

CHILDHAVEN

JUNE 30, 2020 AND 2019
FINANCIAL STATEMENTS

Independent Auditors' Report

Board of Directors
Childhaven
Seattle, Washington

We have audited the accompanying financial statements of Childhaven, which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Board of Directors
Childhaven
Seattle, Washington

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Childhaven as of June 30, 2020 and 2019, 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.

Baker Tilly US, LLP

Seattle, Washington
December 12, 2022

CHILDHAVEN

STATEMENTS OF FINANCIAL POSITION

| | June 30, | |
|--|----------------------|----------------------|
| | 2020 | 2019 |
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 3,690,954 | \$ 295,619 |
| Investments | 5,203,731 | 6,217,213 |
| Service fees receivable | 1,353,698 | 1,095,546 |
| Pledges receivable, net | 791,686 | 193,796 |
| Other receivables | 65,361 | 84,867 |
| Inventory | | |
| Prepaid expenses and other assets | 504,562 | 749,454 |
| Total current assets | 11,609,992 | 8,636,495 |
| Long-term investments | 2,832,381 | 2,700,627 |
| Beneficial interest in perpetual trust | 607,609 | 609,104 |
| Contributions receivable - charitable lead trust | 7,505 | 11,037 |
| Noncurrent pledges receivable, net | 499,389 | 94,561 |
| Property and equipment, net | 11,242,421 | 9,748,224 |
| | \$ 26,799,297 | \$ 21,800,048 |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities: | | |
| Accounts payable and other liabilities | \$ 327,179 | \$ 263,491 |
| Accrued wages and benefits | 599,465 | 499,125 |
| Current portion, PPP loans | 430,217 | |
| Current portion, note payable | 14,880 | |
| Total current liabilities | 1,371,741 | 762,616 |
| Deferred compensation plan | 40,599 | 30,649 |
| Deferred rent | 118,538 | |
| Paycheck Protection Program (PPP) loans | 1,075,541 | |
| Note payable, net of current portion | 329,192 | |
| Defined benefit pension obligation | 3,379,563 | 2,567,459 |
| Total liabilities | 6,315,174 | 3,360,724 |
| Net assets: | | |
| Without donor restrictions | 13,931,745 | 13,183,444 |
| With donor restrictions | 6,552,378 | 5,255,880 |
| Total net assets | 20,484,123 | 18,439,324 |
| Total liabilities and net assets | \$ 26,799,297 | \$ 21,800,048 |

See notes to financial statements.

CHILDHAVEN

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2020

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|--|---------------------------------------|------------------------------------|-----------------------------|
| Operating activities: | | | |
| Revenue and support: | | | |
| Service fees from governmental agencies | \$ 6,155,397 | | \$ 6,155,397 |
| Contributions, net | 3,670,031 | \$ 1,579,394 | 5,249,425 |
| United Way of King County | 18,130 | | 18,130 |
| Special events, net of expenses of \$220,619 | 645,891 | | 645,891 |
| Government and other grants | 60,533 | | 60,533 |
| Investment income, net | 146,893 | 165,343 | 312,236 |
| Other income, net | 69,584 | 136,926 | 206,510 |
| Net assets released from restrictions | 585,165 | (585,165) | |
| Total operating revenue and support | <u>11,351,624</u> | <u>1,296,498</u> | <u>12,648,122</u> |
| Expenses: | | | |
| Program services | 9,019,120 | | 9,019,120 |
| Management and general | 1,737,172 | | 1,737,172 |
| Fundraising | 1,126,556 | | 1,126,556 |
| Total operating expenses | <u>11,882,848</u> | | <u>11,882,848</u> |
| Change in net assets from operating activities | (531,224) | 1,296,498 | 765,274 |
| Non-operating activities: | | | |
| Inherent contribution received | 2,147,214 | | 2,147,214 |
| Change in pension obligation | (867,689) | | (867,689) |
| Total non-operating activities | <u>1,279,525</u> | | <u>1,279,525</u> |
| Total change in net assets | 748,301 | 1,296,498 | 2,044,799 |
| Net assets, beginning of year | <u>13,183,444</u> | <u>5,255,880</u> | <u>18,439,324</u> |
| Net assets, end of year | <u>\$ 13,931,745</u> | <u>\$ 6,552,378</u> | <u>\$ 20,484,123</u> |

See notes to financial statements.

CHILHAVEN

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2019

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|-------------------------------|----------------------------|----------------------|
| Operating activities: | | | |
| Revenue and support: | | | |
| Service fees from governmental agencies | \$ 5,350,223 | | \$ 5,350,223 |
| Contributions, net | 2,775,228 | \$ 228,973 | 3,004,201 |
| United Way of King County | 200,287 | | 200,287 |
| Special events, net of expenses of \$262,709 | 598,056 | | 598,056 |
| Government grants | 236,906 | | 236,906 |
| Investment income, net | 247,144 | 187,636 | 434,780 |
| Other income (loss), net | 108,306 | (835) | 107,471 |
| Net assets released from restrictions | 1,636,700 | (1,636,700) | |
| Total operating revenue and support | 11,152,850 | (1,220,926) | 9,931,924 |
| Expenses: | | | |
| Program services | 8,473,064 | | 8,473,064 |
| Management and general | 1,401,483 | | 1,401,483 |
| Fundraising | 1,056,755 | | 1,056,755 |
| Total operating expenses | 10,931,302 | | 10,931,302 |
| Change in net assets from operating activities | 221,548 | (1,220,926) | (999,378) |
| Non-operating activities, change in pension obligation | (669,181) | | (669,181) |
| Total change in net assets | (447,633) | (1,220,926) | (1,668,559) |
| Net assets, beginning of year | 13,631,077 | 6,476,806 | 20,107,883 |
| Net assets, end of year | \$ 13,183,444 | \$ 5,255,880 | \$ 18,439,324 |

See notes to financial statements.

CHILDHAVEN

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2020

| | <u>Program services</u> | <u>Management and general</u> | <u>Fundraising</u> | <u>Total</u> |
|-------------------------------------|-----------------------------|-----------------------------------|----------------------------|-----------------------------|
| Salaries | \$ 5,547,902 | \$ 638,323 | \$ 684,809 | \$ 6,871,034 |
| Benefits | 719,781 | 113,634 | 170,432 | 1,003,847 |
| Payroll taxes | 429,630 | 110,751 | 53,435 | 593,816 |
| Pension, life premiums | 206,015 | 30,231 | 23,377 | 259,623 |
| Temporary workers | <u>50,776</u> | <u>166,586</u> | | <u>217,362</u> |
| Total salaries and related expenses | 6,954,104 | 1,059,525 | 932,053 | 8,945,682 |
| Computing | 214,263 | 12,608 | 14,302 | 241,173 |
| Fundraising | | | 44,412 | 44,412 |
| Insurance | 3,447 | 160,818 | | 164,265 |
| Occupancy | 474,214 | 2,221 | 2,751 | 479,186 |
| Other | 117,227 | 53,108 | 13,147 | 183,482 |
| Postage and printing | 10,532 | 4,582 | 24,216 | 39,330 |
| Professional fees | 273,960 | 367,957 | 61,122 | 703,039 |
| Recruitment | 1,238 | 30,473 | | 31,711 |
| Supplies | 250,381 | 4,912 | 4,437 | 259,730 |
| Telephone | 78,098 | 2,955 | 2,430 | 83,483 |
| Training | 33,718 | 2,923 | 1,348 | 37,989 |
| Transportation | <u>271,299</u> | <u>3,596</u> | <u>442</u> | <u>275,337</u> |
| Total expenses before depreciation | 8,682,481 | 1,705,678 | 1,100,660 | 11,488,819 |
| Depreciation | <u>336,639</u> | <u>31,494</u> | <u>25,896</u> | <u>394,029</u> |
| | <u>\$ 9,019,120</u> | <u>\$ 1,737,172</u> | <u>\$ 1,126,556</u> | <u>\$ 11,882,848</u> |

See notes to financial statements.

CHILDHAVEN

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2019

| | Program services | Management and general | Fundraising | Total |
|-------------------------------------|---------------------|---------------------------|---------------------|----------------------|
| Salaries | \$ 4,958,886 | \$ 681,641 | \$ 691,906 | \$ 6,332,433 |
| Benefits | 837,429 | 65,989 | 80,736 | 984,154 |
| Payroll taxes | 450,810 | 112,656 | 59,769 | 623,235 |
| Pension, life premiums | 284,851 | 79,750 | 37,012 | 401,613 |
| Temporary workers | 66,753 | 563 | 3,886 | 71,202 |
| Total salaries and related expenses | 6,598,729 | 940,599 | 873,309 | 8,412,637 |
| Advertising | | 474 | 8,633 | 9,107 |
| Computing | 94,297 | 6,303 | 30,083 | 130,683 |
| Equipment rental/maintenance | 8,239 | 5,155 | 2,183 | 15,577 |
| Occupancy | 616,797 | 23,805 | 644 | 641,246 |
| Other | 69,224 | 12,695 | 29,003 | 110,922 |
| Postage and printing | 1,998 | 1,708 | 21,212 | 24,918 |
| Professional fees | 121,946 | 320,180 | 49,487 | 491,613 |
| Recruitment | 1,323 | 21,122 | 657 | 23,102 |
| Specific assistance to individuals | 1,993 | | | 1,993 |
| Subscriptions | 18,684 | 9,776 | 4,239 | 32,699 |
| Supplies | 346,321 | 3,819 | 3,029 | 353,169 |
| Telephone | 51,320 | 1,981 | 1,684 | 54,985 |
| Training | 14,343 | 2,697 | 3,207 | 20,247 |
| Transportation | 131,129 | 23,047 | 1,428 | 155,604 |
| Total expenses before depreciation | 8,076,343 | 1,373,361 | 1,028,798 | 10,478,502 |
| Depreciation | 396,721 | 28,122 | 27,957 | 452,800 |
| | \$ 8,473,064 | \$ 1,401,483 | \$ 1,056,755 | \$ 10,931,302 |

See notes to financial statements.

CHILDHAVEN

STATEMENTS OF CASH FLOWS

| | Year ended June 30, | |
|---|---------------------|----------------|
| | 2020 | 2019 |
| Cash flows from operating activities: | | |
| Change in net assets | \$ 2,044,799 | \$ (1,668,559) |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Depreciation | 394,029 | 452,800 |
| Inherent contributions received | (2,147,214) | |
| Gains on investments, net | (320,989) | (214,209) |
| Contributions restricted to endowments | (100,018) | (59,155) |
| Contributed stock | (233,362) | (47,752) |
| Gain on disposition of property and equipment | (79,595) | |
| Change in value of charitable lead trust | 3,532 | 2,938 |
| Change in value of beneficial interest in perpetual trust | 1,495 | 1,893 |
| Net changes in operating accounts: | | |
| Receivables | (80,925) | (442,126) |
| Prepaid expenses and other assets | 296,004 | (357,350) |
| Pledges receivable | (1,031,708) | 800,011 |
| Accounts payable | 23,729 | 9,099 |
| Accrued wages and benefits | 45,244 | 76,525 |
| Deferred rent | (1,087) | |
| Defined benefit pension obligation | 812,104 | 669,181 |
| Net cash used in operating activities | (373,962) | (776,704) |
| Cash flows from investing activities: | | |
| Cash received from merger | 822,791 | |
| Purchase of investments | (3,093) | (3,169,352) |
| Proceeds from sales of investments | 1,468,162 | 3,387,480 |
| Proceeds from sales of property and equipment | 184,000 | |
| Purchase of property and equipment | (73,076) | (122,558) |
| Net cash provided by investing activities | 2,398,784 | 95,570 |
| Cash flows from financing activities: | | |
| Collection of pledges and contributions restricted to endowment, net of discount | 100,018 | 59,155 |
| Payments on notes payable | (1,205) | |
| Proceeds from Paycheck Protection Plan loan | 1,271,700 | |
| Net cash provided by financing activities | 1,370,513 | 59,155 |
| Net change in cash | 3,395,335 | (621,979) |
| Cash at beginning of year | 295,619 | 917,598 |
| Cash at end of year | \$ 3,690,954 | \$ 295,619 |
| Noncash operating activities, equipment acquired with short-term liabilities | | \$ 13,216 |
| Noncash investing and financing activities, stock contributed for pledge payments | \$ 28,990 | \$ 32,019 |

See notes to financial statements.

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS

1. Organization:

Childhaven is a nonprofit agency that is dedicated to a vision where all children, all families, and all communities are safe, healthy and flourishing.

Childhaven operates 12 service lines across five program disciplines, ranging from infant and early childhood mental health to early learning, family counseling, in-home visits, therapeutic creative expression, and substance use disorder for ages pre-natal to 24. Childhaven reaches communities through healthcare integration, co-location partnerships and via four owned locations across King County, Washington. Childhaven's healing-centered framework embeds relational health, trauma-informed care, racial equity, and social justice in all the places kids and families.

2. Summary of significant accounting policies:

Basis of accounting:

The accompanying financial statements have been prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America (GAAP).

Net assets:

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

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed stipulations. Childhaven has two categories: undesignated and board designated. Undesignated consists of assets, liabilities, revenues, and expenses available for current programs and administration. Board designated consists of net assets set aside by the Board of Directors (the Board) for specific purposes.

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued):

Net assets (continued):

Net Assets With Donor Restrictions – Net assets subject to donor-imposed stipulations, and grantors. Some donor restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. When a restriction expires or the stipulated purpose has been fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law.

Revenue recognition:

Service fees are recognized as revenue as performance obligations are satisfied, which is typically as the services are rendered. Childhaven recognizes contributions when cash, securities or other assets, an unconditional promise to give, or a notification of a beneficial interest is received. 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.

When a donor makes a contribution to support the acquisition of long-lived assets (e.g., building improvements, furniture, fixtures, and equipment) or a perpetual endowment these contributions are reported as net assets, with donor restrictions. When the previously specified long-lived asset(s) are acquired, Childhaven documents the expiration of the donor-imposed restriction(s) as a reclassification included in the net assets released from restrictions.

All contributions are available for unrestricted use unless specifically restricted by the donor. Amounts that are designated for future periods or restricted by the donor for specific purposes are reported as with donor restrictions. If a restriction is fulfilled in the same reporting period in which the contribution is received, the contribution is reported as unrestricted.

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued):

Revenue recognition:

Unconditional promises to give are recorded at their estimated net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a discount rate applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as revenue and support until such time as the conditions are substantially met.

Cash:

Operations may at times cause balances to exceed federally insured limits.

Service fees and pledges receivables:

Receivables are stated at the amount management expects to collect. Management provides for uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on their assessment of the current status of individual accounts. Receivables are considered delinquent if payments are not received in accordance with the contractual terms. Specific accounts are written off against the allowance after management has used all reasonable means to collect. The allowance for uncollectible accounts was \$73,744 and \$83,255 at June 30, 2020 and 2019, respectively.

Long-term pledges are recognized at fair value (at the time of the donation) and are measured at the present value of estimated cash flows. In arriving at fair value, the promises to give are discounted using an estimated market rate which includes a present value discount rate and an estimated rate for an allowance for doubtful accounts. Amortization of the discount is included in contributions in the statements of activities.

Investments:

Investments are stated at fair value with gains and losses included in the statements of activities. Securities donated to Childhaven are recorded at fair value at date of gift. Net investment income is reported on the statement of activities and consists of interest, dividends, realized, and unrealized gains or losses on investments, less investment management fees.

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued):

Fair value measurements:

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices in active markets for identical assets or liabilities that Childhaven can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, such as: quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs that are unobservable for the asset or liability.

The following is a description of the valuation methodologies used for assets measured at fair value:

U.S Equities – Valued at quoted market prices in active markets, which represent the net asset value of shares held by Childhaven at year-end (Level 1).

Exchange Traded Funds (ETFs) – Valued at the closing price reported in the active market in which the security is traded (Level 1).

Corporate debt securities and U.S government obligations – Valued using executed transactions, market price quotations (where observable), at the money volatility and/or volatility skew obtained from independent external parties such as vendors and brokers adjusted for any basis difference between cash and derivative instruments (Level 2).

There have been no changes in the valuation techniques used during the years ended June 30, 2020 and 2019.

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued):

Fair value measurements (continued):

Childhaven's assets are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain assets, it is reasonably possible that changes in the values of the assets will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Property and equipment:

Property and equipment is stated at cost, except for donated items which are stated at their estimated fair value at the date of the gift. Property and equipment costing more than \$1,500 is capitalized and depreciated using the straight-line method over the estimated useful lives of 5 to 50 years. Repairs and maintenance are charged to expense as incurred.

Income taxes:

Childhaven is a nonprofit corporation as defined in Internal Revenue Code Section 501(c)(3) and, accordingly, is exempt from federal income taxes under the provisions of Section 501(a) of the Internal Revenue Code.

Childhaven evaluates its uncertain tax positions and a loss contingency is recognized when it is more likely than not that a liability has been incurred and the amount can be reasonably estimated.

Use of estimates in preparation of financial statements:

The preparation of 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 amounts reported in the financial statements and related disclosures. Actual results could differ from those estimates.

Deferred rent:

Deferred rent represents amounts paid for ahead of time by the lessee. The Company amortizes the rent amounts on a straight-line basis over the remaining life of the lease.

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued):

Functional expenses:

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The most common method of allocation is based on number of staff by functional type. Salaries, benefits, payroll taxes, pension and life premiums, and temporary workers are allocated on the basis of the percentage of their job function pertaining to each functional type, as determined by management.

Concentrations:

Financial instruments which potentially subject Childhaven to concentrations of credit risk consist of short- and long-term investments and receivables. Childhaven invests a portion of its excess cash and its endowment funds in debt instruments and securities with financial institutions. In order to address safety and liquidity considerations, Childhaven has established guidelines relative to diversification and maturities. At times, balances may be in excess of the applicable insurance limits.

Substantially all service fees revenue and the service fees receivable are from the state of Washington.

Reclassifications:

Certain balances from prior period have been reclassified to conform to current period presentation with no impact to change in net assets.

Subsequent events:

In July 2022, Childhaven completed a sale of their Broadway campus for \$23,000,000. Restrictions preventing the sale of the property were released prior to completion of the sale (see Note 9).

In April 2022, the Board approved a plan to terminate the defined benefit plan sponsored by Childhaven. Final termination is not expected to occur until 2023.

Childhaven has evaluated subsequent events through December 12, 2022, the date which the financial statements were available to be issued.

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Liquidity and availability:

Childhaven monitors the availability of resources required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, Childhaven considers all expenditures related to its ongoing program activities and the conduct of services undertaken to support those activities to be general expenditures.

| | <u>2020</u> | <u>2019</u> |
|---|--------------------------------|-----------------------------|
| Financial assets: | | |
| Cash | \$ 3,690,954 | \$ 295,619 |
| Investments | 5,203,731 | 6,217,213 |
| Receivables, net | <u>2,210,745</u> | <u>1,374,209</u> |
| Total financial assets | 11,105,430 | 7,887,041 |
| Board designated funds | (2,652,057) | (2,570,570) |
| Donor restricted endowment funds | <u>(6,552,378)</u> | <u>(5,255,880)</u> |
| Financial assets available to meet cash needs for general expenditures within one year | <u>\$ 1,900,995</u> | <u>\$ 60,591</u> |

Childhaven's board designated funds have been set aside by Childhaven's governing body and are available to meet the shortfalls of Childhaven's operating budget as needed.

In addition to financial assets available to meet general expenditures over the next 12-months, Childhaven operates with a balanced budget and anticipates having sufficient funding to cover general expenditures.

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. Pledges receivable:

Pledges receivable were as follows:

| | June 30, | |
|---|--------------------|--------------------|
| | 2020 | 2019 |
| In less than one year | \$ 791,686 | \$ 193,796 |
| In one to five years | 601,544 | 188,396 |
| | 1,393,230 | 382,192 |
| Less: | | |
| Allowance for uncollectible accounts | (73,744) | (83,255) |
| Unamortized discount (2% discount factor) | (28,411) | (10,580) |
| | 1,291,075 | 288,357 |
| Current portion | (791,686) | (193,796) |
| | Noncurrent portion | Noncurrent portion |
| | \$ 499,389 | \$ 94,561 |

One donor had an outstanding pledges totaling approximately \$1,000,000 at June 30, 2020. Four donors had outstanding pledges totaling approximately \$299,400 at June 30, 2019.

5. Investments:

| | Year ended June 30, | |
|-----------------------------|-----------------------|-----------------------|
| | 2020 | 2019 |
| Cash equivalents | \$ 1,877,370 | \$ 2,332,604 |
| U.S. equities | 1,847,175 | 1,890,927 |
| International ETFs | 570,642 | 651,949 |
| Corporate debt securities | 3,402,053 | 3,875,656 |
| U.S. government obligations | 338,872 | 166,704 |
| | 8,036,112 | 8,917,840 |
| Current investments | (5,203,731) | (6,217,213) |
| | Long-term investments | Long-term investments |
| | \$ 2,832,381 | \$ 2,700,627 |

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Investments (continued):

Investment income consists of the following:

| | Year ended June 30, | |
|-----------------------------------|---------------------|-------------------|
| | 2020 | 2019 |
| Interest and dividends | \$ 189,824 | \$ 184,121 |
| Net realized and unrealized gains | 122,412 | 250,659 |
| | <u>\$ 312,236</u> | <u>\$ 434,780</u> |

6. Contributions receivable – charitable lead trust:

Childhaven is a beneficiary of a charitable lead trust. The donor contributed \$500,000 and specified that 5% of the fair value at the end of each calendar year be distributed to the beneficiaries for a period of 20 years (with final payment in 2022). Childhaven receives 20% of the amount distributed. The contribution receivable is recorded at the estimated present value of the future cash flows discounted at 8%. The fair value of the assets in the trust was \$420,856 and \$428,264 at June 30, 2020 and 2019, respectively. Childhaven received \$4,505 and \$3,996 from the trust during 2020 and 2019, respectively.

Future payments are expected to be received as follows:

| | |
|--|-----------------|
| In less than one year | \$ 4,209 |
| In one to five years | 4,209 |
| | <u>8,418</u> |
| Less unamortized discount | <u>(913)</u> |
| Contributions receivable - charitable lead trust | <u>\$ 7,505</u> |

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. Beneficial interest in perpetual trust:

In the 1950's, Childhaven received a gift that the donor specified be invested in perpetuity with income to be used to support Childhaven programs. The assets are held by a third party trustee. Net realized and unrealized gains and losses related to the beneficial interest are reported as changes in permanently restricted net assets. Childhaven received \$21,100 and \$31,110 of investment income from the trust for the years ended June 30, 2020 and 2019, respectively.

8. In-kind contributions:

Volunteers provide Childhaven with certain services which do not create or enhance non-financial assets or require specialized skills. Services of these volunteers, which management considers important to the operations of Childhaven, are not recognized as revenue in the accompanying financial statements. Unrecognized contributions of services provided by volunteers, at estimated fair value, totaled approximately \$73,244 and \$118,000 during 2020 and 2019, respectively.

9. Property and equipment:

Donor restrictions prohibit Childhaven from selling, transferring, mortgaging or encumbering the Broadway facility and require that the facility be used for the same purpose in perpetuity unless the donor gives prior written consent, which consent is not to be unreasonably refused. The restrictions also require certain portions of the facility to be named after the grantor in perpetuity. The net book value of the facility was \$8,334,649 at June 30, 2020.

| | June 30, | |
|-------------------------------|----------------------|---------------------|
| | 2020 | 2019 |
| Buildings and improvements | \$ 18,341,976 | \$ 17,013,503 |
| Equipment | 1,904,830 | 1,784,624 |
| Vans | 203,463 | 848,008 |
| | 20,450,269 | 19,646,135 |
| Less accumulated depreciation | (10,468,506) | (10,614,617) |
| Land | 1,214,433 | 703,370 |
| Construction-in-progress | 46,225 | 13,336 |
| | <u>\$ 11,242,421</u> | <u>\$ 9,748,224</u> |

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Property and equipment (continued):

Childhaven received the consent of donors to release restrictions in connection with the plan to sell the Broadway facility.

10. Defined benefit pension plan:

The Employee Benefits Plan of Childhaven (the Plan) provides for benefits to be paid to eligible employees at retirement based primarily upon years of service with Childhaven and compensation rates only through December 31, 2010. Participants' service and compensation after December 31, 2010 do not affect the pension obligation and no new participants are allowed into the Plan.

Childhaven made employer contributions of \$66,618 and \$55,541 during 2020 and 2019, respectively. Benefits and expenses paid by the Plan were approximately \$505,000 and \$230,000 for 2020 and 2019, respectively.

Obligations and funded status:

Net periodic pension costs include the following components:

| | Year ended June 30, | |
|--|---------------------|-------------------|
| | 2020 | 2019 |
| Interest cost | \$ 205,772 | \$ 218,710 |
| Expected return on Plan assets | (202,782) | (204,612) |
| Amortization of loss | 270,646 | 212,063 |
| Net period pension costs included in employee benefits | <u>\$ 273,636</u> | <u>\$ 226,161</u> |

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

10. Defined benefit pension plan (continued):

The following sets forth the funded status of the Plan and the amounts shown in the accompanying statements of financial position:

| | June 30, | |
|------------------------------|-----------------------|-----------------------|
| | 2020 | 2019 |
| Projected benefit obligation | \$ 6,483,842 | \$ 5,971,812 |
| Fair value of assets | 3,104,279 | 3,404,353 |
| Unfunded pension obligation | \$ (3,379,563) | \$ (2,567,459) |

Amounts not yet recognized as components of net periodic benefit cost in the statement of activities for the years ended June 30, 2020 and 2019, consist of net unrecognized actuarial loss of \$3,155,037 and \$2,553,951, respectively.

The accumulated benefit obligation was \$6,479,842 and \$5,971,812 at June 30, 2020 and 2019, respectively.

Assumptions:

| | 2020 | 2019 |
|---|-------|-------|
| Weighted-average assumptions used to determine benefit obligations at June 30: | | |
| Discount rate | 2.63% | 3.46% |
| Weighted-average assumptions used to determine net periodic pension cost for years ended June 30: | | |
| Discount rate | 3.46% | 4.12% |
| Expected return on plan assets | 6.00% | 6.00% |

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

10. Defined benefit pension plan (continued):

Plan assets:

Plan assets reported at fair value at June 30 by category consist of:

| | 2020 | | 2019 | |
|------------------------|----------------------------|--------------------|----------------------------|--------------------|
| Cash equivalents | \$ 234,237 | 7.55% | \$ 228,871 | 6.72% |
| Government bonds | 132,167 | 4.26% | | 0.00% |
| Corporate bonds | 1,667,267 | 53.71% | 2,036,862 | 59.83% |
| Common stock | 587,692 | 18.93% | 553,401 | 16.26% |
| Unit investment trusts | 464,133 | 14.95% | 572,086 | 16.80% |
| Other | 18,783 | 0.60% | 13,133 | 0.39% |
| | <u>\$ 3,104,279</u> | <u>100%</u> | <u>\$ 3,404,353</u> | <u>100%</u> |

The investment objectives of the Plan are to preserve, protect, and grow the assets to meet the obligations of the Plan. Additional requirements include maintaining sufficient liquidity and prudently controlling all costs and expenses associated with the Plan.

The Plan's assets are managed as a balanced portfolio comprised of two major components: an equity portion and a fixed income portion. The expected role of equity investments is to maximize the long-term real growth of the Plan assets, while the role of fixed income investments will be to provide for more stable periodic returns, and protect against a prolonged decline in the market value of the Plan's equity investments. The strategic asset allocation limits are imposed to reflect the risk tolerance of the Finance Committee as determined by the current and anticipated financial strength of Childhaven and the current funding status of the Plan.

Diversification across and within asset classes is the primary means by which it is expected to avoid undue risk of large losses over long time periods. To protect the Plan against unfavorable outcomes, reasonable precautions are taken to avoid excessive investment concentrations.

Cash flows:

Childhaven expects to contribute approximately \$250,000 to the Plan during the 2021 fiscal year. No Plan assets are expected to be returned to Childhaven during 2021.

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

10. Defined benefit pension plan (continued):

The following benefit payments are expected to be paid:

| <u>Year ending June 30,</u> | |
|-----------------------------|-----------|
| 2021 | \$ 77,695 |
| 2022 | 87,766 |
| 2023 | 124,394 |
| 2024 | 180,117 |
| 2025 | 184,271 |
| 2026 through 2030 | 1,121,463 |

The Board approved a Plan to terminate the defined benefit plan in April 2022. The final termination is expected to take place in 2023.

11. Defined contribution pension plans:

Employees of Childhaven may participate in an Internal Revenue Code section 403(b) retirement savings plan, established January 1, 1978. Childhaven contributes a percentage of the employee's salary based on years of service. Contributions made for the years ended June 30, 2020 and 2019, were approximately \$215,000 and \$207,000, respectively.

Childhaven has a 457(b) deferred compensation plan for the benefit of an existing executive employee. The plan allows the employee to defer up to 6% of compensation into the plan for the purchase of an annuity contract of which Childhaven is the beneficiary.

12. Fair value measurements:

Fair value for the split interest agreements are measured using the fair value of the assets held in the trusts as reported by the trustees as of June 30, 2020 and 2019. Childhaven considers the measurement of its beneficial interest in the perpetual trust to be a Level 3 measurement within the fair value hierarchy because even though that measurement is based on the fair values of the trust's assets reported by the trustees, Childhaven will never receive those assets or have the ability to direct the trustees to redeem them. Pension plan assets are stated at fair value as reported by the actuary based on the underlying investments as of June 30, 2020 and 2019.

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

12. Fair value measurements (continued):

The fair value of assets, by level, as of June 30, 2020 is as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|--|---------------------|---------------------|-------------------|----------------------|
| Investments | \$ 4,634,059 | \$ 3,402,053 | | \$ 8,036,112 |
| Pension plan assets | 1,437,012 | 1,667,267 | | 3,104,279 |
| Contribution receivable - charitable lead trust | | 7,505 | | 7,505 |
| Beneficial interest in perpetual trust | | | \$ 607,609 | 607,609 |
| | \$ 6,071,071 | \$ 5,076,825 | \$ 607,609 | \$ 11,755,505 |

The fair value of assets, by level, as of June 30, 2019 is as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|--|---------------------|---------------------|-------------------|----------------------|
| Investments | \$ 5,042,184 | \$ 3,875,656 | | \$ 8,917,840 |
| Pension plan assets | 1,367,491 | 2,036,862 | | 3,404,353 |
| Contribution receivable - charitable lead trust | | 11,037 | | 11,037 |
| Beneficial interest in perpetual trust | | | \$ 609,104 | 609,104 |
| | \$ 6,409,675 | \$ 5,923,555 | \$ 609,104 | \$ 12,942,334 |

The following is a summary of changes in the fair value of the Level 3 investments for the year ended June 30, 2020:

| | |
|--|---|
| | <u>Beneficial interest in perpetual trust</u> |
| Beginning of year | \$ 609,104 |
| Interest and dividends | 21,100 |
| Distributions | (21,100) |
| Change in fair value of split interest agreement | (1,495) |
| End of year | \$ 607,609 |

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

13. Note payable:

Childhaven has a note payable with a bank representing a mortgage on the RAYS property acquired upon completion of the merger. The note had a maturity date of May 1, 2022, and an interest rate of 5.175% as of June 30, 2020. Minimum principal payments are \$32,336 and \$26,946 for the years ended June 30, 2021, and June 30, 2022, respectively, with a final payment of \$325,590 due May 1, 2022.

The outstanding balance on the note payable was paid and the loan was closed on April 29, 2022.

14. Paycheck Protection Program loans:

In April 2020, Childhaven received a loan of \$1,271,700 through the U.S. Small Business Administration (SBA) under the Paycheck Protection Program (PPP). In September 2021, Childhaven received full forgiveness of the original loan principal and accrued interest. No accrued interest was recognized as of June 30, 2020.

Upon completing the merger with RAYS, Childhaven assumed the PPP loan outstanding between RAYS and the SBA. The loan had a balance of \$234,058 as of June 30, 2020. In August 2021, Childhaven received full forgiveness of the original loan principal and accrued interest. No accrued interest was recognized as of June 30, 2020.

15. Net assets without donor restrictions:

Net assets without donor restrictions are available for the following purposes as of June 30:

| | <u>2020</u> | <u>2019</u> |
|---|----------------------------|----------------------------|
| Undesignated | \$11,279,688 | \$10,612,874 |
| Designated by the board for building maintenance | <u>2,652,057</u> | <u>2,570,570</u> |
| Total net assets without donor restrictions | <u>\$13,931,745</u> | <u>\$13,183,444</u> |

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

16. Net assets with donor restrictions:

| | June 30, | |
|--|-------------------------|-------------------------|
| | 2020 | 2019 |
| Subject to expenditure for specified purpose: | | |
| Maintenance and repair of | | |
| Broadway facility | \$ 858,331 | \$ 831,974 |
| Continuum of Care | | 187,507 |
| Lovsted Scholarship | 400,861 | 367,871 |
| Branding | 10,991 | 123,376 |
| Building Improvements | 65,000 | 25,000 |
| Helping Hands Fund | 112,362 | 108,687 |
| Music Therapy Program | 40,000 | 60,000 |
| Team Turtle Scholarship | 68,731 | 66,523 |
| Community Health Navigation | 250,000 | 50,000 |
| Event Sponsorship | | 17,500 |
| Books & Equipment for Children | 5,661 | 13,661 |
| Family Center | 90,946 | |
| | 1,902,883 | 1,852,099 |
| Subject to passage of time: | | |
| Annual Fund multi-year pledges | 1,280,000 | 77,564 |
| Other time restricted | | 25,000 |
| Unappropriated endowment income | 56,966 | 58,678 |
| Charitable lead trust - Note 6 | 7,505 | 11,037 |
| | 1,344,471 | 172,279 |
| Not subject to spending policy or appropriation: | | |
| Second Century Campaign | 2,697,415 | 2,622,397 |
| Beneficial interest in perpetual trust - Note 7 | 607,609 | 609,105 |
| | 3,305,024 | 3,231,502 |
| Total net assets with donor restrictions | \$ 6,552,378 | \$ 5,255,880 |

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

17. Endowments:

Interpretation of relevant law:

The Board has interpreted the Washington State Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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, Childhaven classifies as endowment assets (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

All investment earnings and appreciation not required to be retained in endowment net assets, as described above, will be classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Childhaven in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Childhaven 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 Childhaven and the donor-restricted endowment fund,
- (3) General economic conditions,
- (4) The possible effect of inflation and deflation,
- (5) The expected total return from income and the appreciation of investments,
- (6) Other resources of Childhaven,
- (7) The investment policies of Childhaven.

Return objectives and risk parameters:

Childhaven has adopted investment and spending policies for endowment assets, approved by the Board, that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of these endowment assets over the long term. Childhaven's spending and investment policies work together to achieve this objective.

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

17. Endowments (continued):

Strategies employed for achieving objectives:

The investment policy establishes an achievable return objective through diversification of asset classes. The current long-term objective is to be consistent with benchmarked results for similar charitable organizations, net of investment fees. Actual returns in any given year may vary. To satisfy its long-term rate-of-return objectives, Childhaven 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). Childhaven targets a diversified asset allocation that consists of equity securities, fixed-income securities, and short-term (cash) investments in accordance with asset allocation guidelines to achieve its long-term objectives within prudent risk parameters.

Spending policy and how the investment objectives relate to spending policy:

The spending policy calculates the amount of money annually distributed from Childhaven's various endowment funds for use to support Childhaven's programs. Disbursements from the funds are at the appropriate spending rate for endowments, in general as established by the Board. The current spending policy is to distribute 5% of the value of funds, annually. This is consistent with Childhaven's objective to maintain the historical dollar value of endowment assets.

Funds with deficiencies:

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires Childhaven to retain as a fund of perpetual duration. There were no deficiencies at June 30, 2020 and June 30, 2019.

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

17. Endowments (continued):

Changes in endowment net assets consist of the following:

| | Year ended June 30, 2020 | | |
|--|-------------------------------|----------------------------|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Endowment net assets, beginning of the year | \$ 2,570,570 | \$ 4,665,235 | \$ 7,235,805 |
| Contributions | | 100,018 | 100,018 |
| Investment gain | 81,487 | 163,847 | 245,334 |
| Amounts appropriated for expenditure | | (126,823) | (126,823) |
| Endowment net assets, end of year | \$ 2,652,057 | \$ 4,802,277 | \$ 7,454,334 |

| | Year ended June 30, 2019 | | |
|--|-------------------------------|----------------------------|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Endowment net assets, beginning of the year | \$2,452,132 | \$4,550,878 | \$7,003,010 |
| Contributions | | 59,155 | 59,155 |
| Investment gain | 118,438 | 185,744 | 304,182 |
| Amounts appropriated for expenditure | | (130,542) | (130,542) |
| Endowment net assets, end of year | \$ 2,570,570 | \$ 4,665,235 | \$ 7,235,805 |

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

17. Endowments (continued):

Endowment net assets consist of the following:

| | June 30, 2020 | | |
|---|-------------------------------|----------------------------|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Donor restricted funds | | \$ 3,943,946 | \$ 3,943,946 |
| Board designated - maintenance reserve | \$ 2,055,962 | 858,331 | 2,914,293 |
| Board designated - endowment funds | 596,095 | | 596,095 |
| | \$ 2,652,057 | \$ 4,802,277 | \$ 7,454,334 |
| | June 30, 2019 | | |
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Donor restricted funds | | \$3,833,261 | \$3,833,261 |
| Board designated - maintenance reserve | \$1,992,791 | 831,974 | 2,824,765 |
| Board designated - endowment funds | 577,779 | | 577,779 |
| | \$ 2,570,570 | \$ 4,665,235 | \$ 7,235,805 |

Because the Helping Hands Fund, Lovsted Scholarship and Team Turtle Scholarship endowment documents allow management to expend the corpus of the funds should the need for which the funds were established no longer exist, the funds are classified as with restriction.

Donor restricted contributions received as part of a capital campaign to construct and maintain the Broadway facility were set aside by the Board as part of a board designated endowment for the facility's maintenance and repair.

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

18. Business combinations:

On June 1, 2020, Childhaven completed a merger with two other not-for-profit organizations, Art with Heart (AWH) and Renton Area Youth and Family Services (RAYS). Pursuant to the terms of a merger agreement dated May 28, 2020 with an effective date of June 1, 2020, Childhaven acquired all of the assets and operations of AWH and RAYS, and assumed all outstanding liabilities. The merger provides the organization an opportunity to expand its services and take advantage of existing resources in place for both AWH and RAYS as of the merger date. No cash consideration was paid by Childhaven as part of the merger.

The following summarizes the fair values of assets acquired and liabilities assumed as of the merger date:

| | |
|---------------------------|----------------------------|
| Cash | \$ 822,791 |
| Receivables | 179,123 |
| Inventory | 14,641 |
| Prepaid expenses | 11,861 |
| Property & equipment, net | 1,922,762 |
| Accounts payable | (44,963) |
| Accrued liabilities | (60,042) |
| Deferred rent | (119,625) |
| PPP Loan | (234,058) |
| Mortgage | <u>(345,277)</u> |
| Total net assets acquired | <u>\$ 2,147,214</u> |

Childhaven has recognized the net amount of assets acquired and liabilities assumed of \$2,147,214 as an inherent contribution received within non-operating activities on the statement of activities for the year ended June 30, 2020.

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

19. Future minimum rental income:

Upon completion of the merger during the year with RAYS, Childhaven assumed the role as lessor under a lease with a third-party. The lease term continues through January 31, 2029 and provides an option to renew for five years. Monthly rent under the lease is \$1,088. As part of the terms of the agreement, the lessee completed improvements to the leased building totaling \$151,787 that are considered the property of the owner. The lease allows for the cost of these improvements to be amortized over the life of the lease and offset monthly against rent due. The monthly offset is \$1,087, resulting in no rental payments being made on a net basis for the initial term of the lease. The unamortized portion of the completed improvements is considered deferred rental income and is included in deferred rent.