

# CHILDHAVEN

2015 AND 2014  
FINANCIAL STATEMENTS





## 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, 2015 and 2014, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Board of 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, 2015 and 2014, 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.*

December 16, 2015

# CHILDHAVEN

## STATEMENTS OF FINANCIAL POSITION

	June 30,	
	2015	2014
<b>ASSETS</b>		
Current assets:		
Cash	\$ 2,314,887	\$ 1,938,201
Service fees receivable	336,799	494,441
Other receivables	39,804	36,367
Prepaid expenses	271,280	229,025
Pledges receivable, net	874,130	973,780
Total current assets	3,836,900	3,671,814
Investments	6,825,587	5,294,114
Contributions receivable - charitable lead trust	22,715	25,787
Noncurrent pledges receivable, net	867,875	1,266,033
Property and equipment, net	10,781,764	10,887,655
Beneficial interest in perpetual trust	583,398	615,648
	<b>\$ 22,918,239</b>	<b>\$ 21,761,051</b>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable	\$ 115,205	\$ 154,066
Accrued wages and benefits	401,383	416,400
Total current liabilities	516,588	570,466
Deferred compensation plan	46,772	34,737
Defined benefit pension obligation	1,336,162	1,171,900
Total liabilities	1,899,522	1,777,103
Net assets:		
Unrestricted:		
Undesignated	13,054,442	12,625,181
Board designated	2,305,243	2,322,780
	15,359,685	14,947,961
Temporarily restricted	2,611,126	2,803,667
Permanently restricted	3,047,906	2,232,320
Total net assets	21,018,717	19,983,948
Total liabilities and net assets	<b>\$ 22,918,239</b>	<b>\$ 21,761,051</b>

*See notes to financial statements.*

# CHILDHAVEN

## STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2015

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenue and support:				
Service fees from governmental agencies	\$ 3,370,150			\$ 3,370,150
Contributions, net	2,663,356	\$ 524,022	\$ 847,836	4,035,214
United Way of King County	1,029,064			1,029,064
Special events, net of expenses of \$354,304	783,558			783,558
Government and other grants	216,853			216,853
Investment income, net	112,098	28,695		140,793
Other income	61,790	1,490	(32,250)	31,030
Net assets released from restrictions	746,748	(746,748)		
Total revenue and support	8,983,617	(192,541)	815,586	9,606,662
Expenses:				
Program services:				
Therapeutic child care	6,623,998			6,623,998
Research	74,933			74,933
Supporting services:				
Management and general	907,727			907,727
Fundraising	965,235			965,235
Total expenses	8,571,893			8,571,893
Change in net assets	411,724	(192,541)	815,586	1,034,769
Net assets, beginning of year	14,947,961	2,803,667	2,232,320	19,983,948
Net assets, end of year	<b>\$15,359,685</b>	<b>\$ 2,611,126</b>	<b>\$ 3,047,906</b>	<b>\$21,018,717</b>

See notes to financial statements.

# CHILDHAVEN

## STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2014

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenue and support:				
Service fees from governmental agencies	\$ 3,246,177			\$ 3,246,177
Contributions, net	2,747,922	\$ 533,259	\$ 241,303	3,522,484
United Way of King County	1,030,064			1,030,064
Special events, net of expenses of \$307,473	757,825			757,825
Government grants	270,356			270,356
Investment income, net	315,200	126,220		441,420
Other income	57,571	3,812	54,096	115,479
Net assets released from restrictions	785,128	(785,128)		
Total revenue and support	9,210,243	(121,837)	295,399	9,383,805
Expenses:				
Program services:				
Therapeutic child care	6,339,098			6,339,098
Research	77,724			77,724
Supporting services:				
Management and general	809,331			809,331
Fundraising	841,127			841,127
Total expenses	8,067,280			8,067,280
Change in net assets	1,142,963	(121,837)	295,399	1,316,525
Net assets, beginning of year	13,804,998	2,925,504	1,936,921	18,667,423
Net assets, end of year	<b>\$14,947,961</b>	<b>\$ 2,803,667</b>	<b>\$ 2,232,320</b>	<b>\$19,983,948</b>

See notes to financial statements.

## CHILDHAVEN

### STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2015

	Program services			Supporting services			
	Therapeutic child care	Research	Total	Management & general	Fundraising	Total	Total
Salaries	\$ 3,828,255	\$ 46,183	\$ 3,874,438	\$ 382,596	\$ 496,589	\$ 879,185	\$ 4,753,623
Benefits	450,223	6,366	456,589	48,206	30,618	78,824	535,413
Payroll taxes	383,904	4,453	388,357	35,335	47,624	82,959	471,316
Pension, life premiums	452,202	5,715	457,917	87,620	58,811	146,431	604,348
Temporary workers	45,148		45,148	1,736	3,600	5,336	50,484
Total salaries and related expenses	5,159,732	62,717	5,222,449	555,493	637,242	1,192,735	6,415,184
Advertising				2,118	11,403	13,521	13,521
Equipment rental/maintenance	49,613		49,613	14,174	14,097	28,271	77,884
Memberships and publications	1,225		1,225	9,407	(3,138)	6,269	7,494
Occupancy	484,319	2,144	486,463	22,857	23,534	46,391	532,854
Other	17,519	100	17,619	20,309	26,540	46,849	64,468
Postage and printing	1,758		1,758	9,063	30,436	39,499	41,257
Professional fees	(3,024)		(3,024)	212,582	187,667	400,249	397,225
Recruitment	7,416		7,416	3,835	4,855	8,690	16,106
Research		7,350	7,350				7,350
Specific assistance to individuals	41,848		41,848	10		10	41,858
Supplies	329,788	17	329,805	15,291	439	15,730	345,535
Telephone	38,649	150	38,799	6,612	1,647	8,259	47,058
Training	14,703		14,703	6,165	2,619	8,784	23,487
Transportation	191,001		191,001	2,657	897	3,554	194,555
Total expenses before depreciation	6,334,547	72,478	6,407,025	880,573	938,238	1,818,811	8,225,836
Depreciation	289,451	2,455	291,906	27,154	26,997	54,151	346,057
	<b><u>\$ 6,623,998</u></b>	<b><u>\$ 74,933</u></b>	<b><u>\$ 6,698,931</u></b>	<b><u>\$ 907,727</u></b>	<b><u>\$ 965,235</u></b>	<b><u>\$ 1,872,962</u></b>	<b><u>\$ 8,571,893</u></b>

*See notes to financial statements.*

## CHILDHAVEN

### STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2014

	Program services			Supporting services			Total
	Therapeutic child care	Research	Total	Management & general	Fundraising	Total	
Salaries	\$ 3,615,961	\$ 48,459	\$ 3,664,420	\$ 385,905	\$ 480,251	\$ 866,156	\$ 4,530,576
Benefits	433,871	5,668	439,539	40,734	30,382	71,116	510,655
Payroll taxes	373,551	5,079	378,630	37,183	46,775	83,958	462,588
Pension, life premiums	259,342	3,350	262,692	59,569	30,566	90,135	352,827
Temporary workers	52,422		52,422	625	3,450	4,075	56,497
<b>Total salaries and related expenses</b>	<b>4,735,147</b>	<b>62,556</b>	<b>4,797,703</b>	<b>524,016</b>	<b>591,424</b>	<b>1,115,440</b>	<b>5,913,143</b>
Advertising					10,642	10,642	10,642
Equipment rental/maintenance	57,508		57,508	16,549	16,381	32,930	90,438
Memberships and publications	825		825	6,926	300	7,226	8,051
Occupancy	456,248	2,240	458,488	28,191	25,775	53,966	512,454
Other	81,677	100	81,777	16,188	33,438	49,626	131,403
Postage and printing	2,767		2,767	7,132	33,538	40,670	43,437
Professional fees	14,132		14,132	155,810	91,657	247,467	261,599
Recruitment	21,898	49	21,947	1,618	437	2,055	24,002
Research		9,653	9,653				9,653
Specific assistance to individuals	92,464		92,464				92,464
Supplies	299,824	4	299,828	12,801	1,698	14,499	314,327
Telephone	42,368	210	42,578	5,784	2,378	8,162	50,740
Training	44,291		44,291	311	459	770	45,061
Transportation	168,895		168,895	1,816	968	2,784	171,679
<b>Total expenses before depreciation</b>	<b>6,018,044</b>	<b>74,812</b>	<b>6,092,856</b>	<b>777,142</b>	<b>809,095</b>	<b>1,586,237</b>	<b>7,679,093</b>
Depreciation	321,054	2,912	323,966	32,189	32,032	64,221	388,187
	<b><u>\$ 6,339,098</u></b>	<b><u>\$ 77,724</u></b>	<b><u>\$ 6,416,822</u></b>	<b><u>\$ 809,331</u></b>	<b><u>\$ 841,127</u></b>	<b><u>\$ 1,650,458</u></b>	<b><u>\$ 8,067,280</u></b>

*See notes to financial statements.*



# CHILDHAVEN

## STATEMENTS OF CASH FLOWS

	Year ended June 30,	
	2015	2014
Cash flows from operating activities:		
Increase in net assets	\$ 1,034,769	\$ 1,316,525
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	346,057	388,187
Losses (gains) on investments, net	34,269	(297,656)
Pledges receivable and contributions restricted to endowments	(947,050)	(107,552)
Contributed stock	(573,838)	(340,936)
Loss on disposition of property and equipment	625	53,131
Change in value of charitable lead trust	(1,490)	(3,813)
Change in value of beneficial interest in perpetual trust	32,250	(54,096)
Net changes in operating accounts:		
Receivables	154,205	(96,044)
Prepaid expenses	(42,255)	(10,530)
Pledges receivable	206,146	156,587
Contributions receivable - charitable lead trust	4,562	4,586
Accounts payable	(38,861)	(52,462)
Accrued wages and benefits	(2,982)	1,007
Pension obligation	164,262	(80,446)
Total adjustments	(664,100)	(440,037)
Net cash provided by operating activities	370,669	876,488
Cash flows from investing activities:		
Proceeds from sales of investments	1,241,588	1,335,207
Purchase of investments	(2,129,166)	(1,667,946)
Purchase of property and equipment	(240,791)	(162,728)
Net cash used in investing activities	(1,128,369)	(495,467)
Cash flows from financing activities, collection of pledges and contributions restricted to endowment	1,134,386	81,977
Net increase in cash	376,686	462,998
Cash at beginning of year	1,938,201	1,475,203
Cash at end of year	<b>\$ 2,314,887</b>	<b>\$ 1,938,201</b>
Noncash investing and financing activities, stock contributed for pledge payments	<b>\$ 104,326</b>	<b>\$ 229,291</b>

*See notes to financial statements.*

# CHILDHAVEN

## NOTES TO FINANCIAL STATEMENTS

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### 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 child care centers located throughout King County, Washington.

Childhaven's principal program, Therapeutic Child Care, 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, 5 days per week, 7 hours per day (including transportation). Families are referred by the Washington State Department of Early Learning (DEL), the Seattle/King County Department of Public Health – Alcohol, Tobacco and Other Drug Prevention Division, and drug treatment centers.

#### 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 its 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.

#### Investments:

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

# CHILDHAVEN

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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### 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.

There have been no changes in the valuation techniques used during the years ended June 30, 2015 and 2014.

# CHILDHAVEN

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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### 1. Summary of significant accounting policies (continued):

#### Property and equipment and depreciation:

Property and equipment are 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 December 16, 2015, the date which the financial statements were available to be issued.

# CHILDHAVEN

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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### 2. Pledges receivable:

Pledges receivable at June 30, 2015 are due to be collected as follows:

In less than one year	\$ 874,130
In one to five years	1,043,292
In more than five years	<u>42,990</u>
	1,960,412
Less:	
Allowance for uncollectible accounts	(115,000)
Unamortized discount (2% discount factor)	<u>(103,407)</u>
Pledges receivable, net	<u><u>\$ 1,742,005</u></u>

Two donors had outstanding pledges totaling approximately \$653,000 and \$1,127,000 at June 30, 2015 and June 30, 2014, respectively.

### Conditional promises to give:

A donor has agreed to match certain pledges, up to \$200,000 per calendar year for the three years beginning January 1, 2015. Since this pledge represents a conditional promise to give, it is not recorded as contribution revenue until donor conditions are met. Subsequent to year end, Childhaven submitted for and received \$145,350 of matching funds under this agreement.

During the 2015 fiscal year, Childhaven received a grant agreement totaling \$300,000 that contained donor conditions (primarily satisfactory progress requirements), and is restricted to the purpose of expanding the Parenting Education Program (PARE). Since this grant represents a conditional promise to give, it is not recorded as contribution revenue until donor conditions are met. Funds received from the donor upon the conditions being met totaled \$100,000 during the 2015 fiscal year.

# CHILDHAVEN

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 3. Investments:

	June 30, 2015		
	Cost	Fair value	Unrealized appreciation (depreciation)
Cash equivalents	\$ 633,171	\$ 633,171	
U.S. equities	1,358,558	1,842,636	\$ 484,078
International equity mutual funds	463,639	457,089	(6,550)
Corporate debt securities	3,708,198	3,637,855	(70,343)
U.S. Government obligations	246,226	254,836	8,610
	<b>\$ 6,409,792</b>	<b>\$ 6,825,587</b>	<b>\$ 415,795</b>

  

	June 30, 2014		
	Cost	Fair value	Unrealized appreciation (depreciation)
Cash equivalents	\$ 362,999	\$ 362,999	
U.S. equities	1,006,679	1,467,742	\$ 461,063
International equity mutual funds	358,721	378,370	19,649
Corporate debt securities	2,775,332	2,751,383	(23,949)
U.S. Government obligations	317,661	333,620	15,959
	<b>\$ 4,821,392</b>	<b>\$ 5,294,114</b>	<b>\$ 472,722</b>

Investment income consists of the following:

	Year ended June 30,	
	2015	2014
Interest and dividends	\$ 175,062	\$ 143,764
Net realized and unrealized gains (losses)	(34,269)	297,656
	<b>\$ 140,793</b>	<b>\$ 441,420</b>

# CHILDHAVEN

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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### 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 \$436,284 and \$448,723 at June 30, 2015 and 2014, respectively. Childhaven received \$4,562 and \$4,586 from the trust during 2015 and 2014, respectively.

Future payments are expected to be received as follows:

In less than one year	\$	4,363
In one to five years		17,452
In more than five years		<u>8,726</u>
		30,541
Less unamortized discount		<u>(7,826)</u>
Contributions receivable-charitable lead trust	\$	<u><u>22,715</u></u>

### 5. Beneficial interest in perpetual trust:

In the 1950's Childhaven received a gift that the donor specified be invested in perpetuity with income to be used to support Childhaven programs. The assets are held by a third party trustee. Net realized and unrealized gains and losses related to the beneficial interest are reported as changes in permanently restricted net assets. Childhaven received \$23,928 and \$22,784 of investment income from the trust for the years ended June 30, 2015 and 2014, respectively.

### 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, total approximately \$163,000 and \$157,600 during 2015 and 2014, respectively.

# CHILDHAVEN

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 7. Property and equipment:

	June 30,	
	2015	2014
Buildings and improvements	\$ 16,830,866	\$ 16,816,821
Equipment	1,493,538	1,514,676
Vans	756,707	650,470
	19,081,111	18,981,967
Less accumulated depreciation	(9,048,357)	(8,797,682)
Land	703,370	703,370
Construction in progress	45,640	
	<b>\$ 10,781,764</b>	<b>\$ 10,887,655</b>

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 \$9,063,833 at June 30, 2015.

### 8. Defined benefit pension plan:

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 approximately \$206,000 and \$200,000 during 2015 and 2014, respectively. Benefits and expenses paid by the Plan were approximately \$203,000 and \$378,000 for 2015 and 2014, respectively.



# CHILDHAVEN

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Defined benefit pension plan (continued):

Obligations and funded status:

Pension costs include the following components:

	Year ended June 30,	
	2015	2014
Service cost of the current period	\$ 12,493	\$ 11,826
Interest cost on the projected benefit obligation	199,046	217,572
Expected return on plan assets	(292,118)	(275,308)
Recognized actuarial losses	59,236	57,816
Settlement loss due to the payment of plan benefits		47,298
	<b>\$ (21,343)</b>	<b>\$ 59,204</b>

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

	June 30,	
	2015	2014
Projected benefit obligation	\$ 5,370,258	\$ 5,064,912
Fair value of assets	4,034,096	3,893,012
Unfunded pension obligation	<b>\$ (1,336,162)</b>	<b>\$ (1,171,900)</b>

The annual adjustment of the unfunded pension obligation of \$164,262 and \$80,446 for the years ended June 30, 2015 and 2014, respectively, is included in employee pension and life premiums in the statement of functional expenses.

# 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, 2015 and 2014 consist of unrecognized actuarial loss of \$1,298,240 and \$906,335, respectively.

The accumulated benefit obligation was \$5,370,258 and \$5,064,912 at June 30, 2015 and 2014, respectively.

Assumptions:

	2015	2014
Weighted-average assumptions used to determine benefit obligations at June 30:		
Discount rate	4.00%	4.00%
Rate of compensation increase	0.00%	0.00%
Weighted-average assumptions used to determine net periodic benefit cost for years ended June 30:		
Discount rate	4.00%	4.50%
Expected return on plan assets	7.50%	7.50%
Rate of compensation increase	0.00%	0.00%

The expected long-term rate of return on plan assets assumption of 7.50% was selected in accordance with Actuarial Standards Board in Actuarial Standards of Practice No. 27 – *Selection of Economic Assumptions for Measuring Pension Obligations*. Based on investment policy for the Plan in effect as of the beginning of the fiscal year, a best estimate range was determined for both the real rate of return (net of inflation and investment expense) and for inflation based on long term historical return on applicable asset classes. An average inflation rate within the range equal to 3.75% was selected and added to the real rate of return range to arrive at a best estimate range of 6.81% - 9.33%. A rate of 7.50% which is within the best estimate range was selected.

# CHILDHAVEN

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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### 8. Defined benefit pension plan (continued):

#### Plan assets:

Plan assets consist primarily of stocks, bonds, and government obligations reported at fair value. Plan assets at June 30 by category consist of:

	2015		2014	
Equity	\$ 1,972,092	48.89%	\$ 1,987,848	51.06%
Fixed income	1,692,763	41.96%	1,542,844	39.63%
General account	369,241	9.15%	362,320	9.31%
	<u>\$ 4,034,096</u>		<u>\$ 3,893,012</u>	

The overall investment philosophy is to manage plan assets in a prudent, conservative yet productive manner. Preservation of capital is of prime importance. Risk, including excessive volatility in the value of plan assets, is minimized. Plan assets are managed to achieve stated objectives over a long-term time horizon. The plan assets are managed with a long-term asset mix guideline of 50% equity alternatives and 50% fixed income alternatives on a total return basis. The actual ratio is expected to vary from the guideline ratio due to intentional adjustments to the asset mix because of, or in anticipation of, changing market conditions. A portion will be maintained as a liquidity reserve to aggregate the amount of anticipated benefit and expense outflow in the next year based on the most recent valuation furnished by the Plan actuary.

The investment objective is to achieve an average annual rate of return (net of investment management expense) over a three to five year period that exceeds the average annual rate of return that would have been achieved in the same period by a composite market index comprised of the Standard & Poor's 500 Composite Stock Index (weighted 50%), the Barclays Capital U.S. Aggregate Bond Index (weighted 40%), and 90-day Treasury Bills (weighted 10%).

# CHILDHAVEN

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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### 8. Defined benefit pension plan (continued):

#### Cash flows:

Childhaven expects to contribute approximately \$200,000 to the Plan in the 2016 fiscal year. No Plan assets are expected to be returned to Childhaven during the 2016 fiscal year.

The following benefit payments are expected to be paid:

<u>Year ending June 30,</u>	
2016	\$ 420,000
2017	145,000
2018	47,000
2019	85,000
2020	264,000
2021 through 2025	2,396,000

### 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 the years ended June 30, 2015 and 2014 were approximately \$162,000 and \$170,000, respectively.

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.

# CHILDHAVEN

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 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, 2015 and 2014. 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 insurance company based on the underlying investments as of June 30, 2015 and 2014.

The fair value of assets, by level, as of June 30, 2015 is as follows:

	Level 1	Level 2	Level 3
Investments	\$ 6,825,587		
Pension plan assets		\$ 4,034,096	
Contribution receivable-charitable lead trust		22,715	
Beneficial interest in perpetual trust			\$ 583,398
	<b>\$ 6,825,587</b>	<b>\$ 4,056,811</b>	<b>\$ 583,398</b>

The fair value of assets, by level, as of June 30, 2014 is as follows:

	Level 1	Level 2	Level 3
Investments	\$ 5,294,114		
Pension plan assets		\$ 3,893,012	
Contribution receivable-charitable lead trust		25,787	
Beneficial interest in perpetual trust			\$ 615,648
Total of each level	<b>\$ 5,294,114</b>	<b>\$ 3,918,799</b>	<b>\$ 615,648</b>

# CHILDHAVEN

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 10. Fair value measurements (continued):

The following is a summary of changes in the fair value of the beneficial interest in the perpetual trust:

Balance, June 30, 2014	\$	615,648
Interest and dividends		23,928
Distributions		(23,928)
Change in value of split interest agreement		<u>(32,250)</u>
 Balance, June 30, 2015	 \$	 <u><b>583,398</b></u>

### 11. Temporarily restricted net assets:

	June 30,	
	2015	2014
Purpose restricted:		
Maintenance and repair of		
Broadway facility	\$ 736,237	\$ 730,575
Lovsted Scholarship	375,499	256,624
Helping Hands Fund	120,904	127,493
Event Sponsorship	50,500	37,500
Team Turtle Scholarship	35,264	30,000
Aven Foundation Scholarship	25,459	77,449
Parenting Education Program		25,000
Frontiers of Innovation Program		25,000
Time restricted:		
Annual Fund multi-year pledges	1,192,462	1,402,517
Unappropriated endowment income	52,086	65,722
Charitable lead trust - Note 4	<u>22,715</u>	<u>25,787</u>
	<u><b>\$ 2,611,126</b></u>	<u><b>\$ 2,803,667</b></u>

# CHILDHAVEN

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 12. Permanently restricted net assets:

	June 30,	
	2015	2014
Second Century Campaign	\$ 2,464,508	\$ 1,616,672
Beneficial interest in perpetual trust - Note 5	583,398	615,648
	<b>\$ 3,047,906</b>	<b>\$ 2,232,320</b>

### 13. Endowments:

#### Interpretation of relevant law:

The Board of Trustees of Childhaven 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)

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### 13. Endowments (continued):

#### Return objectives and risk parameters:

Childhaven has adopted investment and spending policies for endowment assets, approved by the Board of Trustees, 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 endowed 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 of Trustees. 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. Endowment fund deficiencies totaled \$10,304 and \$4,693 at June 30, 2015 and 2014, respectively.



# CHILDHAVEN

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 13. Endowments (continued):

Changes in endowment net assets consisted of the following:

	Year ended June 30, 2015			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Endowment net assets, beginning of the year	\$ 2,318,087	\$ 1,210,715	\$ 2,232,320	\$ 5,761,122
Contributions		118,100	847,836	965,936
Investment gain (loss)	24,981	28,710	(32,250)	21,441
Amounts appropriated for expenditure	(48,129)	(30,196)		(78,325)
Endowment net assets, end of year	<b>\$ 2,294,939</b>	<b>\$ 1,327,329</b>	<b>\$ 3,047,906</b>	<b>\$ 6,670,174</b>
	Year ended June 30, 2014			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of the year	\$ 2,149,985	\$ 1,040,480	\$ 1,936,921	\$ 5,127,386
Contributions	63,837	159,458	241,303	464,598
Investment gain	150,411	126,221	54,096	330,728
Amounts appropriated for expenditure	(46,146)	(115,444)		(161,590)
Endowment net assets, end of year	<b>\$ 2,318,087</b>	<b>\$ 1,210,715</b>	<b>\$ 2,232,320</b>	<b>\$ 5,761,122</b>

# CHILDHAVEN

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 13. Endowments (continued):

Endowment net assets consisted of the following:

	June 30, 2015			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor restricted funds	\$ (10,304)	\$ 590,792	\$ 3,047,906	\$ 3,628,394
Board designated - maintenance reserve	1,807,797	736,237		2,544,034
Board designated - endowment funds	497,446			497,446
	<b><u>\$ 2,294,939</u></b>	<b><u>\$ 1,327,029</u></b>	<b><u>\$ 3,047,906</u></b>	<b><u>\$ 6,669,874</u></b>
	June 30, 2014			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor restricted funds	\$ (4,693)	\$ 480,140	\$ 2,232,320	\$ 2,707,767
Board designated - maintenance reserve	1,828,100	730,575		2,558,675
Board designated - endowment funds	494,680			494,680
	<b><u>\$ 2,318,087</u></b>	<b><u>\$ 1,210,715</u></b>	<b><u>\$ 2,232,320</u></b>	<b><u>\$ 5,761,122</u></b>

Because the Helping Hands, Lovsted Scholarship and Team Turtle 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 of Trustees as part of a board-designated endowment for the facility's maintenance and repair.

# CHILDHAVEN

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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### 14. Concentrations:

Substantially all service fee income and the service fee receivable are from the State of Washington.

Contributions from one and two different donors accounted for approximately 12% and 10% of total contributions during each of the years ended June 30, 2015 and 2014, respectively.

Childhaven's therapeutic child care workers, representing approximately 33% of Childhaven's employees at June 30, 2015, are members of the United Food and Commercial Workers International Union. Childhaven's contract with the union expired December 31, 2014. Childhaven's other employees are not represented by a union. During 2015, Childhaven was in renegotiations with the union and subsequent to year end, a new contract was signed. The new union contract expires in December 2017.