

CHILDHAVEN

JUNE 30, 2018 AND 2017
FINANCIAL STATEMENTS



Bader Martin, PS Certified Public Accountants + Business Advisors



Independent Auditors' Report

Board of Trustees
Childhaven
Seattle, Washington

We have audited the accompanying financial statements of Childhaven, which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Bader Martin, P.S. Certified Public Accountants + Business Advisors

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Board of Trustees
Childhaven
Seattle, Washington

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Childhaven as of June 30, 2018 and 2017, 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.

BADER MARTIN, P.S.

March 26, 2019

CHILDHAVEN

STATEMENTS OF FINANCIAL POSITION

	June 30,	
	2018	2017
ASSETS		
Current assets:		
Cash	\$ 917,598	\$ 587,848
Service fees receivable	650,138	613,962
Pledges receivable	878,169	1,450,854
Other receivables	88,149	38,428
Prepaid expenses	456,425	406,642
Total current assets	2,990,479	3,097,734
Investments	8,841,988	8,179,428
Beneficial interest in perpetual trust	610,997	582,009
Contributions receivable - charitable lead trust	13,975	16,713
Noncurrent pledges receivable, net	242,218	1,091,728
Property and equipment, net	10,065,250	10,477,001
	\$ 22,764,907	\$ 23,444,613
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and other liabilities	\$ 241,176	\$ 176,676
Accrued wages and benefits	429,473	449,461
Total current liabilities	670,649	626,137
Deferred compensation plan	88,097	64,281
Defined benefit pension obligation	1,898,278	1,542,229
Total liabilities	2,657,024	2,232,647
Net assets:		
Unrestricted:		
Undesignated	11,178,945	11,716,609
Board designated	2,452,132	2,352,390
	13,631,077	14,068,999
Temporarily restricted	3,298,212	3,990,745
Permanently restricted	3,178,594	3,152,222
Total net assets	20,107,883	21,211,966
Total liabilities and net assets	\$ 22,764,907	\$ 23,444,613

See notes to financial statements.

CHILDHAVEN

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating activities:				
Revenue and support:				
Service fees from governmental agencies	\$ 3,941,027			\$ 3,941,027
Contributions, net	3,392,661	\$ 808,316	\$ (2,616)	4,198,361
United Way of King County	437,028			437,028
Special events, net of expenses of \$327,106	783,531			783,531
Government and other grants	207,068			207,068
Investment income, net	253,016	178,920		431,936
Other income (loss), net	93,197	1,699	28,988	123,884
Net assets released from restrictions	1,681,468	(1,681,468)		
Total operating revenue and support	10,788,996	(692,533)	26,372	10,122,835
Expenses:				
Program services	8,583,802			8,583,802
Management and general	1,267,427			1,267,427
Fundraising	1,019,640			1,019,640
Total operating expenses	10,870,869			10,870,869
Change in net assets from operating activities	(81,873)	(692,533)	26,372	(748,034)
Non-operating activities, change in pension obligation	(356,049)			(356,049)
Total change in net assets	(437,922)	(692,533)	26,372	(1,104,083)
Net assets, beginning of year	14,068,999	3,990,745	3,152,222	21,211,966
Net assets, end of year	<u>\$13,631,077</u>	<u>\$ 3,298,212</u>	<u>\$ 3,178,594</u>	<u>\$20,107,883</u>

See notes to financial statements.

CHILDHAVEN

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating activities:				
Revenue and support:				
Service fees from governmental agencies	\$ 3,612,178			\$ 3,612,178
Contributions, net	3,232,895	\$ 1,320,267	\$ 26,657	4,579,819
United Way of King County	610,119			610,119
Special events, net of expenses of \$258,111	676,940			676,940
Government grants	249,635			249,635
Investment income, net	338,160	155,583		493,743
Other income (loss), net	57,269	2,226	35,224	94,719
Net assets released from restrictions	1,173,769	(1,173,769)		
Total operating revenue and support	9,950,965	304,307	61,881	10,317,153
Expenses:				
Program services	8,304,448			8,304,448
Management and general	1,227,347			1,227,347
Fundraising	1,083,107			1,083,107
Total operating expenses	10,614,902			10,614,902
Change in net assets from operating activities	(663,937)	304,307	61,881	(297,749)
Non-operating activities, change in pension obligation	343,103			343,103
Total change in net assets	(320,834)	304,307	61,881	45,354
Net assets, beginning of year	14,389,833	3,686,438	3,090,341	21,166,612
Net assets, end of year	<u>\$14,068,999</u>	<u>\$ 3,990,745</u>	<u>\$ 3,152,222</u>	<u>\$21,211,966</u>

See notes to financial statements.

CHILDHAVEN

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2018

	Program services	Management and general	Fundraising	Total
Salaries	\$ 4,925,437	\$ 620,291	\$ 672,845	\$ 6,218,573
Benefits	745,513	68,083	73,785	887,381
Payroll taxes	480,892	58,793	63,007	602,692
Pension, life premiums	256,710	113,342	21,956	392,008
Temporary workers	84,645	23,200		107,845
Total salaries and related expenses	6,493,197	883,709	831,593	8,208,499
Advertising	1,690		3,575	5,265
Bad debt expense	405,957			405,957
Equipment rental/maintenance	41,880	39,356	20,095	101,331
Occupancy	532,828	34,549	31,653	599,030
Other	11,791	19,512	22,243	53,546
Postage and printing	3,504	2,676	29,200	35,380
Professional fees	8,795	185,963	32,200	226,958
Recruitment	14,513	28,513	164	43,190
Research	3,871			3,871
Specific assistance to individuals	45,480			45,480
Subscriptions	14,067	14,109	2,075	30,251
Supplies	333,817	12,821	14,805	361,443
Telephone	51,872	2,603	1,871	56,346
Training	25,117	3,961	2,278	31,356
Transportation	200,148	13,031	1,425	214,604
Total expenses before depreciation	8,188,527	1,240,803	993,177	10,422,507
Depreciation	395,275	26,624	26,463	448,362
	\$ 8,583,802	\$ 1,267,427	\$ 1,019,640	\$ 10,870,869

See notes to financial statements.

CHILDHAVEN

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2017

	Program services	Management and general	Fundraising	Total
Salaries	\$ 4,957,749	\$ 478,472	\$ 714,533	\$ 6,150,754
Benefits	622,000	47,769	50,071	719,840
Payroll taxes	482,302	47,823	67,364	597,489
Pension, life premiums	434,524	118,738	50,269	603,531
Temporary workers	45,268	51,758	9,778	106,804
Total salaries and related expenses	6,541,843	744,560	892,015	8,178,418
Advertising		28,052	25,057	53,109
Equipment rental/maintenance	54,004	46,153	20,441	120,598
Occupancy	522,817	27,207	33,177	583,201
Other	16,386	20,459	37,240	74,085
Postage and printing	1,221	8,139	24,803	34,163
Professional fees	31,824	207,196	4,159	243,179
Recruitment	20,827	60,518	5,443	86,788
Research	11,589			11,589
Specific assistance to individuals	54,240	60	119	54,419
Subscriptions	5,820	6,209	3,640	15,669
Supplies	379,575	20,536	2,710	402,821
Telephone	50,360	2,565	2,092	55,017
Training	49,547	24,917	4,855	79,319
Transportation	187,482	4,058	795	192,335
Total expenses before depreciation	7,927,535	1,200,629	1,056,546	10,184,710
Depreciation	376,913	26,718	26,561	430,192
	\$ 8,304,448	\$ 1,227,347	\$ 1,083,107	\$ 10,614,902

See notes to financial statements.

CHILDHAVEN

STATEMENTS OF CASH FLOWS

	Year ended June 30,	
	2018	2017
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (1,104,083)	\$ 45,354
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	448,362	430,192
Gains on investments, net	(175,079)	(295,318)
Contributions restricted to endowments	(62,690)	(44,219)
Contributed stock	(125,096)	(45,306)
Loss on disposition of property and equipment		4,270
Change in value of charitable lead trust	(1,698)	(2,226)
Change in value of beneficial interest in perpetual trust	(28,988)	(35,224)
Net changes in operating accounts:		
Receivables	(85,897)	(105,436)
Prepaid expenses	(49,783)	(26,432)
Pledges receivable	1,089,981	(288,977)
Contributions receivable - charitable lead trust	4,436	4,202
Accounts payable	32,970	(15,711)
Accrued wages and benefits	3,828	12,661
Defined benefit pension obligation	356,049	(343,103)
Total adjustments	1,406,395	(750,627)
Net cash provided by (used in) by operating activities	302,312	(705,273)
Cash flows from investing activities:		
Purchase of investments	(2,476,260)	(1,379,261)
Proceeds from sales of investments	2,375,039	1,248,223
Purchase of property and equipment	(5,081)	(307,794)
Net cash used in investing activities	(106,302)	(438,832)
Cash flows from financing activities, collection of pledges and contributions restricted to endowment	133,740	113,291
Net change in cash	329,750	(1,030,814)
Cash at beginning of year	587,848	1,618,662
Cash at end of year	<u>\$ 917,598</u>	<u>\$ 587,848</u>
Noncash operating activities, equipment acquired with short-term liabilities	<u>\$ 31,530</u>	
Noncash investing and financing activities, stock contributed for pledge payments	<u>\$ 261,164</u>	<u>\$ 276,874</u>

See notes to financial statements.

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS

1. Summary of significant accounting policies:

Organization:

Childhaven is a nonprofit agency established to provide daytime therapeutic treatment and developmental child care of abused/neglected children under six years of age. Childhaven operates three therapeutic childcare centers located throughout King County, Washington.

Childhaven's principal program provides developmentally focused child care and treatment to abused, neglected, and drug-impacted children ages one month through five years old, including individualized therapy to overcome the trauma of mistreatment and special therapy services for developmentally delayed children. In addition, transportation, parent support and education groups, counseling, and applied parenting in the classroom are provided. The program operates throughout the year, five days per week, seven hours per day (including transportation). Families are referred by the Washington State Department of Early Learning (DEL), Seattle/King County Department of Public Health – Alcohol, Tobacco and Other Drug Prevention Division, and drug treatment centers.

Basis of presentation:

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States. Net assets and revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions.

Accordingly, net assets of Childhaven and changes in net assets are classified and reported as follows:

- Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. Childhaven has two categories of unrestricted net assets:
 - Undesignated – Consists of assets, liabilities, revenues, and expenses available for current programs and administration.
 - Board Designated – Net assets set aside by the Board of Trustees (the Board) for specific purposes.
- Temporarily restricted - Net assets subject to donor-imposed stipulations that will be met either by actions of Childhaven or the passage of time.

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of significant accounting policies (continued):

Basis of presentation (continued):

- Permanently restricted - all net assets received by donations under which the donors imposed permanent restrictions on the use of the gifts. This category of net assets is composed of various endowments given by donors who required Childhaven to invest their gift. In accordance with donor intentions, interest and dividends derived from such funds are reported as temporarily restricted investment income, while realized gains and losses may be added to corpus or reported as temporarily restricted income depending on donor intent. By agreement with the donor, Childhaven cannot invade the principal of these gifts, without prior permission of the donor or certain conditions provided by law.

Revenues are reported as increases in unrestricted net assets unless use of the related assets are limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expiration of temporary restrictions on net assets (i.e. the donor-stipulated purpose has been fulfilled and/or the stipulated time period has lapsed) are reported as reclassifications between the applicable classes of net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Cash:

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

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 \$95,661 and \$115,000 at June 30, 2018 and 2017, respectively.

Investments:

Investments are stated at fair value with gains and losses included in the statements of activities.

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of significant accounting policies (continued):

Contributions:

All contributions are considered to be 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 temporarily or permanently restricted. 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 support until such time as the conditions are substantially met.

Fair value measurements:

To increase consistency and comparability in fair value measurements, the inputs to valuation techniques are classified into three broad levels. This hierarchy is summarized below in descending order of priority.

- Level 1 – Inputs are based on quoted market prices within active markets for identical assets or liabilities.
- Level 2 – Inputs are directly or indirectly observable for the asset or liability, excluding quoted prices used in Level 1. Examples include quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in inactive markets, interest rates, volatilities, prepayments and credit risks.
- Level 3 – There are significant unobservable inputs in this level. Investments are primarily valued using the reporting entity's own assumptions about what market participants would utilize in pricing the asset or liability.

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.

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of significant accounting policies (continued):

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.

Income taxes:

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

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

Use of estimates in preparation of financial statements:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and related disclosures. Actual results could differ from those estimates.

Functional expenses:

The accompanying statements of functional expenses include all direct costs of each program or supporting service. Costs that benefit more than one activity are allocated based on an analysis of personnel time and space utilized for the related activities.

Subsequent events:

Childhaven has evaluated subsequent events through March 26, 2019, the date which the financial statements were available to be issued.

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Pledges receivable:

Pledges receivable at June 30, 2018 are due to be collected as follows:

In less than one year	\$ 878,169
In one to five years	<u>375,776</u>
	1,253,945
Less:	
Allowance for uncollectible accounts	(95,661)
Unamortized discount (2% discount factor)	<u>(37,897)</u>
Pledges receivable, net	<u><u>\$ 1,120,387</u></u>

Two donors had outstanding pledges totaling approximately \$650,000 at June 30, 2018. Two donors had outstanding pledges totaling approximately \$1,400,000 at June 30, 2017.

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Investments:

	June 30, 2018		
	Cost	Fair value	Unrealized gain (loss)
Cash equivalents	\$ 728,802	\$ 728,802	
U.S. equities	1,377,137	2,202,960	\$ 825,823
International EFTs	770,836	805,950	35,114
Corporate debt securities	5,083,324	4,886,764	(196,560)
U.S. government obligations	213,612	217,512	3,900
	\$ 8,173,711	\$ 8,841,988	\$ 668,277
	June 30, 2017		
	Cost	Fair value	Unrealized gain (loss)
Cash equivalents	\$ 575,470	\$ 575,470	
U.S. equities	1,529,626	2,258,550	\$ 728,924
International EFTs	554,571	580,832	26,261
Corporate debt securities	4,652,799	4,518,918	(133,881)
U.S. government obligations	241,062	245,658	4,596
	\$ 7,553,528	\$ 8,179,428	\$ 625,900

Investment income consists of the following:

	Year ended June 30,	
	2018	2017
Interest and dividends	\$ 256,857	\$ 198,425
Net realized and unrealized gains	175,079	295,318
	\$ 431,936	\$ 493,743

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. Contributions receivable – charitable lead trust:

Childhaven is a beneficiary of a charitable lead trust. The donor contributed \$500,000 and specified that 5% of the fair value at the end of each calendar year be distributed to the beneficiaries for a period of 20 years (with final payment in 2023). Childhaven receives 20% of the amount distributed. The contribution receivable is recorded at the estimated present value of the future cash flows discounted at 8%. The fair value of the assets in the trust was \$421,938 and \$418,578 at June 30, 2018 and 2017, respectively. Childhaven received \$4,436 and \$4,202 from the trust during 2018 and 2017, respectively.

Future payments are expected to be received as follows:

In less than one year	\$	4,219
In one to five years		16,876
In more than five years		<u>4,219</u>
		25,314
Less unamortized discount		<u>(11,339)</u>
Contributions receivable - charitable lead trust	\$	<u><u>13,975</u></u>

5. Beneficial interest in perpetual trust:

In the 1950s Childhaven received a gift that the donor specified be invested in perpetuity with income to be used to support Childhaven programs. The assets are held by a third party trustee. Net realized and unrealized gains and losses related to the beneficial interest are reported as changes in permanently restricted net assets. Childhaven received \$20,233 and \$20,428 of investment income from the trust for the years ended June 30, 2018 and 2017, respectively.

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. 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 \$120,000 and \$145,000 during 2018 and 2017, respectively.

7. Property and equipment:

Donor restrictions prohibit Childhaven from selling, transferring, mortgaging or encumbering the Broadway facility and require that the facility be used for the same purpose in perpetuity unless the donor gives prior written consent, which consent is not to be unreasonably refused. The restrictions also require certain portions of the facility to be named after the grantor in perpetuity. The net book value of the facility was \$8,317,033 at June 30, 2018.

	June 30,	
	2018	2017
Buildings and improvements	\$ 16,924,489	\$ 16,924,489
Equipment	1,719,670	1,714,587
Vans	848,008	871,638
	19,492,167	19,510,714
Less accumulated depreciation	(10,161,817)	(9,737,083)
Land	703,370	703,370
Construction-in-progress	31,530	
	<u>\$ 10,065,250</u>	<u>\$ 10,477,001</u>

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. 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 \$40,000 and \$300,000 during 2018 and 2017, respectively. Benefits and expenses paid by the Plan were approximately \$1,134,000 and \$192,000 for 2018 and 2017, respectively.

Obligations and funded status:

Net periodic pension costs include the following components:

	Year ended June 30,	
	2018	2017
Interest cost	\$ 263,361	\$ 292,130
Expected return on Plan assets	(258,614)	(237,436)
Amortization of loss	166,196	199,698
Net period pension costs included in employee benefits	<u><u>\$ 170,943</u></u>	<u><u>\$ 254,392</u></u>

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

	June 30,	
	2018	2017
Projected benefit obligation	\$ 5,327,812	\$ 5,871,358
Fair value of assets	3,429,534	4,329,129
Unfunded pension obligation	<u><u>\$ (1,898,278)</u></u>	<u><u>\$ (1,542,229)</u></u>

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Defined benefit pension plan (continued):

Obligations and funded status (continued):

Amounts not yet recognized as components of net periodic benefit cost in the statement of activities for the years ended June 30, 2018 and 2017 consist of net unrecognized actuarial loss of \$2,058,884 and \$1,830,284, respectively.

The accumulated benefit obligation was \$5,327,812 and \$5,871,358 at June 30, 2018 and 2017, respectively.

Assumptions:

	2018	2017
Weighted-average assumptions used to determine benefit obligations at June 30:		
Discount rate	4.12%	4.50%
Weighted-average assumptions used to determine net periodic pension cost for years ended June 30:		
Discount rate	4.50%	5.00%
Expected return on plan assets	6.00%	6.00%

Plan assets:

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

	2018		2017	
Cash	\$ 464	0.01%	\$ 8,773	0.20%
Interest bearing cash	162,542	4.74%	276,328	6.38%
Corporate bonds	2,084,877	60.79%	2,500,735	57.77%
Common stock	501,511	14.62%	695,413	16.06%
Unit investment trusts	674,228	19.66%	837,090	19.34%
Other	5,912	0.18%	10,790	0.25%
	<u>\$ 3,429,534</u>	<u>100%</u>	<u>\$ 4,329,129</u>	<u>100%</u>

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Defined benefit pension plan (continued):

Plan assets (continued):

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

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

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

Cash flows:

Childhaven expects to contribute approximately \$250,000 to the Plan during the 2019 fiscal year. No Plan assets are expected to be returned to Childhaven during 2019.

The following benefit payments are expected to be paid:

<u>Year ending June 30,</u>	
2019	\$ 38,656
2020	46,929
2021	82,588
2022	112,176
2023	139,824
2024 through 2027	1,097,836

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. 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 both the years ended June 30, 2018 and 2017 were approximately \$210,700.

Childhaven has a 457(b) deferred compensation plan for the benefit of an 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. The executive employee left Childhaven during fiscal year 2017. The 457(b) deferred compensation plan is being disbursed in semi-annual payments over three years beginning February 2017.

10. 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, 2018 and 2017. 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, 2018 and 2017.

The fair value of assets, by level, as of June 30, 2018 is as follows:

	Level 1	Level 2	Level 3	Total
Investments	\$ 3,955,224	\$ 4,886,764		\$ 8,841,988
Pension plan assets	1,344,657	2,084,877		3,429,534
Contribution receivable - charitable lead trust		13,975		13,975
Beneficial interest in perpetual trust			\$ 610,997	610,997
	<u>\$ 5,299,881</u>	<u>\$ 6,985,616</u>	<u>\$ 610,997</u>	<u>\$ 12,896,494</u>

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

10. Fair value measurements (continued):

The fair value of assets, by level, as of June 30, 2017 is as follows:

	Level 1	Level 2	Level 3	Total
Investments	\$ 3,660,510	\$ 4,518,918		\$ 8,179,428
Pension plan assets	1,828,394	\$ 2,500,735		4,329,129
Contribution receivable - charitable lead trust		16,713		16,713
Beneficial interest in perpetual trust			\$ 582,009	582,009
	<u>\$ 5,488,904</u>	<u>\$ 7,036,366</u>	<u>\$ 582,009</u>	<u>\$ 13,107,279</u>

The following is a summary of changes in the fair value of the Level 3 investments for the year ended June 30, 2018:

	Beneficial interest in <u>perpetual trust</u>
Beginning of year	\$ 582,009
Interest and dividends	20,233
Distributions	(20,233)
Change in fair value of split interest agreement	<u>28,988</u>
End of year	<u>\$ 610,997</u>

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. Temporarily restricted net assets:

	June 30,	
	2018	2017
Purpose restricted:		
Maintenance and repair of		
Broadway facility	\$ 793,637	\$ 761,334
Continue of Care	623,257	515,257
Lovsted Scholarship	369,427	375,343
Branding	168,376	213,376
Building Improvements	107,000	
Helping Hands Fund	103,340	103,739
Music Therapy Program	80,000	
Team Turtle Scholarship	58,973	52,615
Event Sponsorship	43,500	14,000
Books & Equipment for Children	18,000	
Transportation	10,000	
Home Visitation Expansion	9,972	125,000
Time restricted:		
Annual Fund multi-year pledges	836,848	1,789,299
Other time restricted	15,000	
Unappropriated endowment income	46,907	24,069
Charitable lead trust - Note 4	13,975	16,713
	<u>\$ 3,298,212</u>	<u>\$ 3,990,745</u>

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

12. Permanently restricted net assets:

	June 30,	
	2018	2017
Second Century Campaign	\$ 2,567,597	\$ 2,570,213
Beneficial interest in perpetual trust - Note 5	610,997	582,009
	<u><u>\$ 3,178,594</u></u>	<u><u>\$ 3,152,222</u></u>

13. Endowments:

Interpretation of relevant law:

The Board has interpreted the Washington State Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift, as of the gift date, of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Childhaven classifies as endowment assets (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

All investment earnings and appreciation not required to be retained in endowment net assets, as described above, will be classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Childhaven in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Childhaven considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund,
- (2) The purposes of Childhaven and the donor-restricted endowment fund,
- (3) General economic conditions,
- (4) The possible effect of inflation and deflation,
- (5) The expected total return from income and the appreciation of investments,
- (6) Other resources of Childhaven,
- (7) The investment policies of Childhaven.

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

13. Endowments (continued):

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.

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. Deficiencies of this nature are classified as a decrease in unrestricted net assets and any subsequent gains that restore the fair value of the assets of the endowment fund to the required level are classified as an increase in unrestricted net assets. There were no deficiencies at June 30, 2018 and 2017.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

13. Endowments (continued):

Changes in endowment net assets consist of the following:

	Year ended June 30, 2018			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Endowment net assets, beginning of the year	\$2,352,390	\$1,317,100	\$3,152,222	\$6,821,712
Contributions		4,339	58,351	62,690
Contributions written off			(60,967)	(60,967)
Investment gain	99,742	178,920	28,988	307,650
Amounts appropriated for expenditure		(128,075)		(128,075)
Endowment net assets, end of year	<u>\$2,452,132</u>	<u>\$1,372,284</u>	<u>\$3,178,594</u>	<u>\$7,003,010</u>
	Year ended June 30, 2017			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Endowment net assets, beginning of the year	\$2,280,709	\$1,307,842	\$3,090,341	\$6,678,892
Contributions		17,562	26,657	44,219
Investment gain	100,581	155,583	35,224	291,388
Amounts appropriated for expenditure	(28,900)	(163,887)		(192,787)
Endowment net assets, end of year	<u>\$2,352,390</u>	<u>\$1,317,100</u>	<u>\$3,152,222</u>	<u>\$6,821,712</u>

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

13. Endowments (continued):

Endowment net assets consist of the following:

June 30, 2018			
Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor restricted funds	\$ 578,647	\$3,178,594	\$3,757,241
Board designated - maintenance reserve	\$1,900,974	793,637	2,694,611
Board designated - endowment funds	551,158		551,158
<u>\$2,452,132</u>	<u>\$1,372,284</u>	<u>\$3,178,594</u>	<u>\$7,003,010</u>
June 30, 2017			
Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor restricted funds	\$ 555,766	\$3,152,222	\$3,707,988
Board designated - maintenance reserve	\$1,823,651	761,334	2,584,985
Board designated - endowment funds	528,739		528,739
<u>\$2,352,390</u>	<u>\$1,317,100</u>	<u>\$3,152,222</u>	<u>\$6,821,712</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 temporarily restricted.

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.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

14. Concentrations:

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

Childhaven's therapeutic childcare workers, representing approximately 53% of Childhaven's employees at June 30, 2018, are members of the United Food and Commercial Workers International Union (the Union). Childhaven's contract with the Union expired December 31, 2018. The contract has not been renewed as of the report date as discussions are still ongoing. Childhaven's other employees are not represented by a union.