciation and amortization	735,008	6,708	8,806	904	26,235	164,926	942,587	6,129	2,841	8,970	951,557
TOTAL FUNCTIONAL EXPENSES	\$ 20,889,596	\$ 793,697	\$ 1,692,037	\$ 2,771,808	\$ 3,234,025	\$ 6,275,896	\$ 35,657,059	\$ 1,304,204	\$ 2,207,838	\$ 3,512,042	\$ 39,169,101

The accompanying notes are an integral part of the consolidated financial statements.

CHILDHELP, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (3,525,209)	\$ (1,605,600)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Provision for doubtful receivables	142,973	203,867
Net realized and unrealized gains on investments	(1,097)	(7,591)
(Gain) loss on sale of asset	65,818	(24,988)
Donated vehicles	(25,920)	(43,000)
Depreciation and amortization	941,018	951,557
Equity in earnings of partnership	(83,847)	(59,537)
Increase (decrease) in cash resulting from changes in:		
Accounts receivable	(555,382)	(688,957)
Contributions receivable	(12,695)	(46,305)
Other assets	82,671	143,142
Accounts payable	1,020,728	792,275
Accrued expenses	74,230	(164,544)
Deferred revenues	173,372	(4,313,518)
	<u>(1,703,340)</u>	<u>(4,863,199)</u>
Net cash used in operating activities	<u>(1,703,340)</u>	<u>(4,863,199)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from restricted cash	-	114,306
Maturity of investments	201,462	90,497
Acquisition of Southwest Leadership Foundation, Inc.	-	(100)
Purchases of property and equipment	(326,707)	(843,503)
Distributions from partnership	25,000	25,750
	<u>(100,245)</u>	<u>(613,050)</u>
Net cash used in investing activities	<u>(100,245)</u>	<u>(613,050)</u>

(Continued)

CHILDHELP, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
Years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of notes payable	1,973,717	12,930
Net changes in line of credit	1,757,284	-
Principal payments of notes payable	<u>(2,154,749)</u>	<u>(1,501,940)</u>
Net cash provided by (used in) financing activities	<u>1,576,252</u>	<u>(1,489,010)</u>
 NET DECREASE IN CASH AND CASH EQUIVALENTS	 (227,333)	 (6,965,259)
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	 <u>1,507,180</u>	 <u>8,472,439</u>
 CASH AND CASH EQUIVALENTS, END OF YEAR	 <u>\$ 1,279,847</u>	 <u>\$ 1,507,180</u>
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 858,929</u>	<u>\$ 786,516</u>
Long-term debt assumed from Southwest Leadership Foundation, Inc.	<u>\$ -</u>	<u>\$ 1,218,580</u>

The accompanying notes are an integral part of the consolidated financial statements.

CHILDHHELP, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Childhelp, Inc. (Childhelp) is a California not-for-profit corporation formed to meet the physical, emotional, educational and spiritual needs of abused and neglected children through focusing its efforts and resources in the areas of treatment, prevention, and research. Childhelp's activities include residential treatment centers, children's advocacy and diagnostic centers, child abuse prevention programs, non-public schools, foster family agencies and a national telephone hotline that was established to assist children and their families, many of whom are in crisis situations. Childhelp's activities are primarily conducted in Arizona, California, Colorado, Michigan, Tennessee, and Virginia.

An affiliated organization (the affiliate) carries out programs that complement the activities of Childhelp. The affiliate is Childhelp Lifeline Empowerment Trust. The activities of this affiliated organization have been consolidated with those of Childhelp. All inter-company transactions and balances have been eliminated in consolidation.

Basis of Presentation

Childhelp prepares its consolidated financial statements in accordance with the *American Institute of Certified Public Accountants Audit and Accounting Guide for Not-For-Profit Organizations* (Audit Guide). Under the Audit Guide, Childhelp is required to report information regarding the financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Revenues, gains, expenses and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of Childhelp and changes therein are classified and reported as follows:

Unrestricted Net Assets

Net assets that are not subject to donor-imposed stipulations and that may be expendable for any purpose in performing the primary objectives of Childhelp.

Temporarily Restricted Net Assets

Net assets subject to donor-imposed stipulations that may or will be met either by actions of Childhelp and/or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated financial statements as net assets released from restriction. Donor-restricted contributions received and expended in the same reporting period are recorded as unrestricted support. Contributions of land, building, and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of unrestricted net assets. Contributions of cash or other assets to be used to acquire land, buildings, and equipment with donor stipulations are reported as revenues of temporarily restricted net assets. The restrictions are considered to be released at the time such long-lived assets are placed in service.

Permanently Restricted Net Assets

Net assets subject to donor-imposed stipulations that require that the amounts be invested in perpetuity. Income and gains relating to such contributions are available for the general operations of Childhelp.

CHILDHHELP, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates in the Preparation of Consolidated Financial Statements

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Change in Accounting Principles

Childhelp adopted the FASB Staff Position FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* in the current year. The State Prudent Management of Institutional Funds Act, was effective for Childhelp for the year ended June 30, 2009. This position required that the amount classified as permanently restricted shall be the amount of the fund (a) that must be retained permanently in accordance with explicit donor stipulations, or (b) that in the absence of such stipulations, the Childhelp's governing board determines the amount of the fund that must be retained permanently, consistent with the relevant law and also expands the disclosures required for both donor-restricted and board-designated endowment funds. The adoption of this literature did not have a material effect on the 2009 consolidated financial statements.

Cash and Cash Equivalents

Childhelp considers money market funds and short-term investments purchased with an original maturity less than ninety days to be cash equivalents. The Organization maintains all of its cash and temporary investments in several commercial banks.

Contributions

Contributions, including unconditional promises to give, that are expected to be collected within one year are recorded as support at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded as a contribution receivable at the present value of their estimated future cash flow. The discounts on those amounts are computed using interest rates commensurate with the risks involved applicable to the years in which the promises are received. Conditional promises to give are not included as support until the conditions are substantially met.

Contributed Goods and Services

The value of significant contributed goods and services is reflected as contributions in the accompanying consolidated financial statements and are recorded at the fair value of such goods and services at the date of donations.

CHILDHELP, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributed Goods and Services (Continued)

Contributed services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. In addition to contributed goods and services meeting the aforementioned criteria and that have been recorded in the accompanying consolidated financial statements, Childhelp receives significant amounts of contributed time from volunteers that do not meet the recognition criteria described above. As such, the value of this contributed time has not been determined and is not reflected in the accompanying consolidated financial statements.

Program Service

Program service revenues consist of governmental reimbursements at contracted rates for residential treatment based programs. Program service fees are recognized when earned. Monies received in advance of being earned are recognized as deferred revenue.

Accounts Receivable

Accounts receivable are uncollateralized receivables generated from providing program services based on contractual arrangements with state and local agencies and are stated at the invoice amount and are due upon presentation. Generally, account balances, with invoices over ninety days old are considered delinquent. The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. The allowance for doubtful accounts is based on management's assessment of the collectibility of specific accounts and the aging of the accounts receivable. If there is a deterioration of the credit worthiness or actual defaults are higher than the historical experience, management's estimates of the recoverability of amounts due Childhelp could be adversely affected. All accounts or portions thereof deemed to be uncollectible or to require an excessive collection cost are written off to the allowance for doubtful accounts.

Investments

Investments in marketable equity securities with readily determinable fair values and all debt securities are reported in the consolidated financial statements at fair value. Fair value is determined based on quoted market prices.

Childhelp also has a partnership interest with an unrelated organization to own and manage an office building in Scottsdale, Arizona. Childhelp's 50% interest in this partnership is recorded using the equity method.

CHILDHELP, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, Plant and Equipment

Property, plant and equipment are initially recorded at cost and donated property and equipment are recorded at fair value at the date of gift. Depreciation is provided using the straight-line method over their respective estimated useful lives, which range from 3 to 40 years.

Copyrights and trademarks are amortized using the straight-line method over their estimated useful lives of 7 years.

Impairment of Long-Lived Assets

Childhelp reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Expense Allocation

Expenses that can be specifically identified with a particular program or supporting service are charged directly to the related program or supporting service. Expenses that are associated with more than one program or supporting service are allocated based on an evaluation by Childhelp's management.

Advertising

Advertising costs are expensed as incurred.

Income Taxes

Childhelp has received a tax determination letter indicating that it qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. In addition, the Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a).

In accordance with Financial Accounting Standards Board, the Organization has elected to defer implementation of Financial Accounting Standards Board Interpretation, *Accounting for Uncertainty in Income Taxes*, until July 1, 2009. This clarifies the accounting for uncertainty in tax positions. It also requires financial statement recognition of the impact of a tax position if a position is more likely than not of being sustained on audit, based on the technical merits of the position. Additionally, it provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, transition, and disclosure requirements for uncertain tax positions. The Organization's current accounting policy is to evaluate uncertain tax positions, including those related to unrelated business income, using the framework set forth in *Accounting for Contingencies*.

CHILDHELP, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain reclassifications have been made to the 2008 amounts to correspond to the 2009 consolidated financial statement presentation. Total net assets and changes in net assets for 2008 are unchanged as a result of these reclassifications.

NOTE 2 – MERGER OF SOUTHWEST LEADERSHIP FOUNDATION, INC.

On July 25, 2007, Childhelp purchased the assets, assumed certain obligations and liabilities of Southwest Leadership Foundation, Inc. (SLF), for a purchase price of \$100. Accordingly, the change in net assets of Childhelp related to SLF has been included in the accompanying consolidated financial statements from that date forward. The acquisition was made for the purpose of providing additional services related to Childhelp's mission.

A condensed balance sheet of SLF showing the fair value of the assets acquired and the liabilities assumed as of the date of acquisition follows:

Accounts receivable	\$ 106,665
Property, plant and equipment	<u>1,251,594</u>
Total assets	1,358,259
Accounts payable	24,195
Accrued expenses	241,975
Notes payable	1,218,580
Deferred revenues	<u>47,482</u>
Net asset deficiency	<u>\$ (173,973)</u>

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>2009</u>	<u>2008</u>
Unrestricted cash and cash equivalents:		
Cash in bank	\$ 1,249,140	\$ 1,411,960
Cash on hand	13,400	10,350
Money market funds	<u>17,307</u>	<u>84,871</u>
Total unrestricted cash and cash equivalents	<u>\$ 1,279,847</u>	<u>\$ 1,507,180</u>
Restricted cash and cash equivalents:		
Cash in bank	<u>\$ 12,764</u>	<u>\$ 12,764</u>

CHILDHHELP, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 4 – CONTRIBUTIONS RECEIVABLE

Contributions receivable at June 30, 2009 and 2008, totaled \$59,000 and \$46,305. As of June 30, 2009 and 2008, there was no allowance as management believes the amounts to be fully collectible.

NOTE 5 – INVESTMENTS

Investments at June 30, 2009 and 2008 were primarily comprised of common stocks with a fair value of \$0 and \$200,365, respectively. Net realized gains and (losses) and net unrealized gains and (losses) were \$2,176 and (\$3,273) in 2009, respectively, and \$23,175 and \$(30,766) in 2008, respectively.

NOTE 6 – INVESTMENT IN PARTNERSHIP

During 1996, Childhelp, through the Childhelp Lifeline Empowerment Trust, entered into a partnership agreement with an unrelated organization to own and manage an office building in Scottsdale, Arizona, which Childhelp also occupies. Childhelp has contributed approximately \$393,000 since inception and maintains a 50% partnership interest. Allocations of net profits and losses and distributions of cash flows are to be made to the partners on a pro rata basis generally in accordance with the respective capital balances of the partners and as further described in the partnership agreement.

The partnership's unaudited financial statements as of June 30, 2009 and 2008 are summarized as follows:

	<u>2009</u>	<u>2008</u>
Current assets	\$ 158,443	\$ 87,438
Other assets	15,656	18,336
Land and building, net	<u>1,191,077</u>	<u>1,227,851</u>
Total assets	<u>\$ 1,365,176</u>	<u>\$ 1,333,625</u>
Current liabilities	\$ 700	\$ 551
Mortgage payable	<u>1,975,614</u>	<u>2,061,899</u>
Total liabilities	<u>1,976,314</u>	<u>2,062,450</u>
Partners' deficiency:		
Childhelp	(297,068)	(355,915)
Other partner	<u>(314,070)</u>	<u>(372,910)</u>
Total partners' deficiency	<u>(611,138)</u>	<u>(728,825)</u>
Total liabilities and partners' deficiency	<u>\$ 1,365,176</u>	<u>\$ 1,333,625</u>

CHILDHHELP, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 6 – INVESTMENT IN PARTNERSHIP (CONTINUED)

Partnership profits allocated to Childhelp totaled \$83,847 and \$59,537 and Childhelp received cash distributions totaling \$25,000 and \$25,750 for the years ended June 30, 2009 and 2008, respectively. In connection with a refinancing in fiscal 2004, the partnership obtained an appraisal in August 2003, concluding on a fair value of approximately \$3.2 million (unaudited) on the underlying building.

Additionally, Childhelp entered into a lease and option-to-purchase agreement with the partnership in July 1994. Under this agreement, Childhelp pays approximately \$28,000 monthly for the use of office space (see Note 10). The lease expires in 2015.

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	<u>2009</u>	<u>2008</u>
Land	\$ 2,686,206	\$ 2,153,566
Building and improvements	16,268,514	16,683,060
Furniture, fixtures and equipment	2,834,333	2,806,326
Vehicles	1,421,635	1,352,909
Construction in progress	29,192	23,534
Copyrights/trademark	<u>208,974</u>	<u>208,974</u>
Total	23,448,854	23,228,369
Less accumulated depreciation and amortization	<u>(13,933,324)</u>	<u>(13,058,630)</u>
Property, plant and equipment, net of accumulated depreciation and amortization	<u><u>\$ 9,515,530</u></u>	<u><u>\$ 10,169,739</u></u>

Childhelp had no assets held under capital leases at June 30, 2009 and 2008, respectively.

Copyrights and trademarks were purchased during the year ended June 30, 2008, for \$125,000. Amortization expense totaled \$27,854 and \$13,494 for the years ended June 30, 2009 and 2008, respectively.

Total depreciation and amortization expense was \$941,018 and \$951,557 for the years ended June 30, 2009 and 2008, respectively.

NOTE 8 – LINE OF CREDIT

Childhelp entered into a revolving line of credit and security agreement with CapitalSource Finance, LLC in October 2008 with a maximum principal amount of \$3,000,000. The line of credit bears interest at LIBOR plus 4.25%, is secured by trade receivables and the Tennessee property, and matures in October 2011. The balance as of June 30, 2009 was \$1,757,284.

CHILDHHELP, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 9 – NOTES PAYABLE

Notes payable consist of the following:

	<u>2009</u>	<u>2008</u>
Note payable to a bank (First Republic Mortgage); original amount of \$4,000,000; payable in monthly interest only installments of \$18,068, at 7.10%, through June 2009; thereafter, principal installments of \$41,666 plus interest at 7.1% through January 2012; secured by property.	\$ 3,053,723	\$ 3,820,844
Note payable to a bank; original amount of \$1,342,250; payable in monthly interest only installments of \$6,655, at 5.95% for the first ten years through November 2015, then principal and interest payments through November 2035; secured by property.	1,342,250	1,342,250
Notes payable to individuals; original amounts aggregating \$3,525,000; interest at 10% payable in quarterly installments; principal due at maturity through May 1 2012; secured by subordinated deeds on the Virginia property (Tyler Village).	2,871,026	2,525,000
Various notes payable to banks; payable in monthly installments ranging from approximately \$735 to \$4,180, including interest ranging from 6% to 8.5%; due from 2008 to 2017; secured by first and second deeds of trust on Arizona property.	1,177,247	1,203,476
Note payable to a bank; original amount of \$1,000,000; payable in monthly installments of \$5,556, plus interest at the one-month LIBOR rate plus 1.75% (4.20% at June 30, 2008) Note renegotiated January 2009; payable in monthly installments of \$7,133, including interest at 5.75%, through February 1, 2014; secured by deed of trust on the Virginia property (Tyler Village).	614,604	694,444
Note payable to a bank; original amount of \$133,878; payable in monthly installments of \$1,269, including interest at 7.75%, through May 2014; secured by Tennessee property. Paid in full October 2008.	-	73,410
Various notes payable to banks; payable in monthly installments ranging from approximately \$360 to \$410, including interest ranging from 3.9% to 11.7%; through March 2013; secured by vehicles.	80,644	62,769

CHILDHELP, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 9 – NOTES PAYABLE (CONTINUED)

	<u>2009</u>	<u>2008</u>
Note payable to individual; original amount of \$485,000 including interest at 10%; principal and interest payments of \$31,333 payable monthly; maturing June 1, 2009 through June 2, 2010.	<u>401,667</u>	<u>-</u>
Total notes payable	<u>\$ 9,541,161</u>	<u>\$ 9,722,193</u>

Future maturities of notes payable are as follows:

2010	\$ 2,001,595	
2011	1,004,692	
2012	4,166,059	
2013	111,936	
2014	375,986	
Thereafter	<u>1,880,893</u>	
Total	<u>\$ 9,541,161</u>	

Childhelp is required to comply with restrictive debt covenants with respect to the First Republic Mortgage note payable and the CapitalSource Finance, LLC revolving credit agreement identified above. Childhelp failed to comply with certain restrictive debt covenants as of June 30, 2009 and through December 31, 2009. The debt covenant violations were waived by the finance company subsequent to June 30, 2009 (see Note 18).

In connection with the terms of notes payable to individuals, Childhelp is required to establish an interest reserve equal to one year's interest on the outstanding principal balance of the notes. The balance of the required reserve at June 30, 2009 and 2008, was \$90,000 and \$107,500 respectively, and is included in cash and cash equivalents on the accompanying consolidated statements of financial position.

NOTE 10 – OPERATING LEASES

Childhelp rents certain facilities and equipment under various operating lease agreements. The following is a schedule of the future minimum lease payments for leases that have a remaining noncancelable term in excess of one year:

2010	\$ 1,339,795	
2011	924,460	
2012	739,908	
2013	720,594	
2014	716,935	
Thereafter	<u>1,006,245</u>	
Total	<u>\$ 5,447,937</u>	

CHILDHELP, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 10 – OPERATING LEASES (CONTINUED)

Lease expense for all operating leases was approximately \$1,367,000 and \$1,244,000 for the years ended June 30, 2009 and 2008, respectively.

NOTE 11 – NET ASSETS

Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes:

	<u>2009</u>	<u>2008</u>
Capital expenditures	\$ 103,063	\$ 286,961
Residential treatment program	-	7,158
Advocacy/diagnostic services	<u>121,663</u>	<u>28,058</u>
Total	<u>\$ 224,726</u>	<u>\$ 322,177</u>

Childhelp's endowment consists of four individual funds established for general program purposes. The income earned on the endowment is available for general program purposes. Its endowment includes only donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions and are reported entirely as permanently restricted net assets. All realized investment income is expended in unrestricted net assets.

The Board of Directors of Childhelp has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Childhelp 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 the organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) The possible effects of market volatility
- (4) The expected total return from income and the appreciation of investments
- (5) The investment policies of the organization

CHILDHELP, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 11 – NET ASSETS (CONTINUED)

The endowment net asset composition by type of fund as of June 30, 2009, follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$(183,759)	\$ -	\$183,759	\$ -

The changes in endowment net assets for the year ended June 30, 2009 follows:

Endowment net assets, June 30, 2008	\$ 557,820
Acquired endowment	33,759
Investment return:	
Net depreciation (realized and unrealized)	-
Reclassification of Board designated endowments	<u>(407,820)</u>
Endowment net assets, June 30, 2009	<u>\$ 183,759</u>

Board Designated Net Assets

The Board of Directors has designated certain net assets for the purpose of funding the development of new Childhelp programs in various locations, as well as existing programs. Board designated funds were as follows:

	<u>2009</u>	<u>2008</u>
Michigan foster care program	<u>\$ 83,356</u>	<u>\$ 86,449</u>

As described in Note 17, Childhelp did not generate sufficient revenue and other support to sustain operations and was required to use restricted and designated net assets to fund operations.

A summary of net assets released from restriction follows:

	<u>2009</u>	<u>2008</u>
Capital expenditures	\$ 287,940	\$ 206,534
Residential treatment	97,029	48,708
Diagnostic services	<u>55,894</u>	<u>74,996</u>
Total	<u>\$ 440,863</u>	<u>\$ 330,238</u>

CHILDHELP, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 12 – CONTRIBUTED GOODS AND SERVICES

In connection with its advocacy/diagnostic programs, Childhelp received contributions of various medical services including those of physicians, nurse practitioners, and therapeutic psychologists, totaling approximately \$974,000 and \$971,000 for the years ended June 30, 2009 and 2008, respectively. These contributions benefited Childhelp's advocacy/diagnostic service operations and are reflected in the accompanying consolidated statements of activities and changes in net assets as contributed goods and services and program expenses.

Additional contributions of approximately \$135,000 and \$263,000 for the years ended June 30, 2009 and 2008, respectively, consisting of equipment, teaching services, food, toys, clothing and other program related donations are recorded in the accompanying consolidated statements of activities and changes in net assets as contributed goods and services and expensed according to the program or supporting service benefited.

Other contributed goods and services of approximately \$30,000 for the year ended June 30, 2008, consisted of other non-program donations. Additionally, six vehicles valued at \$26,000 and two vehicles valued at \$43,000 were donated to the Organization during the fiscal years ending June 30, 2009 and 2008 respectively.

NOTE 13 – SPECIAL EVENTS

Childhelp is a beneficiary of various recurring special events conducted by chapters and auxiliaries in various cities and states around the United States, as well as for events sponsored by Childhelp's national headquarters and other third parties. Though conducted in various states, the majority of event proceeds are forwarded to the national headquarters for determination of the use of such proceeds. A summary of special events conducted by state follows:

	<u>2009</u>	<u>2008</u>
Arizona (including national headquarters)	\$ 3,087,056	\$ 2,440,038
California	796,475	822,587
Colorado	12,063	29,841
Michigan	101,114	37,500
Tennessee	166,036	174,753
Virginia	<u>214,984</u>	<u>267,620</u>
Total	<u>\$ 4,377,728</u>	<u>\$ 3,772,339</u>

CHILDHELP, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 14 – CONTINGENCIES

Legal Matters

In the ordinary course of business, Childhelp is subject to certain lawsuits and other potential legal actions. In the opinion of management and outside counsel, such matters will not have a material adverse effect on the financial position, changes in net assets and net assets of Childhelp.

Federal Grants

Childhelp participates in a number of federal and state-assisted grant and contract programs which are subject to financial and compliance audits. Accordingly, Childhelp's compliance with applicable grant or contract requirements may be established at some future date. The amount, if any, of expenditures or fees for units of service which may be disallowed by the granting or contracting agencies cannot be determined at this time, although Childhelp's management expects such amounts, if any, to be immaterial.

NOTE 15 – RELATED PARTY TRANSACTIONS

During the years ended June 30, 2009 and 2008, Childhelp entered into the following related party transactions:

- Effective November 1, 2006, the Board elected to employ the co-founder/President as full-time with an annual salary and a monthly automobile allowance.
- Effective November 1, 2006, the Board elected to employ the co-founder/Chief Executive Officer with an annual salary and monthly automobile allowance.
- Effective August 1, 2007, the Board elected to employ a board member on a part time basis with an annual salary and benefits.
- Effective April 28, 2008 and renewed through December 31, 2009, Childhelp entered into an agreement with a law firm owned by a board member. Under the terms of this agreement, the law firm earned \$5,000 per month to provide lobbying services. \$45,000 and \$10,000 were recognized in the years ended June 30, 2009 and 2008, respectively.
- Effective June 1, 2008 and renewed through ending May 31, 2010, Childhelp entered into an agreement with a consulting company owned by a board member's family. Under the terms of this agreement the firm earned \$2,000 to provide human resources testing services in the year ending June 30, 2009.
- Contributions totaling \$653,760 and \$462,616 for the years ended June 30, 2009 and 2008, respectively, were made by members of the National Board of Directors.

CHILDHHELP, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 15 – RELATED PARTY TRANSACTIONS (CONTINUED)

- Notes payable include: 1) approximately \$2,111,000 payable to the Childhelp President, 2) \$60,000 payable to the Childhelp Chief Executive Officer, and 3) \$500,000 payable to a relative of a member of the Board of Directors. In the opinion of management, the terms of these notes were similar to those of third parties.

Each of the above transactions is considered to approximate the fair value cost for the related services provided.

NOTE 16 – CONCENTRATION OF CREDIT RISKS

Childhelp maintains all of its cash with commercial banks. Balances on deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to specified limits. Balances in excess of FDIC limits are uninsured. As of June 30, 2008, cash balances were insured by the FDIC up to \$100,000 per depositor per bank. In October 2008, the FDIC announced the Temporary Liquidity Guarantee Program. One element of that program provides for an unlimited guarantee by the FDIC of funds held in an insured depository institution in non-interest-bearing transaction deposit accounts through June 30, 2010. The unlimited guarantee of non-interest-bearing transaction deposit accounts is over and above the \$250,000 coverage on all deposit accounts. As of June 30, 2009 and 2008, a portion of cash balances at financial institutions exceeded the balance insured by the FDIC.

NOTE 17 – LIQUIDITY

Historically, Childhelp has maintained a significant equity position in its real estate assets. The property owned by Childhelp at its Beaumont Village was pledged as collateral against a \$4 million note payable on September 1, 2005. In addition, the mortgage on the Childhelp's Orange County Group homes was refinanced at the same time. Appraisals at the time of the financing indicated appreciated values well in excess of those liabilities.

On January 9, 2006, Childhelp entered into an agreement with The Suncal Companies to sell a portion of surplus land at its Beaumont, California Residential Treatment Village for \$11,000,000. Childhelp was scheduled to close the transaction in January 2008, but did not close as scheduled. Childhelp retained the payments received from The Suncal Companies and retains the land in accordance with the terms of the original agreement. Deferred revenue from the nonrefundable deposits of approximately \$4.3 million was recognized as other revenues in the accompanying consolidated statements of activities and changes in net assets for the year ended June 30, 2008.

CHILDHHELP, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 17 – LIQUIDITY (CONTINUED)

The accompanying consolidated financial statements have been prepared assuming the realization of assets and satisfactions of liabilities in the normal course of business, which contemplate continuation of Childhelp as a going concern. However, Childhelp has continued to sustain losses, negative cash flows from operations, reduced cash reserves and it violated certain restrictive debt covenants as of June 30, 2009. However, management believes that Childhelp will achieve positive cash flows from operations for the year ending June 30, 2010, along with a positive increase in net assets prior to depreciation and amortization. To date, Childhelp has financed its operations through the sale of appreciated assets. Management will be required to increase contributions, reduce expenses, restructure long-term debt, extend the payment terms of existing long-term debt and related party debt, reduce programs, and/or sell appreciated assets to achieve profitability and positive cash flows from operations. Although it is possible that Childhelp will violate restrictive covenants in the future, it is management's opinion that they have the necessary resources to service obligations through March 31, 2011.

NOTE 18 – SUBSEQUENT EVENTS

On April 7, 2010, Capital Source Finance, LLC waived Childhelp's debt covenant violations through January 31, 2010.

Management evaluated subsequent events through April 9, 2010, the date the consolidated financial statements were available to be issued. Events or transactions occurring after June 30, 2009, but prior to April 9, 2010, that provided additional evidence about conditions that existed at June 30, 2009, have been recognized in the consolidated financial statements for the year ended June 30, 2009. Events or transactions that provided evidence about conditions that did not exist at June 30, 2009, but arose before the consolidated financial statements were available to be issued have not been recognized in the consolidated financial statements for the year ended June 30, 2009.

This information is an integral part of the accompanying consolidated financial statements.

SUPPLEMENTAL INFORMATION

CHILDHELP, INC. AND AFFILIATE
CONSOLIDATING SCHEDULE OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended June 30, 2009

	Arizona Operations (Including Headquarters)	California Operations	Virginia Operations	Tennessee Operations	Childhelp Lifeline Empowerment Trust	Total
SUPPORT AND REVENUES						
Program income – government assistance	\$ 2,604,577	\$ 10,552,616	\$ 12,135,023	\$ 1,271,467	\$ -	\$ 26,563,683
Special events	3,200,234	796,475	214,983	166,036	-	4,377,728
Direct mail and other	196,251	-	3,000	-	-	199,251
Foundations, corporations, individuals and organizations	3,358,817	398,596	700,850	119,421	-	4,577,684
Contributed goods and services	985,583	122,317	27,000	-	-	1,134,900
Other	<u>138,614</u>	<u>(310)</u>	<u>145,492</u>	<u>1,367</u>	<u>83,848</u>	<u>369,011</u>
Total support and revenues	<u>10,484,076</u>	<u>11,869,694</u>	<u>13,226,348</u>	<u>1,558,291</u>	<u>83,848</u>	<u>37,222,257</u>
FUNCTIONAL EXPENSES AND LOSSES						
Program services						
Residential treatment	1,744,875	9,111,357	9,700,799	-	-	20,557,031
Hotline	877,339	-	-	-	-	877,339
Public awareness	1,061,069	-	-	-	-	1,061,069
Educational programs	-	1,791,850	1,463,711	-	-	3,255,561
Foster care	994,521	1,596,174	-	1,201,125	-	3,791,820
Advocacy/diagnostic services	<u>5,213,202</u>	<u>-</u>	<u>1,187,189</u>	<u>382,293</u>	<u>37,368</u>	<u>6,820,052</u>
Total program services	<u>9,891,006</u>	<u>12,499,381</u>	<u>12,351,699</u>	<u>1,583,418</u>	<u>37,368</u>	<u>36,362,872</u>

(Continued)

CHILDHELP, INC. AND AFFILIATE
CONSOLIDATING SCHEDULE OF ACTIVITIES AND CHANGES IN NET ASSETS (CONTINUED)
Year Ended June 30, 2009

	Arizona Operations (Including Headquarters)	California Operations	Virginia Operations	Tennessee Operations	Childhelp Lifeline Empowerment Trust	Total
FUNCTIONAL EXPENSES AND LOSSES						
Support services						
Management and general	1,679,469	-	-	-	-	1,679,469
Fund-raising	<u>2,409,239</u>	<u>59,438</u>	<u>7,481</u>	<u>85,994</u>	<u>-</u>	<u>2,562,152</u>
Total support services	<u>4,088,708</u>	<u>59,438</u>	<u>7,481</u>	<u>85,994</u>	<u>-</u>	<u>4,241,621</u>
Total functional expenses	13,979,714	12,558,819	12,359,180	1,669,412	37,368	40,604,493
Provision for doubtful accounts	<u>36,300</u>	<u>84,000</u>	<u>16,623</u>	<u>6,050</u>	<u>-</u>	<u>142,973</u>
Total functional expenses and losses	<u>14,016,014</u>	<u>12,642,819</u>	<u>12,375,803</u>	<u>1,675,462</u>	<u>37,368</u>	<u>40,747,466</u>
CHANGES IN NET ASSETS	<u>(3,531,938)</u>	<u>(773,125)</u>	<u>850,545</u>	<u>(117,171)</u>	<u>46,480</u>	<u>(3,525,209)</u>
NET ASSETS, BEGINNING OF YEAR	<u>5,984,630</u>	<u>(5,036,351)</u>	<u>(45,461)</u>	<u>622,168</u>	<u>527,573</u>	<u>2,052,559</u>
NET ASSETS, END OF YEAR	<u>\$ 2,452,692</u>	<u>\$ (5,809,476)</u>	<u>\$ 805,084</u>	<u>\$ 504,997</u>	<u>\$ 574,053</u>	<u>\$ (1,472,650)</u>

CHILDHELP, INC. AND AFFILIATE
SCHEDULE OF FINANCIAL POSITION BASED ON ESTIMATED ASSESSOR VALUES
June 30, 2009
(Unaudited)

ASSETS			
	Historical Cost	Adjustments to Historical Cost	Estimated Assessor Values
ASSETS			
Cash and cash equivalents	\$ 1,279,847	\$ -	\$ 1,279,847
Restricted cash and cash equivalents	12,764	-	12,764
Accounts receivable, net	3,663,944	-	3,663,944
Contributions receivable	59,000	-	59,000
Investment in partnership	-	577,847	577,847
Property, plant and equipment, net	9,515,530	12,380,544	21,896,074
Other assets	<u>451,752</u>	<u>-</u>	<u>451,752</u>
TOTAL ASSETS	<u>\$ 14,982,837</u>	<u>\$ 12,958,391</u>	<u>\$ 27,941,228</u>
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts payable	\$ 2,554,912	\$ -	\$ 2,554,912
Accrued expenses	2,033,361	-	2,033,361
Credit Line	1,757,284	-	1,757,284
Notes payable	9,541,161	-	9,541,161
Deferred revenues	271,701	-	271,701
Liability to partnership in excess of basis	<u>297,068</u>	<u>(297,068)</u>	<u>-</u>
Total liabilities	<u>16,455,487</u>	<u>(297,068)</u>	<u>16,158,419</u>
NET ASSETS			
Unrestricted – partially designated	(1,881,135)	13,255,459	11,374,324
Temporarily restricted	224,726	-	224,726
Permanently restricted	<u>183,759</u>	<u>-</u>	<u>183,759</u>
Total net assets	<u>(1,472,650)</u>	<u>13,255,459</u>	<u>11,782,809</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 14,982,837</u>	<u>\$ 12,958,391</u>	<u>\$ 27,941,228</u>

CHILDHELP, INC. AND AFFILIATE
SCHEDULE OF ASSESSOR VALUES
June 30, 2009
(Unaudited)

	Historical Cost Basis, Net Dr (Cr)	Adjustments To Cost Basis Dr (Cr)	Estimated Assessor Value Dr (Cr)	Notes
Land & Bldgs - ACT	\$ 3,080,498	\$ 2,226,902	\$ 5,307,400	Adjustment based on 2009 assessor notices
Land & Bldgs - 68th	90,531	423,069	513,600	Adjustment based on February 20, 2009 Assessor notice
Land & Bldgs - Faith	210,521	84,479	295,000	Adjustment based on February 20, 2009 Assessor notice
Land & Bldgs - Hope	151,923	1,777	153,700	Adjustment based on February 20, 2009 Assessor notice
Land & Bldgs - Keys	360,576	994,402	1,354,978	Adjustment based on February 20, 2009 Assessor notice
Land & Bldgs - Love	138,066	(19,066)	119,000	Adjustment based on February 20, 2009 Assessor notice
Land - SLF	224,535	(224,535)	-	Included in Assessor values above
Land & Bldgs - TEN	1,271,056	833,744	2,104,800	Adjustment based on 2009 Assessor notices
Land & Bldgs - CA Beaumont and Group Homes	2,670,547	8,059,772	10,730,319	Adjustment based on 2009 Assessor notices
Other assets	<u>1,317,277</u>	<u>-</u>	<u>1,317,277</u>	No adjustment
 Total property, plant and equipment	 <u>\$ 9,515,530</u>	 12,380,544	 <u>\$ 21,896,074</u>	
 Investment in partnership (liability)	 <u>\$ (297,068)</u>	 <u>874,915</u>	 <u>\$ 577,847</u>	 Underlying building held by a partnership was adjusted based on an appraisal dated May 1, 2001
 Total current value adjustment		 <u>\$ 13,255,459</u>		