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Childhaven

Financial Statements

June 30, 2022 and 2021

Childhaven

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Independent Auditors' Report

To the Board of Directors of
Childhaven

Opinion

We have audited the accompanying financial statements of Childhaven (a nonprofit organization), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Childhaven as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Childhaven and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Childhaven's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Childhaven's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Childhaven's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Baker Tilly US, LLP

Seattle, Washington
October 4, 2023

Childhaven

Statements of Financial Position
June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Current Assets		
Cash	\$ 5,066,316	\$ 5,398,046
Investments	26,929,260	5,846,513
Service fees receivable, net	565,191	642,446
Pledges receivable, net	459,167	668,000
Other receivables	31,104	18,033
Prepaid expenses and other assets	470,663	318,244
	<u>33,521,701</u>	<u>12,891,282</u>
Other Assets		
Long-term investments	2,918,962	3,246,023
Beneficial interest in perpetual trust	593,337	765,174
Contributions receivable, charitable lead trust	-	4,531
Noncurrent pledges receivable	443,175	133,611
Property and Equipment, net	3,208,697	10,853,138
	<u>\$ 40,685,872</u>	<u>\$ 27,893,759</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and other liabilities	\$ 411,120	\$ 312,542
Accrued wages and benefits	735,731	643,873
Current portion, PPP loans	-	1,505,758
Current portion, note payable	-	327,471
	<u>1,146,851</u>	<u>2,789,644</u>
Long-Term Liabilities		
Deferred compensation plan	148,370	51,399
Deferred rent	92,438	105,488
Defined benefit pension obligation	1,368,240	2,327,877
	<u>2,755,899</u>	<u>5,274,408</u>
Net Assets		
Without donor restrictions	31,532,207	16,020,511
With donor restrictions	6,397,766	6,598,840
	<u>37,929,973</u>	<u>22,619,351</u>
Total liabilities and net assets	<u>\$ 40,685,872</u>	<u>\$ 27,893,759</u>

See notes to financial statements

Childhaven

Statement of Activities

Year Ended June 30, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating Activities			
Revenue and support:			
Service fees from governmental and healthcare agencies	\$ 5,189,789	\$ -	\$ 5,189,789
Contributions, net	3,548,147	1,272,554	4,820,701
Special events, net of expenses of \$78,275	342,941	-	342,941
Government and other grants	63,383	-	63,383
Investment loss, net	(429,509)	(629,346)	(1,058,855)
Other income, net	249,182	646	249,828
Net assets released from restrictions	844,928	(844,928)	-
	<u>9,808,861</u>	<u>(201,074)</u>	<u>9,607,787</u>
Total operating revenue (loss) and support			
Expenses:			
Program services	7,753,037	-	7,753,037
Management and general	1,362,719	-	1,362,719
Fundraising	1,017,979	-	1,017,979
	<u>10,133,735</u>	<u>-</u>	<u>10,133,735</u>
Total operating expenses			
Change in net assets from operating activities	(324,874)	(201,074)	(525,948)
Nonoperating Activities			
Gain on sale of asset, net	13,610,241	-	13,610,241
Gain on extinguishment of PPP loans	1,505,758	-	1,505,758
Change in pension obligation	720,571	-	720,571
	<u>15,836,570</u>	<u>-</u>	<u>15,836,570</u>
Total nonoperating activities			
Total change in net assets	15,511,696	(201,074)	15,310,622
Net Assets, Beginning	<u>16,020,511</u>	<u>6,598,840</u>	<u>22,619,351</u>
Net Assets, Ending	<u>\$ 31,532,207</u>	<u>\$ 6,397,766</u>	<u>\$ 37,929,973</u>

See notes to financial statements

Childhaven

Statement of Activities

Year Ended June 30, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating Activities			
Revenue and support:			
Service fees from governmental and healthcare agencies	\$ 7,545,283	\$ -	\$ 7,545,283
Contributions, net	3,212,852	550,669	3,763,521
Special events, net of expenses of \$90,255	494,876	-	494,876
Government grants	250,079	-	250,079
Investment income, net	537,600	517,103	1,054,703
Other income, net	179,535	159,400	338,935
Net assets released from restrictions	1,180,710	(1,180,710)	-
	<u>13,400,935</u>	<u>46,462</u>	<u>13,447,397</u>
Total operating revenue and support			
Expenses:			
Program services	8,514,357	-	8,514,357
Management and general	1,966,986	-	1,966,986
Fundraising	1,097,413	-	1,097,413
	<u>11,578,756</u>	<u>-</u>	<u>11,578,756</u>
Total operating expenses			
Change in net assets from operating activities	1,822,179	46,462	1,868,641
Nonoperating Activities			
Change in pension obligation	266,587	-	266,587
	<u>266,587</u>	<u>-</u>	<u>266,587</u>
Total nonoperating activities			
Total change in net assets	2,088,766	46,462	2,135,228
Net Assets, Beginning	<u>13,931,745</u>	<u>6,552,378</u>	<u>20,484,123</u>
Net Assets, Ending	<u>\$ 16,020,511</u>	<u>\$ 6,598,840</u>	<u>\$ 22,619,351</u>

See notes to financial statements

Childhaven

Statement of Functional Expenses
Year Ended June 30, 2022

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 4,860,044	\$ 352,710	\$ 711,311	\$ 5,924,065
Benefits	664,802	21,871	74,684	761,357
Payroll taxes	442,751	40,687	65,859	549,297
Pension, life premiums	180,451	45,795	27,169	253,415
Temporary workers	37,308	251,854	7,084	296,246
	<u>6,185,356</u>	<u>712,917</u>	<u>886,107</u>	<u>7,784,380</u>
Total salaries and related expenses				
Cost of book sales	53,657	-	-	53,657
Computing	195,374	28,519	25,550	249,443
Fundraising	-	-	42,848	42,848
Insurance	-	155,203	-	155,203
Interest	-	15,105	-	15,105
Occupancy	585,121	5,201	3,617	593,939
Other	23,973	229,293	22,607	275,873
Postage and printing	10,102	975	2,547	13,624
Professional fees	199,754	159,393	480	359,627
Recruitment	29,116	5,089	2,713	36,918
Supplies	99,787	5,543	6,172	111,502
Telephone	79,327	5,433	4,643	89,403
Training	51,294	803	849	52,946
Transportation	28,823	3,410	832	33,065
	<u>7,541,684</u>	<u>1,326,884</u>	<u>998,965</u>	<u>9,867,533</u>
Total expenses before depreciation				
Depreciation	211,353	35,835	19,014	266,202
	<u>\$ 7,753,037</u>	<u>\$ 1,362,719</u>	<u>\$ 1,017,979</u>	<u>\$ 10,133,735</u>

See notes to financial statements

Childhaven

Statement of Functional Expenses Year Ended June 30, 2021

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 5,088,027	\$ 828,167	\$ 720,256	\$ 6,636,450
Benefits	695,709	58,321	61,615	815,645
Payroll taxes	570,285	124,421	84,736	779,442
Pension, life premiums	154,953	39,251	19,494	213,698
Temporary workers	3,870	78,664	-	82,534
	<u>6,512,844</u>	<u>1,128,824</u>	<u>886,101</u>	<u>8,527,769</u>
Total salaries and related expenses	6,512,844	1,128,824	886,101	8,527,769
Bad debt expense	-	157,585	-	157,585
Cost of book sales	25,094	-	-	25,094
Computing	318,966	21,624	24,628	365,218
Equipment rental/maintenance	-	-	-	-
Fundraising	-	-	38,042	38,042
Insurance	579	179,256	-	179,835
Interest	-	17,416	-	17,416
Occupancy	428,305	5,409	5,619	439,333
Other	176,135	86,796	80,643	343,574
Postage and printing	19,934	1,832	5,284	27,050
Professional fees	194,070	294,175	875	489,120
Recruitment	60	10,599	-	10,659
Supplies	188,544	7,974	15,064	211,582
Telephone	111,207	4,596	3,552	119,355
Training	67,746	1,591	1,486	70,823
Transportation	19,685	3,335	43	23,063
	<u>8,063,169</u>	<u>1,921,012</u>	<u>1,061,337</u>	<u>11,045,518</u>
Total expenses before depreciation	8,063,169	1,921,012	1,061,337	11,045,518
Depreciation	451,188	45,974	36,076	533,238
	<u>\$ 8,514,357</u>	<u>\$ 1,966,986</u>	<u>\$ 1,097,413</u>	<u>\$ 11,578,756</u>

See notes to financial statements

Childhaven

Statements of Cash Flows

Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash Flows From Operating Activities		
Change in net assets	\$ 15,310,622	\$ 2,135,228
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	266,202	533,238
Gain on extinguishment of debt	(1,505,758)	-
Loss (gain) on investments, net	882,483	(1,066,744)
Contributions restricted to endowments	(16,815)	(220,850)
Contributed stock	(90,482)	(270,989)
Gain on disposition of property and equipment, net	(13,610,241)	-
Change in value of charitable lead trust	5,177	2,974
Change in value of beneficial interest in perpetual trust	171,837	(157,565)
Net changes in operating accounts:		
Receivables	64,184	684,836
Prepaid expenses and other assets	(152,419)	186,318
Pledges receivable	(100,731)	558,208
Accounts payable	98,578	(14,637)
Accrued wages and benefits	188,829	55,208
Deferred rent	(13,050)	(13,050)
Defined benefit pension obligation	(959,637)	(1,051,686)
Net cash provided by operating activities	<u>538,779</u>	<u>1,360,489</u>
Cash Flows From Investing Activities		
Purchase of investments	(28,022,208)	(3,399,280)
Proceeds from sales of investments	6,473,875	3,685,589
Proceeds from sales of property and equipment	21,652,136	5,508
Purchase of property and equipment	(663,656)	(149,463)
Net cash provided by (used in) investing activities	<u>(559,853)</u>	<u>142,354</u>
Cash Flows From Financing Activities		
Collection of pledges and contributions restricted to endowment, net of discount	16,815	220,850
Payments on notes payable	(327,471)	(16,601)
Net cash provided by (used in) financing activities	<u>(310,656)</u>	<u>204,249</u>
Net change in cash	(331,730)	1,707,092
Cash, Beginning	<u>5,398,046</u>	<u>3,690,954</u>
Cash, Ending	<u>\$ 5,066,316</u>	<u>\$ 5,398,046</u>
Noncash Investing and Financing Activities, Stock Contributed for Pledge Payments	<u>\$ -</u>	<u>\$ 5,000</u>

See notes to financial statements

Childhaven

Notes to Financial Statements
June 30, 2022 and 2021

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 months. 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.

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.

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Notes to Financial Statements

June 30, 2022 and 2021

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.

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 \$114,397 and \$174,291 at June 30, 2022 and 2021, 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.

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.

Childhaven

Notes to Financial Statements
June 30, 2022 and 2021

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 are 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) are 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 are 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, 2022 and 2021.

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.

Childhaven

Notes to Financial Statements
June 30, 2022 and 2021

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.

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.

Subsequent Events

Subsequent to year-end, the Board approved a merger between Childhaven and Washington Association for Infant Mental Health (WA-AIMH). Childhaven remains as the existing entity, acquiring all of the assets and operations of WA-AIMH, and assuming all outstanding liabilities. The merger provides Childhaven the opportunity to expand their services and take advantage of existing resources in place for WA-AIMH. The merger was finalized and effective July 1, 2023. No cash consideration was paid by Childhaven as part of the merger.

Childhaven has evaluated subsequent events through October 4, 2023, the date which the financial statements were available to be issued.

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Notes to Financial Statements
June 30, 2022 and 2021

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>2022</u>	<u>2021</u>
Financial assets:		
Cash	\$ 5,066,316	\$ 5,398,046
Investments	26,929,260	5,846,513
Long-term investments	2,918,962	3,246,023
Beneficial interest in perpetual trust	593,337	765,174
Receivables, net	1,055,462	1,328,479
	<u>36,563,337</u>	<u>16,584,235</u>
Board designated funds	(2,650,469)	(2,960,756)
Donor restricted endowment funds	<u>(7,105,532)</u>	<u>(6,598,840)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 26,807,336</u>	<u>\$ 7,024,639</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.

4. Pledges Receivable

Pledges receivable were as follows:

	<u>2022</u>	<u>2021</u>
In less than one year	\$ 459,167	\$ 668,000
In one to five years	463,333	150,000
	922,500	818,000
Less unamortized discount (2% discount factor)	<u>(20,158)</u>	<u>(16,389)</u>
	902,342	801,611
Pledges receivable, net	902,342	801,611
Current portion	<u>(459,167)</u>	<u>(668,000)</u>
Noncurrent portion	<u>\$ 443,175</u>	<u>\$ 133,611</u>

Two donors had outstanding pledges totaling approximately \$270,000 at June 30, 2022. One donor had an outstanding pledge totaling approximately \$700,000 at June 30, 2021 .

Childhaven

Notes to Financial Statements
June 30, 2022 and 2021

5. Investments

	<u>2022</u>	<u>2021</u>
Cash equivalents	\$ 21,810,770	\$ 1,381,149
U.S. equities	5,238,378	2,664,978
International ETFs	527,800	802,768
Corporate debt securities	2,271,274	4,020,891
U.S. government obligations	-	222,750
	<hr/>	<hr/>
Total investments	29,848,222	9,092,536
	<hr/>	<hr/>
Current investments	(26,929,260)	(5,846,513)
	<hr/>	<hr/>
Long-term investments	\$ 2,918,962	\$ 3,246,023
	<hr/>	<hr/>

Investment income (loss) consists of the following:

	<u>2022</u>	<u>2021</u>
Interest and dividends	\$ 179,427	\$ 144,187
Net realized and unrealized gains (losses)	(1,238,282)	910,516
	<hr/>	<hr/>
Total	\$ (1,058,855)	\$ 1,054,703
	<hr/>	<hr/>

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. Childhaven receives 20% of the amount distributed. The beneficiary period expired during 2022, with Childhaven receiving their final payment. Childhaven received \$5,177 and \$4,771 from the trust during 2022 and 2021, respectively.

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 net assets with donor restrictions. Childhaven received \$26,485 and \$21,100 of investment income from the trust for the years ended June 30, 2022 and June 30, 2021, respectively.

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Notes to Financial Statements
June 30, 2022 and 2021

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 \$42,900 and \$5,200 during 2022 and 2021, 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. During fiscal year 2021, Childhaven received the consent of donors to release restrictions in connection with the plan to sell the Broadway facility. Sale of the building was completed in June 2022 for \$23,000,000. The Company recognized a gain on sale of the building of \$13,640,492, which is included in gain on sale of asset in the accompanying statements of activities for the year ended June 30, 2022.

Property and equipment on the accompanying statements of financial position consisted of the following at June 30:

	<u>2022</u>	<u>2021</u>
Buildings and improvements	\$ 7,300,944	\$ 18,413,626
Equipment	543,698	1,940,049
Vans	203,454	203,454
	<u>8,048,096</u>	<u>20,557,129</u>
Less accumulated depreciation	(5,847,010)	(11,001,743)
Land	1,000,110	1,214,433
Construction-in-progress	7,501	83,319
	<u>(4,839,399)</u>	<u>(9,703,991)</u>
Total	<u>\$ 3,208,697</u>	<u>\$ 10,853,138</u>

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 \$160,023 and \$707,083 during 2022 and 2021, respectively. Benefits and expenses paid by the Plan were approximately \$29,620 and \$688,000 during 2022 and 2021, respectively.

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Notes to Financial Statements
June 30, 2022 and 2021

Obligations and Funded Status

Net periodic pension costs include the following components:

	<u>2022</u>	<u>2021</u>
Interest cost	\$ 160,023	\$ 169,398
Expected return on Plan assets	(208,203)	(183,926)
Settlement	99,636	-
Amortization of loss	232,019	324,328
	<u>232,019</u>	<u>324,328</u>
Net periodic pension costs included in employee benefits	<u>\$ 283,475</u>	<u>\$ 309,800</u>

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

	<u>2022</u>	<u>2021</u>
Projected benefits obligation	\$ (4,430,141)	\$ (5,835,207)
Fair value of assets	3,061,901	3,507,330
	<u>3,061,901</u>	<u>3,507,330</u>
Unfunded pension obligation	<u>\$ (1,368,240)</u>	<u>\$ (2,327,877)</u>

Amounts not yet recognized as components of net periodic benefit cost in the statement of activities for the years ended June 30, 2022 and 2021, consist of net unrecognized actuarial loss of \$1,427,986 and \$2,504,634, respectively.

The accumulated benefit obligation was \$4,430,141 and \$5,835,207 at June 30, 2022 and 2021, respectively.

Assumptions

	<u>2022</u>	<u>2021</u>
Weighted-average assumptions used to determine obligations at at June 30:		
Discount rate	4.45 %	2.76 %
Weighted-average assumptions used to determine net periodic pension cost for years ended June 30:		
Discount rate	2.76 %	2.63 %
Expected return on plan assets	6.00 %	6.00 %

Childhaven

Notes to Financial Statements
June 30, 2022 and 2021

Plan Assets

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

	2022		2021	
	Amount	Percent	Amount	Percent
Cash equivalents	\$ 805,874	26.32 %	\$ 650,329	18.54 %
Government bonds	116,459	3.80	127,494	3.64
Corporate bonds	1,228,512	40.12	1,610,881	45.93
Common stock	478,202	15.62	563,342	16.06
Unit investments trusts	417,666	13.64	538,737	15.36
Other	15,188	.50	16,547	.47
Total	<u>\$ 3,061,901</u>	<u>100.00 %</u>	<u>\$ 3,507,330</u>	<u>100.00 %</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 \$55,000 to the Plan during the 2023 fiscal year. No Plan assets are expected to be returned to Childhaven during 2023.

In April 2022, the Board approved a Plan to terminate the defined benefit plan. 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 2022 and 2021, were approximately \$136,836 and \$190,500, 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.

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Notes to Financial Statements
June 30, 2022 and 2021

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, 2022 and 2021. 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, 2022 and 2021.

The fair value of assets, by level, as of June 30, 2022 is as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments	\$ 27,576,948	\$ 2,271,274	\$ -	\$ 29,848,222
Pension plan assets	1,716,930	1,344,971	-	3,061,901
Beneficial interest in perpetual trust	-	-	593,337	593,337
Total	<u>\$ 29,293,878</u>	<u>\$ 3,616,245</u>	<u>\$ 593,337</u>	<u>\$ 33,503,460</u>

The fair value of assets, by level, as of June 30, 2021 is as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments	\$ 4,848,895	\$ 4,243,641	\$ -	\$ 9,092,536
Pension plan assets	1,768,955	1,738,375	-	3,507,330
Contribution receivable, charitable lead trust	-	4,531	-	4,531
Beneficial interest in perpetual trust	-	-	765,174	765,174
Total	<u>\$ 6,617,850</u>	<u>\$ 5,986,547</u>	<u>\$ 765,174</u>	<u>\$ 13,369,571</u>

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Notes to Financial Statements
June 30, 2022 and 2021

The following is a summary of changes in the fair value of the Level 3 investments for the year ended June 30, 2022:

	Beneficial Interest in Perpetual Trust
Beginning of year	\$ 765,174
Interest and dividends	18,497
Distributions	(58,460)
Change in fair value of spilt interest agreement	(131,874)
End of year	<u>\$ 593,337</u>

13. Note Payable

Childhaven has a note payable with a bank representing a mortgage on a property. The note had a maturity date of May 1, 2022, and an interest rate of 5.175% as of June 30, 2021. The outstanding balance and all accrued interest on the note payable was paid in full 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. No accrued interest was recognized during the loan term.

Upon completing the merger with RAYS, Childhaven assumed the PPP loan outstanding between RAYS and the SBA. The loan had an original balance of \$234,058 as of June 30, 2020. In August 2021, Childhaven received full forgiveness of the original loan. No accrued interest was recognized during the loan term. The full amount of forgiveness for the two loans, totaling \$1,505,758, has been recognized as gain on extinguishment of debt in the accompanying statements of activities.

15. Net Assets Without Donor Restrictions

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

	2022	2021
Undesignated	\$ 28,881,738	\$ 13,059,755
Designated by the board building maintenance	2,650,469	2,960,756
Total net assts without donor restrictions	<u>\$ 31,532,207</u>	<u>\$ 16,020,511</u>

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Notes to Financial Statements
June 30, 2022 and 2021

16. Net Assets With Donor Restrictions

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specified purpose:		
Maintenance and repair of Broadway facility	\$ 862,145	\$ 958,236
Lovsted scholarship	459,828	496,797
Building improvements	1,509	50,520
Helping Hand fund	112,894	126,295
Music therapy program	-	20,000
Team Turtle scholarship	74,050	77,100
Healthcare integration	219,145	179,884
Art With Hearth	100,000	-
Early supports for infants and toddlers	5,661	5,661
RAYS UP	25,000	-
Various programs	193,615	-
Wraparound intensive services	25,000	-
DCYF Childcare Stab grant	181,500	-
Family Center	27,705	27,705
	<u>2,288,052</u>	<u>1,942,198</u>
Subject to passage of time:		
Annual fund multi-year pledges	842,166	750,000
Unappropriated endowment income	(197,194)	277,309
Charitable lead trust, Note 6	-	4,531
	<u>644,972</u>	<u>1,031,840</u>
Not subject to spending policy or appropriation:		
Second Century campaign	2,871,405	2,859,552
Beneficial interest in perpetual trust, Note 7	593,337	765,174
	<u>3,464,742</u>	<u>3,624,802</u>
Total	<u>\$ 6,397,766</u>	<u>\$ 6,598,840</u>

Childhaven intends to seek reallocation or release of funds previously restricted for purposes of maintenance and repair of the Broadway facility, which was sold during the year.

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:

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

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.

Childhaven

Notes to Financial Statements
June 30, 2022 and 2021

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, 2022 and June 30, 2021

Changes in endowment net assets consist of the following:

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowments net assets, beginning of the year	\$ 2,960,756	\$ 5,566,646	\$ 8,527,402
Contributions	-	16,815	16,815
Investment loss	(310,287)	(625,495)	(935,782)
Endowment net assets, end of year	<u>\$ 2,650,469</u>	<u>\$ 4,957,966</u>	<u>\$ 7,608,435</u>

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowments net assets, beginning of the year	\$ 2,652,057	\$ 4,802,277	\$ 7,454,334
Contributions	-	220,850	220,850
Investment gain	308,699	674,706	983,405
Amounts appropriated for expenditure	-	(131,187)	(131,187)
Endowment net assets, end of year	<u>\$ 2,960,756</u>	<u>\$ 5,566,646</u>	<u>\$ 8,527,402</u>

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Notes to Financial Statements
June 30, 2022 and 2021

Endowment net assets consist of the following:

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor restricted funds	\$ -	\$ 4,095,822	\$ 4,095,822
Board designated, maintenance reserve	2,054,731	862,144	2,916,875
Board designated, endowment funds	595,738	-	595,738
Total	<u>\$ 2,650,469</u>	<u>\$ 4,957,966</u>	<u>\$ 7,608,435</u>

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor restricted funds	\$ -	4,608,410	\$ 4,608,410
Board designated, maintenance reserve	2,295,276	958,236	3,253,512
Board designated, endowment funds	665,480	-	665,480
Total	<u>\$ 2,960,756</u>	<u>\$ 5,566,646</u>	<u>\$ 8,527,402</u>

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. In conjunction with the sale of the Broadway facility, the board intends to reallocate the reserve. In September 2023, the Board approved grouping of funds for maintenance of remaining properties.

18. Future Minimum Rental Income

Childhaven leases office space to a third-party under a noncancellable lease. 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 \$1,088, 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.