

KINDERING CENTER
CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS REPORT
DECEMBER 31, 2023

KINDERING CENTER

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Kinderling Center

Opinion

We have audited the accompanying consolidated financial statements of Kinderling Center (a nonprofit organization) and affiliates (the Organization), which comprise the consolidated statement of financial position as of December 31, 2023, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Kinderling Center and affiliates as of December 31, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization 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 consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 consolidated financial statements.

INDEPENDENT AUDITORS' REPORT, CONTINUED

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 consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization'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.

Finney, Hill & Company, P.S.

June 3, 2024
Seattle, Washington

KINDERING CENTER
Consolidated Statement of Financial Position
December 31, 2023

ASSETS

Current Assets	
Cash and cash equivalents	\$ 2,386,727
Investments - short-term	4,427,019
Accounts and insurance receivable, net	225,571
Grants receivable	1,553,597
Pledged contributions receivable - current portion, net	285,840
Contribution receivable for rent - current	59,700
Prepaid expenses and other assets	<u>143,029</u>
Total current assets	9,081,483
Investments - long-term	15,541,337
Unemployment compensation trust	338,623
Pledged contributions receivable, net of current portion	198,888
Contribution receivable for rent, net of current	728,169
Operating lease right-of-use assets	5,024,018
Property and equipment, net	<u>2,256,109</u>
Total assets	<u>\$ 33,168,627</u>

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts payable	\$ 154,619
Accrued payroll-related costs and other expenses	1,398,210
Operating lease liabilities, current	486,753
Deferred revenue	<u>48,703</u>
Total current liabilities	2,088,285
Operating lease liability, net of current	<u>5,120,502</u>
Total liabilities	<u>7,208,787</u>
Net Assets	
Without donor restrictions:	
Board-designated operating reserves	300,000
Undesignated	<u>19,579,086</u>
Total net assets without donor restrictions	19,879,086
With donor restrictions	<u>6,080,754</u>
Total net assets	<u>25,959,840</u>
Total liabilities and net assets	<u>\$ 33,168,627</u>

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

KINDERING CENTER
Consolidated Statement of Activities
Year Ended December 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support			
Government fees and grants	\$ 15,185,983	-	15,185,983
Contributions	588,566	1,308,913	1,897,479
Program service fees	3,860,933	-	3,860,933
Special events	994,656	-	994,656
Less: direct donor benefits	(151,438)	-	(151,438)
United Way grants	86,419	-	86,419
In-kind contributions	48,021	-	48,021
Interest income on short-term investments	409,498	-	409,498
Other income (expense)	5,842	-	5,842
	<u>21,028,480</u>	<u>1,308,913</u>	<u>22,337,393</u>
Net assets released from restriction	<u>1,414,834</u>	<u>(1,414,834)</u>	<u>-</u>
Total revenue and support	<u>22,443,314</u>	<u>(105,921)</u>	<u>22,337,393</u>
Expenses			
Program services	21,460,690	-	21,460,690
Management and general	2,689,327	-	2,689,327
Fundraising	1,043,774	-	1,043,774
Total expenses	<u>25,193,791</u>	<u>-</u>	<u>25,193,791</u>
Change in net assets, before investment income (loss)	(2,750,477)	(105,921)	(2,856,398)
Investment income (loss)	<u>1,805,227</u>	<u>308,202</u>	<u>2,113,429</u>
Change in net assets	(945,250)	202,281	(742,969)
Net assets, beginning of year	<u>20,824,336</u>	<u>5,878,473</u>	<u>26,702,809</u>
Net assets, end of year	<u>\$ 19,879,086</u>	<u>6,080,754</u>	<u>25,959,840</u>

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

KINDERING CENTER
Consolidated Statement of Functional Expenses
Year Ended December 31, 2023

	Program Services							Total Program Services	Management and General	Fundraising	Total
	Early Intervention	Foster Care (CHERISH)	Families in Transition	Child Care & Preschool Consultation	Parent Education & Child+ Program	Family Support	Kids Clinic				
Salaries	\$ 11,765,174	928,246	362,119	450,353	242,178	160,277	1,264,934	15,173,281	1,688,238	744,805	17,606,324
Benefits	1,665,374	113,174	26,933	52,952	27,379	23,001	191,960	2,100,773	180,284	109,143	2,390,200
Payroll taxes	1,005,747	78,186	30,404	38,113	20,912	13,609	109,197	1,296,168	91,225	66,415	1,453,808
Occupancy	802,504	70,116	24,700	30,719	16,519	10,933	86,281	1,041,772	115,155	50,803	1,207,730
Supplies	490,801	39,355	13,998	17,757	17,699	9,432	61,833	650,875	66,321	28,822	746,018
Professional services	340,742	27,536	9,377	13,231	6,671	4,151	32,907	434,615	502,104	161,827	1,098,546
Printing and advertising	37,125	2,021	579	594	319	211	2,741	43,590	2,227	5,099	50,916
Telephone and internet	128,699	10,154	3,961	4,926	2,649	1,753	13,837	165,979	18,468	8,147	192,594
Employee mileage and travel	108,077	10,029	967	412	1,603	7,726	205	129,019	1,232	376	130,627
Liability insurance	67,626	5,336	2,081	2,589	1,392	921	7,271	87,216	9,704	4,281	101,201
Continuing education	24,281	766	22	27	303	10	2,562	27,971	102	304	28,377
Postage	8,193	646	252	314	169	112	881	10,567	1,176	519	12,262
Equipment rental and maintenance	25,065	1,978	771	959	516	341	2,695	32,325	3,597	1,587	37,509
Meetings and conferences	2,866	226	88	110	59	39	308	3,696	411	181	4,288
Dues and other	1,149	91	36	44	23	15	124	1,482	164	74	1,720
Bad debt expense (recovery)	-	-	-	-	-	-	-	-	(20,160)	-	(20,160)
Depreciation and amortization	202,655	15,989	6,238	7,757	4,172	2,761	21,789	261,361	29,079	12,829	303,269
Total expenses	16,676,078	1,303,849	482,526	620,857	342,563	235,292	1,799,525	21,460,690	2,689,327	1,195,212	25,345,229
Less: Direct donor benefits at events	-	-	-	-	-	-	-	-	-	(151,438)	(151,438)
Total expenses on the statement of activities	<u>\$ 16,676,078</u>	<u>1,303,849</u>	<u>482,526</u>	<u>620,857</u>	<u>342,563</u>	<u>235,292</u>	<u>1,799,525</u>	<u>21,460,690</u>	<u>2,689,327</u>	<u>1,043,774</u>	<u>25,193,791</u>

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

KINDERING CENTER
Consolidated Statement of Cash Flows
Year Ended December 31, 2023

Cash flows from operating activities:	
Change in net assets	\$ (742,969)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Depreciation and amortization	303,269
Realized and unrealized losses (gains) on investments	(1,792,027)
Contributed facilities	11,679
Changes in allowance and discounts on receivables	(28,927)
Non-cash operating lease expense	21,521
Decrease (increase) in:	
Receivables	663,394
Prepaid expenses and other assets	(27,759)
Unemployment compensation trust	(9,126)
(Decrease) increase in:	
Accounts payable	(47,774)
Accrued payroll-related costs and other expenses	79,718
Unearned revenue	48,703
	<u>(777,329)</u>
Net cash provided (used) in operating activities	<u>(1,520,298)</u>
Cash flows from investing activities:	
Purchases of long-term investments	(1,404,775)
Proceeds from sale of long-term investments	33,373
Sales (purchases) of short-term investments, net	1,660,805
Purchases of property and equipment	<u>(273,505)</u>
Net cash provided (used) in investing activities	<u>15,898</u>
Net increase (decrease) in cash and cash equivalents	(1,504,400)
Cash and cash equivalents at beginning of year	<u>3,891,127</u>
Cash and cash equivalents at end of year	<u>\$ 2,386,727</u>

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

KINDERING CENTER
Notes to Consolidated Financial Statements
Year Ended December 31, 2023

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Kinderling Center and its wholly owned subsidiary, Lions Roar Property Holdings, LLC (collectively, Kinderling Center or the Organization), founded in 1962, is a not-for-profit neurodevelopmental center helping infants and children with diverse abilities from campuses in Bellevue, Bothell, Redmond, and Renton, Washington. Kinderling Center provides direct Early Support services in East King and South Snohomish Counties, with other programs serving broader geographies. CHERISH™, the Washington State Fathers Network, and the Sibling Support Project collectively provide training and support to other organizations across Washington State, parts of the US, and several countries throughout the world.

Kinderling Center's mission is to embrace children of diverse abilities and their families by providing the finest education and therapies to nurture hope, courage, and the skills to soar. Kinderling Center's equity vision is to eradicate barriers and create a sense of belonging for all families they serve and their staff. To that end, Kinderling Center supports all families regardless of their financial means and strives for children to experience optimal outcomes regardless of their abilities, race, ethnicity, language, or other demographic factors.

Kinderling Center supports the physical, mental health, social and educational needs of children (birth to age 11) through a broad range of programs and services including comprehensive developmental evaluations; specialized early learning; physical, occupational, speech, feeding and infant/early childhood mental health therapy; connection to resources; and training/coaching/support groups for parents/caregivers, siblings, teachers, childcare staff, and others working with children.

Kinderling Center was founded on equity of ability and neurodivergence. Especially for children with disabilities or neurodivergence and their families, racism and other forms of systemic oppression compound inequities that undermine social drivers of health. To address systemic barriers to accessing services for low-income families and children of color, we provide uncompensated care; deliver programs in Spanish; conduct outreach work with underserved communities; and develop programs specifically for children who need help mitigating lived experiences like abuse, neglect, homelessness, and poverty that may interfere with health, opportunities, and general stability throughout their lifetimes.

The Organization incorporates trauma-informed, healing-centered practices into all its work, and it is a designated CARE site for applying practices of Compassion, Appreciation, Resilience and Empowerment throughout the agency.

Principles of consolidation

The consolidated financial statements include the accounts of Kinderling Center and its wholly owned subsidiary, Lions Roar Property Holdings, LLC. There were no transactions during 2023 in Lions Roar Property Holdings, LLC. All inter-entity transactions and accounts have been eliminated. The life of Lions Roar Property Holdings, LLC is perpetual unless earlier terminated by written consent of Kinderling Center. The liability associated with a limited liability company (LLC) is generally limited to the amounts invested in it.

KINDERING CENTER
Notes to Consolidated Financial Statements, continued
Year Ended December 31, 2023

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of presentation

The accompanying consolidated financial statements have been prepared in conformity with the disclosure and display requirements of the Presentation of Financial Statements for Not-for-Profit Entities Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification. This Topic establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into two net asset classes according to donor-imposed restrictions: net assets without donor restrictions and net assets with donor restrictions.

The net assets of Kindering Center are classified as follows:

- Net assets without donor restrictions are available without restriction for support of Kindering Center's operations.
- Net assets with donor restrictions are restricted by donors to be used for certain purposes or in future periods. Other donor restrictions may be perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity.

Basis of accounting

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of estimates

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

Cash and cash equivalents

Cash and cash equivalents consist of general checking, savings, and money market accounts. For purposes of the statement of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash and cash equivalents. Kindering Center maintains its cash and cash equivalents in bank accounts that may exceed federally insured limits at times during the year. Kindering Center has not experienced any losses in these accounts, and management does not believe it is exposed to any significant credit risk on cash and cash equivalents.

Investments

Kindering Center records its investments in equity mutual funds, fixed-income mutual funds, and U.S. Treasury notes at their fair values in the consolidated statements of financial position. Short-term investments consist of U.S. Treasury notes with a maturity date of less than one year, which are intended to be used in operations by management. Kindering Center classifies all other investments as long-term assets because it does not intend to use those investments in the next fiscal year and because a portion is associated with the endowment corpus, to be held in perpetuity. The fair value of the investments was determined using Level 1 observable market inputs within the fair value hierarchy consisting of quoted prices in active markets (such as national exchanges) for identical assets. Net unrealized investment gains (losses) related to investments are recorded in the total change in net assets. Interest and dividends earned are reported in investment income.

These notes are an integral part of the consolidated financial statements.

KINDERING CENTER
Notes to Consolidated Financial Statements, continued
Year Ended December 31, 2023

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

Accounts and insurance receivable

Receivables consist of program service fees earned but not received and insurance receivables that are due from insurance providers for therapeutic services. Receivables are stated at the amount management expects to collect from outstanding balances. Management reviews receivables regularly for collectability. Accounts that are deemed uncollectible are written off against an allowance. The allowance is based on historical collection rates, current conditions at insurance companies, and reasonable and supportable forecasts including management's knowledge of industry collection trends. As of December 31, 2023, accounts and insurance receivables were recorded net of a collection allowance of \$151,688.

Grants receivable

Grants receivable consist of grants and contracts administered by various local governments and school districts awarded or earned but not yet received. At December 31, 2023, 70% of total grants receivable were due from King County.

Promises to give

Unconditional promises to give are stated at net realizable value when received. Unconditional promises to give are recognized as support in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits 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 met. Kindering Center uses the allowance method to determine uncollectible unconditional promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made. Pledges receivable are recorded net of allowance for doubtful pledges of \$55,552 as of December 31, 2023. Long-term pledges receivable include promises to give in time periods more than one year after December 31, 2023, and are stated at present value. Long-term pledges receivable are presented net of a present value discount of \$15,241 as of December 31, 2023, calculated using the Organization's estimated incremental borrowing rate of 4.5%.

Property and equipment

Property and equipment are stated at cost, if purchased, or at market value at the date of receipt, if donated. Kindering Center's policy is to capitalize assets with a cost of donated value greater than \$3,000 and a useful life in excess of one year. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, which ranges from 3 to 30 years. Depreciation expense was \$303,269 for the year ended December 31, 2023. Property and equipment consisted of the following at December 31, 2023:

Building and improvements	\$ 6,495,872
Office equipment	177,245
Furniture and fixtures	214,910
Program equipment	<u>65,555</u>
	6,953,582
Less accumulated depreciation	<u>(4,697,473)</u>
	<u>\$ 2,256,109</u>

These notes are an integral part of the consolidated financial statements.

KINDERING CENTER
Notes to Consolidated Financial Statements, continued
Year Ended December 31, 2023

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

Impairment of Long-Lived Assets

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the future net undiscounted cash flow expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived assets are considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount exceeds the fair value as determined from an appraisal, discounted cash flow analysis, or other valuation techniques. There were no impairment losses recognized for the year ended December 31, 2023.

Revenue and revenue recognition

Kinderling Center recognizes revenue in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 606 (Topic 606). The core principle of Topic 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The following five steps are applied to achieve that core principle.

Step 1 – Identify the contract with the customer.

Step 2 – Identify the performance obligations in the contract.

Step 3 – Determine the transaction price.

Step 4 – Allocate the transaction price to the performance obligations.

Step 5 – Recognize revenue when, or as, the entity satisfies a performance obligation.

Kinderling Center only applies the five-step model to contracts with customers when it is probable that Kinderling Center will collect the consideration it is entitled to in exchange for the goods and services transferred to the customer.

Program service fees

Program service fee revenue represents revenue earned under contracts in which Kinderling Center bills and collects for physical, occupational, speech, and feeding therapies; preschool; sibling support; childcare resources; and other support services rendered to clients. These services are distinct, as the patient can benefit from the individual services on their own, and they do not need to be bundled with any other goods or services. As the client accepts and receives the benefit of the services when they are performed, the performance obligation is satisfied at a point in time when the services are provided, and no contract assets or liabilities are recognized.

Program service fee revenue is recorded net of an allowance for contractual adjustments using the output method, which represents the net revenue expected to be collected from third-party payors (including commercial and governmental payors such as Medicare and Medicaid) and clients. These expected collections are based on fees and negotiated payment rates in the case of third-party payors, the specific benefits provided for under an individual client's health care plan, mandated payment rates in the case of Medicare and Medicaid programs, and historical cash collections (net of recoveries).

These notes are an integral part of the consolidated financial statements.

KINDERING CENTER
Notes to Consolidated Financial Statements, continued
Year Ended December 31, 2023

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

Program service fee revenue is recorded net of an allowance for contractual adjustments using the output method, which represents the net revenue expected to be collected from third-party payors (including commercial and governmental payors such as Medicare and Medicaid) and clients. These expected collections are based on fees and negotiated payment rates in the case of third-party payors, the specific benefits provided for under an individual client's health care plan, mandated payment rates in the case of Medicare and Medicaid programs, and historical cash collections (net of recoveries).

The transaction price from program service fee arrangements is variable in nature because fees are based on client encounters and reimbursement of provider costs, all of which can vary from period to period. Kindering Center generally estimates the transaction price using the most likely methodology and amounts are only included in the net transaction price to the extent that it is probable that a significant reversal of cumulative revenue will not occur once any uncertainty is resolved. As a practical expedient, Kindering Center adopted a portfolio approach based on types of services provided and payor type to determine the transaction price for the services provided under program service fee arrangements.

Kindering Center periodically assesses the net transaction price by analyzing actual results, including cash collections, against estimates. Significant changes in payor mix, contractual arrangements with payors, general economic conditions, and health care coverage provided by federal or state governments or private insurers may have a significant impact on estimates and significantly affect the results of activities and cash flows.

Accounts and program service fee receivables were as follows as of the beginning and end of 2023:

	<u>January 1, 2023</u>	<u>December 31, 2023</u>
Program fees receivable	\$ 342,150	350,417
Other current receivables	<u>390,549</u>	<u>26,842</u>
Gross accounts and insurance receivable	732,699	377,259
Less: Allowance for uncollected program fees	<u>(152,076)</u>	<u>(151,688)</u>
Accounts and insurance receivable, net	<u>\$ 580,623</u>	<u>225,571</u>

Contributions and grants

The Organization recognizes grants and contributions when cash, securities, or other assets, an unconditional promise to give, or a notification of 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 met. A portion of the Organization's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/ or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Conditional contributions whose conditions are met in the same reporting period as the period in which the contribution was received are recorded as unconditional contributions.

These notes are an integral part of the consolidated financial statements.

KINDERING CENTER
Notes to Consolidated Financial Statements, continued
Year Ended December 31, 2023

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

Consequently, at December 31, 2023, certain contributions have not been recognized in the accompanying consolidated statement of activities because the conditions on which they depend have not yet been met. The outstanding balance of conditional grant revenue not recognized as of December 31, 2023 was \$1,464,390, of which \$1,411,890 requires that conditions be met related to providing certain reimbursable Medicaid administrative services, and \$52,500 requires that conditions be met related to raising matching funds to support new program staff positions.

Fundraising event revenues

Revenue and sponsorships related to fundraising events are recorded as special events revenue. Special events revenue is recognized when the event occurs. Any affiliated performance obligations granted to attendees are fulfilled at a point in time, and thus direct expenses are presented to reduce the transaction price associated with special events.

Donated use of facilities

Contributions of facility use have been recorded in the accompanying consolidated financial statements based on the fair value at the time of contribution. During the year ended December 31, 2023, in-kind support consisted of donated facilities of \$48,021. The facility contribution is discussed further in Note 5.

Compensated absences

The Organization accrues for the costs of compensated absences to the extent that the employee's right to receive payment relates to services already rendered, the obligation vests or accumulates, payment is probable, and the amount can be reasonably estimated. As of December 31, 2023, a liability for compensated absences of \$1,002,120 was included in accrued payroll-related costs and other expenses in the consolidated statement of financial position.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities and of functional expenses. The direct allocation method has been used whenever possible. Direct costs are allocated directly to the activities on which they are expended. Certain costs, including office supplies, occupancy, insurance, and depreciation expenses, are allocated among the programs and supporting services benefited based upon the allocation of salaries expense. Wages, benefits, and payroll taxes are allocated to the function where work is being performed based on a study of time and effort expended.

Leases

Kinderling Center determines if an arrangement is a lease at inception. Assets and obligations related to operating leases are included in operating lease right-of-use (ROU) assets; operating lease liabilities, current portion; and operating lease liabilities, net of current portion in the consolidated statements of financial positions.

ROU assets represent Kinderling Center's right to use an underlying asset for the lease term and lease liabilities represent Kinderling Center's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of the lease payments over the lease term.

These notes are an integral part of the consolidated financial statements.

KINDERING CENTER
Notes to Consolidated Financial Statements, continued
Year Ended December 31, 2023

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

As Kindering Center's leases do not provide an implicit rate, the discount rate utilized is management's estimated incremental borrowing rate based on the information available at commencement date is used in determining the present value of the lease payments. Certain lease terms may include options to extend or terminate the lease, and these are included when it is reasonably certain that Kindering Center will exercise those options.

Kindering Center's agreements with lease and non-lease components are all accounted for as a single lease component. For leases with an initial term of 12 months or less, Kindering Center elected the exemption from recording ROU assets and lease liabilities for all leases that qualify, and records rent expense on a straight-line basis over the lease term.

Certain leases may include variable payments, which may vary based upon changes in facts or circumstances after the start of the lease. Kindering Center excludes variable payments from lease ROU assets and lease liabilities, to the extent not considered fixed, and instead expenses as incurred.

Employee Retention Credit

Under the provisions of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") and the American Rescue Plan Act enacted by Congress, an Employee Retention Credit (ERC) was established, which is a refundable tax credit against the employer's share of social security taxes. The ERC is equal to 50% of qualified wages paid to employees during a quarter, for a maximum credit per employee of \$10,000 for each calendar quarter between March 12, 2020 and December 31, 2020, and is equal to 70% of qualified wages paid to employees during calendar year 2021 for a maximum credit per employee of \$7,000 for each calendar quarter through September 30, 2021.

During the year ended December 31, 2023, the Organization claimed ERCs of \$2,916,063 and identified the entire amount as a conditional contribution in accordance with FASB Accounting Standards Codification Topic No. 958-605. The Organization determined that one of the conditions for these funds is the processing and accepting of the credit by the Internal Revenue Service, a condition which was not met for any of the funds as of December 31, 2023. The IRS issued a moratorium on processing new claims on September 14, 2023, and the Organization did not file for the ERCs until September 30, 2023. The Organization has also committed to paying fees associated with filing for ERCs to a third-party vendor for approximately 20% of the total ERCs received, contingent upon receipt from the IRS. Accordingly, the Organization has not recognized any of the ERCs or the related filing fees in the statement of activities for the year ended December 31, 2023. These funds are subject to examination by the Internal Revenue Service for between 3 and 5 years from the payroll credit filing dates.

Advertising expenses

Advertising is expensed as incurred. For the year ended December 31, 2023, advertising expense was \$50,916.

Federal income taxes

Pursuant to a letter of determination from the Internal Revenue Service, the Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified as an organization other than a private foundation under Section 509(a)(1). Accordingly, no provision has been made for federal income tax in the accompanying financial statements. The Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A). Lions Roar Property Holdings, LLC is wholly owned by Kindering Center, so it is not considered a separate entity for tax purposes.

These notes are an integral part of the consolidated financial statements.

KINDERING CENTER
Notes to Consolidated Financial Statements, continued
Year Ended December 31, 2023

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

The Organization accounts for tax positions in accordance with the FASB Accounting Standards Codification Topic No. 740, *Income Taxes*. With few exceptions, the Organization is subject to federal and state income tax examinations by tax authorities for the prior three years. Management has reviewed the Organization's tax positions and determined there were no uncertain tax positions as of December 31, 2023.

The Organization recognizes income tax related interest in interest expense and penalties in operating expenses. During the year ended December 31, 2023, the Organization recognized no income tax related interest or penalties.

New Accounting Pronouncement

On January 1, 2023, the Organization adopted Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 replaces the incurred loss methodology with an expected loss methodology by introducing the Current Expected Credit Loss (CECL) model, which requires entities to measure credit losses based on historical experience, current conditions, and reasonable and supportable forecasts. The Organization adopted ASC 326 prospectively, resulting in no cumulative adjustment to beginning net assets.

Date of Management's Review of Subsequent Events

Subsequent events have been evaluated through June 3, 2024, which is the date the consolidated financial statements were available to be issued.

NOTE 2 – CONCENTRATIONS

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of deposits in excess of federally insured limits, exchange-traded and money market funds, and receivables. The Organization periodically has cash deposits which are in excess of federally insured limits. The Organization has not experienced any losses in such accounts, and management believes it is not exposed to any significant credit risk on these accounts.

In 2023, 58% of the Organization's revenues and support was provided by one government agency.

NOTE 3 – LIQUIDITY

Kinderling Center strives to maintain liquid financial assets sufficient to cover 60 days of general expenditures. Liquid financial assets in excess of daily cash requirements are invested in certificates of deposit, money market funds, and other short-term investments, and are classified as long-term investments on the consolidated statements of financial position, as Kinderling Center intends to hold the investments for more than a year. Other financial assets are held in equity and fixed-income investments and are classified as long-term investments on the consolidated statements of financial position.

These notes are an integral part of the consolidated financial statements.

KINDERING CENTER
Notes to Consolidated Financial Statements, continued
Year Ended December 31, 2023

NOTE 3 – LIQUIDITY, continued

The following table reflects Kindering Center’s financial assets as of December 31, 2023, reduced by amounts that are not available to meet general expenditures within one year of the consolidated statement of financial position date because of contractual restrictions or internal board designations. Long-term investments are available for general expenditure if such a need arose.

Amounts not available include a board-designated ‘special projects’ fund that is intended to fund special board initiatives not considered in the annual operating budget. In the event the need arises to utilize the board-designated funds for liquidity purposes, the reserves could be drawn upon through board resolution. Amounts not available to meet general expenditures within one year also include liquid net assets with donor restrictions that are restricted in perpetuity, or with purpose restrictions that are not associated with day-to-day operations and/or programs operated by Kindering Center.

Operating cash	\$ 2,386,727
Accounts receivable, net	225,571
Grants receivable	1,553,597
Current portion - pledged contributions receivable	285,840
Investments	<u>15,541,337</u>
Total financial assets	19,993,072
Less amounts not available to be used within one year:	
Liquid net assets with donor restrictions	(5,292,885)
Add back: net assets with time restrictions of less than one year	285,840
Board-designated funds	<u>(300,000)</u>
	<u>(5,307,045)</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 14,686,027</u>

NOTE 4 – PLEDGED CONTRIBUTIONS RECEIVABLE

Pledged contributions receivable at December 31, 2023 are due as follows:

Amounts due in:	
Less than one year	\$ 341,392
One to five years	<u>214,129</u>
Gross pledged contributions receivable	555,521
Less: allowance for doubtful pledges	(55,552)
Less: unamortized discount on long-term pledges	<u>(15,241)</u>
Net pledged contributions receivable	<u>\$ 484,728</u>

These notes are an integral part of the consolidated financial statements.

KINDERING CENTER
Notes to Consolidated Financial Statements, continued
Year Ended December 31, 2023

NOTE 5 – FACILITY CONTRIBUTION RECEIVABLE

Kinderling Center occupies a building that is owned by the City of Bellevue, Washington. Kinderling Center receives the use of its facilities under a lease as a contribution from the City of Bellevue. Under the terms of the lease, Kinderling Center will lease the land and building from the city for a period of up to 50 years (through 2050 at Kinderling Center's option) at a rate of \$1 per year. The value of the contribution through the term of the agreement has been recorded at the estimated fair value, which is measured as the present value of Kinderling Center's estimated incremental borrowing rate of 6% in the year in which the lease was executed.

The total facility contribution receivable, discounted to present value, is due to be received as follows for the years ending December 31:

	Recognized Contribution	Discount Receivable (Interest Portion)	Total
2024	\$ 59,700	(47,320)	\$ 12,380
2025	59,700	(46,577)	13,123
2026	59,700	(45,790)	13,910
2027	59,700	(44,955)	14,745
2028	59,700	(44,071)	15,629
Thereafter	1,313,400	(595,318)	718,082
	<u>\$ 1,611,900</u>	<u>(824,031)</u>	<u>\$ 787,869</u>

NOTE 6 – UNEMPLOYMENT COMPENSATION TRUST

Kinderling Center participates in an unemployment compensation trust covering all employees as provided in the Northwest Employment Security Act of the State of Washington. Payments made to the trust are used to reimburse the State of Washington for unemployment benefits paid to employees who have terminated their employment with Kinderling Center. The goal of the program is that payments to the trust are less than what would be paid to the State of Washington for unemployment insurance.

NOTE 7 – INVESTMENTS

The following schedule summarizes the composition of the Organization's investments as stated at fair value as of December 31, 2023:

U.S. Treasury notes	\$ 4,427,019
Equity mutual funds:	
U.S. large-cap blend	6,524,414
Foreign large-cap blend	4,359,630
Fixed-income mutual funds:	
Intermediate-term bond funds	4,657,293
	<u>\$ 19,968,356</u>

These notes are an integral part of the consolidated financial statements.

KINDERING CENTER
Notes to Consolidated Financial Statements, continued
Year Ended December 31, 2023

NOTE 7 – INVESTMENTS, continued

Investment income consisted of the following for the year ended December 31, 2023:

Interest and dividends	\$ 354,775
Interest on short-term investments	409,498
Unrealized gains (losses)	1,797,215
Realized gains (losses)	(5,188)
Investment fees	(33,373)
	<u>\$ 2,522,927</u>

NOTE 8 – FAIR VALUE MEASUREMENTS

The Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification establishes a framework for measuring fair value. That framework 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 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under this topic are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that Kindering Center has the ability to access at the measurement date.

Level 2: Inputs to the valuation methodology include:

- a. Quoted prices for similar assets or liabilities in active markets,
- b. Quoted prices for identical or similar assets or liabilities in inactive markets,
- c. Inputs other than quoted prices that are observable for the asset or liability,
- d. Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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

Kindering Center records its investments in equity mutual funds, fixed-income mutual funds, and U.S. Treasury notes at their fair values in the consolidated statements of financial position. Money market funds are stated at cost plus accrued interest. The fair value of the rest of the investments was determined using Level 1 observable market inputs within the fair value hierarchy consisting of quoted prices in active markets (such as national exchanges) for identical assets.

These notes are an integral part of the consolidated financial statements.

KINDERING CENTER
Notes to Consolidated Financial Statements, continued
Year Ended December 31, 2023

NOTE 8 – FAIR VALUE MEASUREMENTS, continued

Kinderling Center classifies its investments as long-term assets because it does not intend to use its investments in the next fiscal year and because a portion is associated with the endowment corpus, to be held in perpetuity.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Kinderling Center believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

NOTE 9 – ENDOWMENT

Kinderling Center's endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors of Kinderling Center (quasi-endowments). Donor-restricted endowment funds consist of funds established for the maintenance and operations of Kinderling Center. As required by U.S. GAAP, net assets associated with endowment funds, including quasi-endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Income is allocated to the donor-restricted endowment fund based on the pro rata balance of total investments held.

Interpretation of Relevant Law

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

In accordance with UPMIFA, Kinderling Center considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

- The duration and preservation of the endowment fund.
- The purposes of Kinderling Center and the donor-restricted endowment fund.
- General economic conditions.
- The possible effects of inflation or deflation.
- The expected total return from income and the appreciation of investments.
- Other resources of Kinderling Center.
- The investment policies of Kinderling Center.

KINDERING CENTER
Notes to Consolidated Financial Statements, continued
Year Ended December 31, 2023

NOTE 9 – ENDOWMENT, continued

Endowment net assets with donor restrictions included in total investments consist of the following at December 31, 2023:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds to be held in perpetuity	\$ -	2,445,371	2,445,371
Accumulated earnings on donor-restricted funds		1,144,456	1,144,456
Board-designated endowment funds	300,000	-	300,000
Unrestricted reserve funds	11,651,510	-	11,651,510
Total investments	<u>\$ 11,951,510</u>	<u>3,589,827</u>	<u>15,541,337</u>

The activities related to the donor-restricted endowment funds of Kindering Center during the year ended December 31, 2023 are as follows:

Donor restricted endowment - beginning balance	\$ 3,031,625
Donor-restricted contributions	250,000
Amounts appropriated for expenditures	-
Investment return, net of fees	50,732
Net appreciation (depreciation)	257,470
Donor restricted endowment - ending balance	<u>\$ 3,589,827</u>

Return Objectives and Risk Parameters

Kindering Center's return objectives of the donor-restricted endowment assets held in perpetuity reflect the tradeoff between the risk and expected return considered the most appropriate for the total endowment assets as differentiated from the individual objectives of any one fund. The overall portfolio objectives are sufficient growth of capital, income, and protection of principal to maintain or improve the purchasing power of the endowment assets over time while allowing distributions to fund desired gifting programs in accordance with the desires of contributors to the endowment. In addition to preserving and enhancing the value of the endowment, the endowment assets are administered and managed in such a manner as to be responsible to the needs of the donors and to maintain the highest standards of professionalism and responsibility.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, Kindering Center 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). Kindering Center targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

These notes are an integral part of the consolidated financial statements.

KINDERING CENTER
Notes to Consolidated Financial Statements, continued
Year Ended December 31, 2023

NOTE 9 – ENDOWMENT, continued

Spending Policy and How the Investment Objectives Relate to the Spending Policy

Kinderling Center has a policy of appropriating endowment funds for distribution each year of up to 4% of its endowment fund value based on the trailing three-year average of the portfolio as of September 30th. Unrestricted funds are appropriated as needed to help fund current operations. In establishing this policy, Kinderling Center, considered the long-term expected return on its endowment. This is consistent with Kinderling Center's objective to maintain the purchasing power of the endowment assets held in perpetuity for a specified term as well as to provide additional real growth through new gifts and investment return.

Funds with Deficiencies

From time to time, the fair value of assets associated with the donor-restricted portion of the endowment funds may fall below the level that the donors or UPMIFA requires the endowment to retain as a fund of perpetual duration. In accordance with GAAP, the deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of December 31, 2023.

NOTE 10 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes or periods at December 31, 2023:

Purpose restricted gifts:	
CHERISH program	\$ 626,504
Renton-campus expansion project	8,983
Child Care Health Consultation Project	169,664
Mimi Siegel Fellowship	163,777
General expansion	70,013
Families-in-Transition program	27,959
Other	151,430
Total purpose restricted gifts	<u>1,218,330</u>
Time restricted gifts:	
Contributed facilities	787,869
Gifts for future periods	484,728
Total time restricted gifts	<u>1,272,597</u>
Endowment funds:	
Accumulated earnings (restricted until appropriated)	1,144,456
Corpus to be held in perpetuity	2,445,371
Total endowment funds	<u>3,589,827</u>
Total net assets with donor restrictions	<u>\$ 6,080,754</u>

These notes are an integral part of the consolidated financial statements.

KINDERING CENTER
Notes to Consolidated Financial Statements, continued
Year Ended December 31, 2023

NOTE 11 – RELATED PARTY TRANSACTIONS

Board of Director Contributions

During the year ended December 31, 2023, Kindering Center received \$413,132 in contributions from the members of the Board of Directors.

NOTE 12 – LEASES

Kindering Center has operating leases for classrooms and office space. Operating leases expire at various dates through February 2028, with options to renew for varying terms at Kindering Center and the respective landlord's discretion. Kindering Center has included specific options to extend or terminate the lease in the calculation of ROU assets or lease liabilities for leases for which Kindering Center is reasonably certain they will exercise these options. Operating leases are summarized as follows:

North Creek Bothell Lease – The lease was amended for the period beginning February 2021 and expires in February 2028 with an option to extend likely to be exercised by management extending the lease through February 2033. The monthly lease payments range from \$35,259 to \$47,394 based on current agreed-upon rates. The Bothell lease agreement included tenant improvement allowances that were utilized by management of approximately \$319,000.

Together Center Redmond – An office lease for this space commenced on January 1, 2019, and expired in July 2023, when management signed a new lease agreement for an expanded and newly renovated space in the same location. The new lease agreement commenced August 1, 2023, and terminates on July 31, 2033. The lease includes two five-year options to extend, which management is not reasonably certain to exercise, and thus these extension option periods are not included in the lease liability or ROU asset. The lease payments under the lease dated August 1, 2023, are \$20,204 per month, and increase at a rate of 3% on each anniversary of the lease commencement date.

St. Matthews Renton – The lease commenced on December 2020, was amended on July 1, 2020, and expires July 2024 with an option to extend through June 2027 that management is reasonably certain to exercise. The monthly lease payments, through extension period, range from \$5,740 to \$6,654 based on current agreed-upon rates.

The components of lease expense were as follows for the year ended December 31, 2023:

Lease expense:

Operating lease cost	\$ 627,897
Short-term lease cost	57,294
Variable lease cost	307,205
In-kind lease cost	59,700
Total lease costs	<u>\$ 1,052,096</u>

These notes are an integral part of the consolidated financial statements.

KINDERING CENTER
Notes to Consolidated Financial Statements, continued
Year Ended December 31, 2023

NOTE 12 – LEASES, continued

Other information related to leases was as follows for the year ended December 31, 2023:

Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	\$ 604,596
Weighted-average remaining lease term in years for operating leases	9.08
Weighted-average discount rate for operating leases	3.57%

Future maturities of lease liabilities for the years ending December 31 are as follows:

2024	\$ 677,136
2025	698,029
2026	719,579
2027	698,853
2028	678,708
Thereafter	<u>3,136,065</u>
Total undiscounted cash flows	6,608,370
Less: present value discount	<u>(1,001,115)</u>
Total lease liabilities	<u>\$ 5,607,255</u>

NOTE 13 – RETIREMENT PLAN

Kinderling Center has a 403(b) retirement plan for the exclusive benefit of its employees. Under the plan, Kinderling Center will match up to 4% of the compensation of eligible employees who have made salary reduction contributions to the plan. Participants may elect to make additional contributions in excess of 4% within the limitations set forth in the plan. Kinderling Center's contribution expense for the year ended December 31, 2023 was \$354,207.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

Expenses incurred under certain grant programs are subject to audit by the granting agencies. If, as a result of such an audit, certain expenses incurred are determined to be non-reimbursable, the Organization may be liable for repayment of disallowed expenses previously claimed or received. Amounts disallowed, if any, would be recorded as a liability and expense at the time such amounts can first be reasonably determined, normally upon notification of the examination results of the granting agency. Management is not aware of any disallowed expenses in 2023.