CHILDHAVEN

JUNE 30, 2019 AND 2018
FINANCIAL STATEMENTS

BADER MARTIN PS

Bader Martin, PS Certified Public Accountants + Business Advisors

BADER MARTIN P.S.

<u>Independent Auditors' Report</u>

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, 2019 and 2018, 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, 2019 and 2018, 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.

Effect of Adopting New Accounting Standard

As discussed in Note 2, Childhaven adopted Accounting Standards Update *(ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements for Not-for-Profit Entities*. The ASU has been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

BADER MARTIN, P.S.

February 23, 2021

CHILDHAVEN

STATEMENTS OF FINANCIAL POSITION

	June 30, 2019	June 30, 2018
ASSETS		
Current assets:		
Cash	$ 295,619	$ 917,598
Service fees receivable	1,095,546	650,138
Pledges receivable, net	193,796	878,169
Other receivables	84,867	88,149
Prepaid expenses	749,454	456,425
Total current assets	2,419,282	2,990,479
Investments	8,917,840	8,841,988
Beneficial interest in perpetual trust	609,104	610,997
Contributions receivable - charitable lead trust	11,037	13,975
Noncurrent pledges receivable, net	94,561	242,218
Property and equipment, net	9,748,224	10,065,250
	$ 21,800,048	**$ 22,764,907**
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and other liabilities	$ 263,491	$ 241,176
Accrued wages and benefits	499,125	429,473
Total current liabilities	762,616	670,649
Deferred compensation plan	30,649	88,097
Defined benefit pension obligation	2,567,459	1,898,278
Total liabilities	3,360,724	2,657,024
Net assets:		
Without donor restrictions	13,183,444	13,631,077
With donor restrictions	5,255,880	6,476,806
Total net assets	18,439,324	20,107,883
Total liabilities and net assets	**$ 21,800,048**	**$ 22,764,907**

See notes to financial statements.

CHILDHAVEN

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2019

	Without Donor Restrictions	With Donor Restictions	Total
Operating activities:			
Revenue and support:			
Service fees from governmental agencies	$ 5,350,223		$ 5,350,223
Contributions, net	2,775,228	$ 228,973	3,004,201
United Way of King County	200,287		200,287
Special events, net of expenses of $262,709	598,056		598,056
Government and other grants	236,906		236,906
Investment income, net	247,144	187,636	434,780
Other income (loss), net	108,306	(835)	107,471
Net assets released from restrictions	1,636,700	(1,636,700)	
Total operating revenue and support	11,152,850	(1,220,926)	9,931,924
Expenses:			
Program services	8,473,064		8,473,064
Management and general	1,391,281		1,391,281
Fundraising	1,066,957		1,066,957
Total operating expenses	10,931,302		10,931,302
Change in net assets from operating activities	221,548	(1,220,926)	(999,378)
Non-operating activities, change in pension obligation	(669,181)		(669,181)
Total change in net assets	**(447,633)**	**(1,220,926)**	**(1,668,559)**
Net assets, beginning of year	13,631,077	6,476,806	20,107,883
Net assets, end of year	**$ 13,183,444**	**$ 5,255,880**	**$ 18,439,324**

See notes to financial statements.

CHILDHAVEN

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

	Without Donor Restrictions	With Donor Restictions	Total
Operating activities:			
Revenue and support:			
Service fees from governmental agencies	$ 3,941,027		$ 3,941,027
Contributions, net	3,392,661	$ 805,700	4,198,361
United Way of King County	437,028		437,028
Special events, net of expenses of $327,106	783,531		783,531
Government grants	207,068		207,068
Investment income, net	253,016	178,920	431,936
Other income (loss), net	93,197	30,687	123,884
Net assets released from restrictions	1,681,468	(1,681,468)	
Total operating revenue and support	10,788,996	(666,161)	10,122,835
Expenses:			
Program services	8,583,802		8,583,802
Management and general	1,267,427		1,267,427
Fundraising	1,019,640		1,019,640
Total operating expenses	10,870,869		10,870,869
Change in net assets from operating activities	(81,873)	(666,161)	(748,034)
Non-operating activities, change in pension obligation	(356,049)		(356,049)
Total change in net assets	**(437,922)**	**(666,161)**	**(1,104,083)**
Net assets, beginning of year	14,068,999	7,142,967	21,211,966
Net assets, end of year	**$ 13,631,077**	**$ 6,476,806**	**$ 20,107,883**

See notes to financial statements.

CHILDHAVEN

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2019

	Program services	Management and general	Fundraising	Total
Salaries	$ 4,958,886	$ 681,641	$ 691,906	$ 6,332,433
Benefits	837,429	65,989	80,736	984,154
Payroll taxes	450,810	112,656	59,769	623,235
Pension, life premiums	284,851	79,750	37,012	401,613
Temporary workers	66,753	563	3,886	71,202
Total salaries and related expenses	6,598,729	940,599	873,309	8,412,637
Advertising		474	8,633	9,107
Computing	94,297	6,303	30,083	130,683
Equipment rental/maintenance	8,239	5,155	2,183	15,577
Occupancy	616,797	13,603	10,846	641,246
Other	69,224	12,695	29,003	110,922
Postage and printing	1,998	1,708	21,212	24,918
Professional fees	121,946	320,180	49,487	491,613
Recruitment	1,323	21,122	657	23,102
Specific assistance to individuals	1,993			1,993
Subscriptions	18,684	9,776	4,239	32,699
Supplies	346,321	3,819	3,029	353,169
Telephone	51,320	1,981	1,684	54,985
Training	14,343	2,697	3,207	20,247
Transportation	131,129	23,047	1,428	155,604
Total expenses before depreciation	8,076,343	1,363,159	1,039,000	10,478,502
Depreciation	396,721	28,122	27,957	452,800
	$ 8,473,064	**$ 1,391,281**	**$ 1,066,957**	**$ 10,931,302**

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
Computing	34,979	36,148	16,887	88,014
Equipment rental/maintenance	6,901	3,208	3,208	13,317
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

STATEMENTS OF CASH FLOWS

	Year ended June 30, 2019	2018
Cash flows from operating activities:		
Decrease in net assets	$ (1,668,559)	$ (1,104,083)
Adjustments to reconcile decrease in net assets to net cash provided by (used in) operating activities:		
Depreciation	452,800	448,362
Gains on investments, net	(214,209)	(175,079)
Contributions restricted to endowments	59,155	(62,690)
Contributed stock	(47,752)	(125,096)
Change in value of charitable lead trust	2,938	2,738
Change in value of beneficial interest in perpetual trust	1,893	(28,988)
Net changes in operating accounts:		
Receivables	(442,126)	(85,897)
Prepaid expenses	(350,477)	(25,967)
Pledges receivable	800,011	1,089,981
Accounts payable	9,099	32,970
Accrued wages and benefits	69,652	(19,988)
Defined benefit pension obligation	669,181	356,049
Total adjustments	1,010,165	1,406,395
Net cash provided by (used in) operating activities	(658,394)	302,312
Cash flows from investing activities:		
Purchase of investments	(3,169,352)	(2,476,260)
Proceeds from sales of investments	3,387,480	2,375,039
Purchase of property and equipment	(122,558)	(5,081)
Net cash provided by (used in) investing activities	95,570	(106,302)
Cash flows from financing activities, collection of pledges, and contributions restricted to endowment	(59,155)	133,740
Net change in cash	(621,979)	329,750
Cash at beginning of year	917,598	587,848
Cash at end of year	**$ 295,619**	**$ 917,598**
Noncash operating activities, equipment acquired with short-term liabilities	**$ 13,216**	**$ 31,530**
Noncash investing and financing activities, stock contributed for pledge payments	**$ 32,019**	**$ 261,164**

See notes to financial statements.

1. 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.

2. Summary of significant accounting policies:

Basis of accounting:

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

Net assets and revenue recognition:

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

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

2. Summary of significant accounting policies (continued):

Net assets and revenue recognition (continued):

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

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

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 $83,255 and $95,661 at June 30, 2019 and 2018, respectively.

Investments:

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

2. 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 with donor restrictions. If a restriction is fulfilled in the same reporting period in which the contribution is received, the contribution is reported as unrestricted.

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

Fair value measurements:

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

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

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

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

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

2. Summary of significant accounting policies (continued):

Fair value measurements (continued):

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

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

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

There have been no changes in the valuation techniques used during the years ended June 30, 2019 and 2018.

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

Property and equipment:

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

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.

2. Summary of significant accounting policies (continued):

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.

Reclassifications:

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

Subsequent events:

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States (US). The immediate impact on the US and international economies has been significant. There is significant uncertainty regarding the breadth and duration of the business disruptions related to COVID-19, as well as the impact on the US and global economies. Childhaven expects this matter to negatively affect business, results of operations, and financial position, but the related financial impact cannot be reasonably estimated at this time.

In May 2020, Childhaven received a loan of approximately $1.27 million through the U.S. Small Business Administration Paycheck Protection Program.

Effective June 1, 2020, Renton Area Youth and Family Services (RAYS) and Art With Heart (AWH), both Washington nonprofit corporations, were merged with and into Childhaven. Childhaven has interest in expanding its programs, services, and presence in King County and finds significant synergies between its current and intended future programs and the current and proposed future programs of RAYS and AWS which it will co-brand with Childhaven. In connection with the merger, Childhaven acquired all assets and liabilities of RAYS and AWH and became the surviving entity. The accounting impact of the transaction has not yet been determined.

2. Summary of significant accounting policies (continued):

Subsequent events (continued):

Childhaven has evaluated subsequent events through February 23, 2021, the date which the financial statements were available to be issued.

Change in accounting principle:

On August 18, 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Childhaven has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly.

3. Liquidity and availability:

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

	2019	2018
Financial assets:		
Cash	$ 295,619	$ 917,598
Investments	8,917,840	8,841,988
Accounts receivables	1,374,209	1,616,456
Total financial assets	10,587,668	11,376,042
Board designated funds	(2,570,570)	(2,452,132)
Donor restricted endowment funds	(5,255,880)	(6,476,806)
Financial assets available to meet cash needs for general expenditures within one year	**$ 2,761,218**	**$ 2,447,104**

3. Liquidity and availability (continued):

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

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

4. Pledges receivable:

   Pledges receivable at June 30, 2019 are due to be collected as follows:

In less than one year	$	193,796
In one to five years		188,396
		382,192
Less:		
Allowance for uncollectible accounts		(83,255)
Unamortized discount (2% discount factor)		(10,580)
Pledges receivable, net	**$**	**288,357**

   Four donors had outstanding pledges totaling approximately $299,400 at June 30, 2019. Two donors had outstanding pledges totaling approximately $650,000 at June 30, 2018.

5. Investments:

	June 30, 2019		
	Cost	Fair value	Unrealized gain (loss)
Cash equivalents	$ 2,332,604	$ 2,332,604	
U.S. equities	1,184,108	1,890,927	$ 706,819
International ETFs	630,184	651,949	21,765
Corporate debt securities	3,928,408	3,875,656	(52,752)
U.S. government obligations	161,060	166,704	5,644
	$ 8,236,364	**$ 8,917,840**	**$ 681,476**

	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 ETFs	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**

Investment income consists of the following:

	Year ended June 30,	
	2019	2018
Interest and dividends	$ 184,121	$ 256,857
Net realized and unrealized gains	250,659	175,079
	$ 434,780	**$ 431,936**

6. Contributions receivable – charitable lead trust:

Childhaven is a beneficiary of a charitable lead trust. The donor contributed $500,000 and specified that 5% of the fair value at the end of each calendar year be distributed to the beneficiaries for a period of 20 years (with final payment in 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 $428,264 and $421,938 at June 30, 2019 and 2018, respectively. Childhaven received $3,996 and $4,436 from the trust during 2019 and 2018, respectively.

Future payments are expected to be received as follows:

In less than one year	$	4,283
In one to five years		17,132
In more than five years		4,283
		25,698
Less unamortized discount		(14,661)
Contributions receivable - charitable lead trust	**$**	**11,037**

7. 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 $31,110 and $20,233 of investment income from the trust for the years ended June 30, 2019 and 2018, respectively.

8. In-kind contributions:

Volunteers provide Childhaven with certain services which do not create or enhance non-financial assets or require specialized skills. Services of these volunteers, which management considers important to the operations of Childhaven, are not recognized as revenue in the accompanying financial statements. Unrecognized contributions of services provided by volunteers, at estimated fair value, totaled approximately $118,000 and $120,000 during 2019 and 2018, respectively.

9. Property and equipment:

Donor restrictions prohibit Childhaven from selling, transferring, mortgaging, or encumbering the Broadway facility and require that the facility be used for the same purpose in perpetuity unless the donor gives prior written consent, which consent is not to be unreasonably refused. The restrictions also require certain portions of the facility to be named after the grantor in perpetuity. The net book value of the facility was $8,334,649 at June 30, 2019.

	June 30,	
	2019	2018
Buildings and improvements	$ 17,013,503	$ 16,924,489
Equipment	1,784,624	1,719,670
Vans	848,008	848,008
	19,646,135	19,492,167
Less accumulated depreciation	(10,614,617)	(10,161,817)
Land	703,370	703,370
Construction-in-progress	13,336	31,530
	$ 9,748,224	**$ 10,065,250**

10. Defined benefit pension plan:

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

Childhaven made employer contributions of $55,541 and $40,000 during 2019 and 2018, respectively. Benefits and expenses paid by the Plan were approximately $230,000 and $1,134,000 for 2019 and 2018, respectively.

10. Defined benefit pension plan (continued):

Obligations and funded status:

Net periodic pension costs include the following components:

	Year ended June 30, 2019	Year ended June 30, 2018
Interest cost	$ 218,710	$ 263,361
Expected return on Plan assets	(204,612)	(258,614)
Amortization of loss	212,063	166,196
Net period pension costs included in employee benefits	**$ 226,161**	**$ 170,943**

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

	June 30, 2019	June 30, 2018
Projected benefit obligation	$ 5,971,812	$ 5,327,812
Fair value of assets	3,404,353	3,429,534
Unfunded pension obligation	**$ (2,567,459)**	**$ (1,898,278)**

Amounts not yet recognized as components of net periodic benefit cost in the statement of activities for the years ended June 30, 2019 and 2018 consist of net unrecognized actuarial loss of $2,553,951 and $2,058,884, respectively.

The accumulated benefit obligation was $5,971,812 and $5,327,812 at June 30, 2019 and 2018, respectively.

10. Defined benefit pension plan (continued):

Assumptions:

	2019	2018
Weighted-average assumptions used to determine benefit obligations at June 30:		
Discount rate	3.46%	4.12%
Weighted-average assumptions used to determine net periodic pension cost for years ended June 30:		
Discount rate	4.12%	4.50%
Expected return on plan assets	6.00%	6.00%

Plan assets:

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

	2019		2018	
Cash	$ 704	0.02%	$ 464	0.01%
Interest bearing cash	228,167	6.70%	162,542	4.74%
Corporate bonds	2,036,862	59.83%	2,084,877	60.79%
Common stock	553,401	16.26%	501,511	14.62%
Unit investment trusts	572,086	16.80%	674,228	19.66%
Other	13,133	0.39%	5,912	0.18%
	$ 3,404,353	**100%**	**$ 3,429,534**	**100%**

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.

10. Defined benefit pension plan (continued):

Plan assets (continued):

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 2020 fiscal year. No Plan assets are expected to be returned to Childhaven during 2020.

The following benefit payments are expected to be paid:

Year ending June 30,	
2020	$ 49,306
2021	85,134
2022	94,922
2023	131,478
2024	187,109
2025 through 2029	1,125,706

11. Defined contribution pension plans:

Employees of Childhaven may participate in an Internal Revenue Code section 403(b) retirement savings plan, established January 1, 1978. Childhaven contributes a percentage of the employee's salary based on years of service. Contributions made for both the years ended June 30, 2019 and 2018 were approximately $207,000.

11. Defined contribution pension plans (continued):

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

12. Fair value measurements:

Fair value for the split interest agreements are measured using the fair value of the assets held in the trusts as reported by the trustees as of June 30, 2019 and 2018. 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, 2019 and 2018.

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

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

12. Fair value measurements (continued):

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
	$ 5,299,881	**$ 6,985,616**	**$ 610,997**	**$ 12,896,494**

The following is a summary of changes in the fair value of the Level 3 investments for the year ended June 30, 2019:

	Beneficial interest in perpetual trust
Beginning of year	$ 610,997
Interest and dividends	31,110
Distributions	(31,110)
Change in fair value of split interest agreement	(1,893)
End of year	**$ 609,104**

13. Net assets without donor restrictions:

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

	2019	2018
Undesignated	$ 10,612,874	$ 11,178,945
Designated by the board for building maintenance	2,570,570	2,452,132
Total net assets without donor restrictions	**$ 13,183,444**	**$ 13,631,077**

14. Net assets with donor restrictions:

	June 30, 2019	June 30, 2018
Subject to expenditure for specified purpose:		
Maintenance and repair of Broadway facility	$ 831,974	$ 793,637
Continue of Care	187,507	623,257
Lovsted Scholarship	367,871	369,427
Branding	123,376	168,376
Building Improvements	25,000	107,000
Helping Hands Fund	108,687	103,340
Music Therapy Program	60,000	80,000
Team Turtle Scholarship	66,523	58,973
Community Health Navigation	50,000	
Event Sponsorship	17,500	43,500
Books & Equipment for Children	13,661	18,000
Transportation		10,000
Home Visitation Expansion		9,972
	1,852,099	2,385,482
Subject to passage of time:		
Annual Fund multi-year pledges	77,564	836,848
Other time restricted	25,000	15,000
Unappropriated endowment income	58,678	46,907
Charitable lead trust - Note 6	11,037	13,975
	172,279	912,730
Not subject to spending policy or appropriation:		
Second Century Campaign	2,622,397	2,567,597
Beneficial interest in perpetual trust - Note 7	609,105	610,997
	3,231,502	3,178,594
Total net assets with donor restrictions	**$ 5,255,880**	**$ 6,476,806**

15. Endowments:

Interpretation of relevant law:

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

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

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

Return objectives and risk parameters:

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

15. Endowments (continued):

Strategies employed for achieving objectives:

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

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

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

Funds with deficiencies:

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires Childhaven to retain as a fund of perpetual duration. There were no deficiencies at June 30, 2019 and 2018.

15. Endowments (continued):

Changes in endowment net assets consist of the following:

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

	Year ended June 30, 2018		
	Without Donor Restrictions	With Donor Restictions	Total
Endowment net assets, beginning of the year	$ 2,352,390	$ 4,469,322	$ 6,821,712
Contributions		62,690	62,690
Contributions written off		(60,967)	(60,967)
Investment gain	99,742	207,908	307,650
Amounts appropriated for expenditure		(128,075)	(128,075)
Endowment net assets, end of year	**$ 2,452,132**	**$ 4,550,878**	**$ 7,003,010**

15. Endowments (continued):

Endowment net assets consist of the following:

	June 30, 2019		
	Without Donor Restrictions	With Donor Restictions	Total
Donor restricted funds		$ 3,833,261	$ 3,833,261
Board designated - maintenance reserve	$ 1,992,791	831,974	2,824,765
Board designated - endowment funds	577,779		577,779
	$ 2,570,570	**$ 4,665,235**	**$ 7,235,805**

	June 30, 2018		
	Without Donor Restrictions	With Donor Restictions	Total
Donor restricted funds		$ 3,757,241	$ 3,757,241
Board designated - maintenance reserve	$ 1,900,974	793,637	2,694,611
Board designated - endowment funds	551,158		551,158
	$ 2,452,132	**$ 4,550,878**	**$ 7,003,010**

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.

16. Concentrations:

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

Childhaven's therapeutic childcare workers, representing approximately 30% of Childhaven's employees at June 30, 2019, were members of the United Food and Commercial Workers International Union (the Union). Subsequent to year end, the contract with the Union was cancelled and Union workers were paid accrued vacation balances, 25% of sick leave balances, and approximately $80,000 in severance payments, settling all obligations associated with the contract.