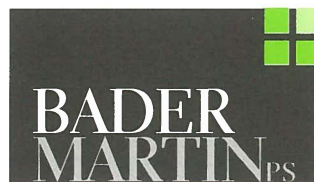
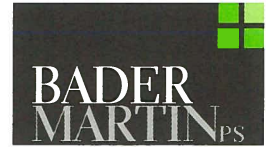


# **CHILDHAVEN**

**JUNE 30, 2016 AND 2015  
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, 2016 and 2015, 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.



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, 2016 and 2015, 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 20, 2016

# CHILDHAVEN

## STATEMENTS OF FINANCIAL POSITION

	June 30,	
	2016	2015
<b>ASSETS</b>		
Current assets:		
Cash	\$ 1,618,662	\$ 2,314,887
Service fees receivable	510,769	336,799
Other receivables	36,185	39,804
Prepaid expenses	380,210	271,280
Pledges receivable, net	1,484,785	874,130
Total current assets	4,030,611	3,836,900
Investments	7,430,892	6,825,587
Contributions receivable - charitable lead trust	18,689	22,715
Noncurrent pledges receivable, net	1,114,766	867,875
Property and equipment, net	10,603,669	10,781,764
Beneficial interest in perpetual trust	546,785	583,398
	<b>\$ 23,745,412</b>	<b>\$ 22,918,239</b>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable	\$ 192,387	\$ 115,205
Accrued wages and benefits	441,511	401,383
Total current liabilities	633,898	516,588
Deferred compensation plan	59,570	46,772
Defined benefit pension obligation	1,885,332	1,336,162
Total liabilities	2,578,800	1,899,522
Net assets:		
Unrestricted:		
Undesignated	12,109,124	13,054,442
Board designated	2,280,709	2,305,243
Total unrestricted	14,389,833	15,359,685
Temporarily restricted	3,686,438	2,611,126
Permanently restricted	3,090,341	3,047,906
Total net assets	21,166,612	21,018,717
Total liabilities and net assets	<b>\$ 23,745,412</b>	<b>\$ 22,918,239</b>

*See notes to financial statements.*

# CHILDHAVEN

## STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating activities:				
Revenue and support:				
Service fees from governmental agencies	\$ 3,550,556			\$ 3,550,556
Contributions, net	2,867,233	\$ 1,857,480	\$ 79,048	4,803,761
United Way of King County	987,627			987,627
Special events, net of expenses of \$258,111	617,445			617,445
Government and other grants	244,554			244,554
Investment income, net	171,654	71,663		243,317
Other income (loss), net	73,178	176	(36,613)	36,741
Net assets released from restrictions	854,007	(854,007)		
<b>Total operating revenue and support</b>	<b>9,366,254</b>	<b>1,075,312</b>	<b>42,435</b>	<b>10,484,001</b>
Expenses:				
Program services:				
Therapeutic child care	7,375,008			7,375,008
Research	90,183			90,183
Supporting services:				
Management and general	1,156,988			1,156,988
Fundraising	1,164,757			1,164,757
<b>Total operating expenses</b>	<b>9,786,936</b>			<b>9,786,936</b>
Change in net assets from operating activities	(420,682)	1,075,312	42,435	697,065
Non-operating activities, change in pension obligation	(549,170)			(549,170)
<b>Total change in net assets</b>	<b>(969,852)</b>	<b>1,075,312</b>	<b>42,435</b>	<b>147,895</b>
Net assets, beginning of year	15,359,685	2,611,126	3,047,906	21,018,717
<b>Net assets, end of year</b>	<b>\$ 14,389,833</b>	<b>\$ 3,686,438</b>	<b>\$ 3,090,341</b>	<b>\$ 21,166,612</b>

*See notes to financial statements.*

# CHILDHAVEN

## STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2015

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating activities:				
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 grants	216,853			216,853
Investment income, net	112,098	28,695		140,793
Other income (loss), net	61,790	1,490	(32,250)	31,030
Net assets released from restrictions	746,748	(746,748)		
<b>Total operating revenue and support</b>	<b>8,983,617</b>	<b>(192,541)</b>	<b>815,586</b>	<b>9,606,662</b>
Expenses:				
Program services:				
Therapeutic child care	6,491,713			6,491,713
Research	73,337			73,337
Supporting services:				
Management and general	894,506			894,506
Fundraising	948,075			948,075
<b>Total operating expenses</b>	<b>8,407,631</b>			<b>8,407,631</b>
<b>Change in net assets from operating activities</b>	<b>575,986</b>	<b>(192,541)</b>	<b>815,586</b>	<b>1,199,031</b>
<b>Non-operating activities, change in pension obligation</b>	<b>(164,262)</b>			<b>(164,262)</b>
<b>Total change in net assets</b>	<b>411,724</b>	<b>(192,541)</b>	<b>815,586</b>	<b>1,034,769</b>
Net assets, beginning of year	14,947,961	2,803,667	2,232,320	19,983,948
<b>Net assets, end of year</b>	<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 FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2016

	Program services			Supporting services			
	Therapeutic child care	Research	Total	Management & general	Fundraising	Total	Total
Salaries	\$ 4,433,178	\$ 45,686	\$ 4,478,864	\$ 467,309	\$ 613,284	\$ 1,080,593	\$ 5,559,457
Benefits	488,216	6,186	494,402	42,672	38,491	81,163	575,565
Payroll taxes	438,715	4,614	443,329	41,877	57,143	99,020	542,349
Pension, life premiums	415,525	5,273	420,798	99,666	54,418	154,084	574,882
Temporary workers	32,112		32,112	549		549	32,661
Total salaries and related expenses	5,807,746	61,759	5,869,505	652,073	763,336	1,415,409	7,284,914
Advertising	757		757	10,709	21,154	31,863	32,620
Equipment rental/maintenance	63,362		63,362	13,618	29,241	42,859	106,221
Memberships and publications	3,430		3,430	13,712	456	14,168	17,598
Occupancy	468,101	2,323	470,424	20,273	29,880	50,153	520,577
Other	29,148	405	29,553	30,766	36,536	67,302	96,855
Postage and printing	1,367		1,367	25,970	33,706	59,676	61,043
Professional fees	5,620		5,620	326,930	160,157	487,087	492,707
Recruitment	15,155		15,155	2,813	59,469	62,282	77,437
Research		23,104	23,104				23,104
Specific assistance to individuals	40,466		40,466				40,466
Supplies	368,478	2	368,480	22,847	500	23,347	391,827
Telephone	42,459	152	42,611	3,625	2,128	5,753	48,364
Training	28,348		28,348	4,830	233	5,063	33,411
Transportation	172,138	33	172,171	2,209	1,505	3,714	175,885
Total expenses before depreciation	7,046,575	87,778	7,134,353	1,130,375	1,138,301	2,268,676	9,403,029
Depreciation	328,433	2,405	330,838	26,613	26,456	53,069	383,907
	<b><u>\$ 7,375,008</u></b>	<b><u>\$ 90,183</u></b>	<b><u>\$ 7,465,191</u></b>	<b><u>\$ 1,156,988</u></b>	<b><u>\$ 1,164,757</u></b>	<b><u>\$ 2,321,745</u></b>	<b><u>\$ 9,786,936</u></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	319,917	4,119	324,036	74,399	41,651	116,050	440,086
Temporary workers	45,148		45,148	1,736	3,600	5,336	50,484
Total salaries and related expenses	5,027,447	61,121	5,088,568	542,272	620,082	1,162,354	6,250,922
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	6,202,262	70,882	6,273,144	867,352	921,078	1,788,430	8,061,574
Depreciation	289,451	2,455	291,906	27,154	26,997	54,151	346,057
	<b><u>\$ 6,491,713</u></b>	<b><u>\$ 73,337</u></b>	<b><u>\$ 6,565,050</u></b>	<b><u>\$ 894,506</u></b>	<b><u>\$ 948,075</u></b>	<b><u>\$ 1,842,581</u></b>	<b><u>\$ 8,407,631</u></b>

*See notes to financial statements.*



# CHILDHAVEN

## STATEMENTS OF CASH FLOWS

	Year ended June 30,	
	2016	2015
Cash flows from operating activities:		
Increase in net assets	\$ 147,895	\$ 1,034,769
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	383,907	346,057
Losses (gains) on investments, net	(60,546)	34,269
Pledges receivable and contributions restricted to endowments	(13,951)	(947,050)
Contributed stock	(24,727)	(573,838)
Loss on disposition of property and equipment	8,126	625
Change in value of charitable lead trust	(176)	(1,490)
Change in value of beneficial interest in perpetual trust	36,613	32,250
Net changes in operating accounts:		
Receivables	(170,351)	154,205
Prepaid expenses	(108,930)	(42,255)
Pledges receivable	(1,275,974)	206,146
Contributions receivable - charitable lead trust	4,202	4,562
Accounts payable	77,182	(38,861)
Accrued wages and benefits	52,926	(2,982)
Defined benefit pension obligation	549,170	164,262
Total adjustments	(542,529)	(664,100)
Net cash provided (used in) by operating activities	(394,634)	370,669
Cash flows from investing activities:		
Proceeds from sales of investments	1,080,347	1,241,588
Purchase of investments	(1,316,026)	(2,129,166)
Purchase of property and equipment	(213,938)	(240,791)
Net cash used in investing activities	(449,617)	(1,128,369)
Cash flows from financing activities, collection of pledges and contributions restricted to endowment	148,026	1,134,386
Net increase (decrease) in cash	(696,225)	376,686
Cash at beginning of year	2,314,887	1,938,201
Cash at end of year	<b>\$ 1,618,662</b>	<b>\$ 2,314,887</b>
Noncash investing and financing activities, stock contributed for pledge payments	<b>\$ 284,353</b>	<b>\$ 104,326</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), 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.

# 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 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 December 20, 2016, 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, 2016 are due to be collected as follows:

In less than one year	\$ 1,484,785
In one to five years	1,378,012
In more than five years	<u>900</u>
	2,863,697
Less:	
Allowance for uncollectible accounts	(115,000)
Unamortized discount (2% discount factor)	<u>(149,146)</u>
Pledges receivable, net	<u><u>\$ 2,599,551</u></u>

Three donors had outstanding pledges totaling approximately \$1,054,000 at June 30, 2016. Two donors had outstanding pledges totaling approximately \$653,000 at June 30, 2015.

### 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. During 2016, Childhaven met the matching provisions and recorded \$400,000 of contribution revenue relating to this pledge. No pledge revenue was recorded in 2015.

During the 2015, 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 recognized as contribution revenue until donor conditions are met. Funds received from the donor and recognized as contribution revenue upon the conditions being met totaled \$100,000 for 2016 and 2015.

# CHILDHAVEN

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 3. Investments:

	June 30, 2016		
	Cost	Fair value	Unrealized gain (loss)
Cash equivalents	\$ 648,326	\$ 648,326	
U.S. equities	1,553,847	1,992,489	\$ 438,642
International equity mutual funds	540,979	486,592	(54,387)
Corporate debt securities	4,095,863	4,051,944	(43,919)
U.S. government obligations	241,062	251,541	10,479
	<b><u>\$ 7,080,077</u></b>	<b><u>\$ 7,430,892</u></b>	<b><u>\$ 350,815</u></b>
	June 30, 2015		
	Cost	Fair value	Unrealized gain (loss)
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><u>\$ 6,409,792</u></b>	<b><u>\$ 6,825,587</u></b>	<b><u>\$ 415,795</u></b>

Investment income consists of the following:

	Year ended June 30,	
	2016	2015
Interest and dividends	\$ 182,771	\$ 175,062
Net realized and unrealized gains (losses)	60,546	(34,269)
	<b><u>\$ 243,317</u></b>	<b><u>\$ 140,793</u></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 \$404,258 and \$436,284 at June 30, 2016 and 2015, respectively. Childhaven received \$4,042 and \$4,562 from the trust during 2016 and 2015, respectively.

Future payments are expected to be received as follows:

In less than one year	\$	4,042
In one to five years		16,168
In more than five years		<u>4,042</u>
		24,252
Less unamortized discount		<u>(5,563)</u>
Contributions receivable-charitable lead trust	\$	<u><b>18,689</b></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 \$21,947 and \$23,928 of investment income from the trust for the years ended June 30, 2016 and 2015, respectively.

# CHILDHAVEN

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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### 6. In-kind contributions:

There were approximately \$113,000 of contributed in-kind services included in net contributions on the statement of activities during 2016. The in-kind contributions during 2015 were immaterial.

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 \$116,000 and \$163,000 during 2016 and 2015, 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 \$8,824,323 at June 30, 2016.

	June 30,	
	2016	2015
Buildings and improvements	\$ 16,903,414	\$ 16,830,866
Equipment	1,617,569	1,493,538
Vans	791,974	756,707
	19,312,957	19,081,111
Less accumulated depreciation	(9,412,658)	(9,048,357)
Land	703,370	703,370
Construction in progress		45,640
	<u>\$ 10,603,669</u>	<u>\$ 10,781,764</u>



# CHILDHAVEN

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 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 \$305,000 and \$206,000 during 2016 and 2015, respectively. Benefits and expenses paid by the Plan were approximately \$403,000 and \$203,000 for 2016 and 2015, respectively.

#### Obligations and funded status:

Net periodic pension costs include the following components:

	Year ended June 30,	
	2016	2015
Service cost	\$ 10,200	\$ 12,493
Interest cost	204,565	199,046
Expected return on plan assets	(290,847)	(292,118)
Amortization of loss	100,823	59,236
Net period pension costs included in employee benefits	<b>\$ 24,741</b>	<b>\$ (21,343)</b>

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

	June 30,	
	2016	2015
Projected benefit obligation	\$ 5,861,073	\$ 5,370,258
Fair value of assets	3,975,741	4,034,096
Unfunded pension obligation	<b>\$ (1,885,332)</b>	<b>\$ (1,336,162)</b>

# CHILDHAVEN

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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### 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, 2016 and 2015 consist of net unrecognized actuarial loss of \$1,885,332 and \$1,336,162, respectively.

The accumulated benefit obligation was \$5,861,073 and \$5,370,258 at June 30, 2016 and 2015, respectively.

#### Assumptions:

	<u>2016</u>	<u>2015</u>
Weighted-average assumptions used to determine benefit obligations at June 30:		
Discount rate	5.00%	4.00%
Rate of compensation increase	0.00%	0.00%
Weighted-average assumptions used to determine net periodic pension 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%

# CHILDHAVEN

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Defined benefit pension plan (continued):

Plan assets:

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

	2016		2015	
Cash	\$ 331	0.01%		
Interest bearing cash	352,424	8.86%		
Corporate bonds	2,294,014	57.70%		
Common stock	585,299	14.72%		
Unit investment trusts	735,876	18.51%		
Other	7,797	0.20%		
Equity			\$ 1,972,092	48.89%
Fixed income			1,692,763	41.96%
General account			369,241	9.15%
	<b>\$ 3,975,741</b>	<b>100%</b>	<b>\$ 4,034,096</b>	<b>100%</b>

The investment objectives of the Childhaven Pension Plan (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 control 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.

# 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 during the 2017 fiscal year. No Plan assets are expected to be returned to Childhaven during 2017.

The following benefit payments are expected to be paid:

<u>Year ending June 30,</u>	
2017	\$ 36,944
2018	42,109
2019	54,013
2020	65,272
2021	96,362
2022 through 2026	935,268

### 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, 2016 and 2015 were approximately \$180,000 and \$162,000, 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. Subsequent to year-end, the executive employee left the organization. The 457(b) deferred compensation plan will be disbursed in semi-annual payments over three years beginning February 2017.

# 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, 2016 and 2015. 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, 2016 and 2015.

Childhaven re-evaluated the fair value disclosures during the fiscal year 2016 and determined that corporate debt securities should be reclassified from Level 1 to Level 2. Due to re-evaluation of the underlying assets, Childhaven also reclassified a portion of the pension assets from Level 2 to Level 3 as of June 30, 2015. During the fiscal year 2016, the pension plan assets were liquidated and reinvested in new securities. These new securities are considered Level 1 and Level 2 investments.

The fair value of assets, by level, as of June 30, 2016 is as follows:

	Level 1	Level 2	Level 3
Investments	\$ 3,378,948		
Pension plan assets	1,681,727	\$ 2,294,014	
Corporate bonds		4,051,944	
Contribution receivable, charitable lead trust		18,689	
Beneficial interest in perpetual trust			\$ 546,785
	<b>\$ 5,060,675</b>	<b>\$ 6,364,647</b>	<b>\$ 546,785</b>

# CHILDHAVEN

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

	Level 1	Level 2	Level 3
Investments	\$ 1,656,259		
Corporate bonds		\$ 3,637,855	
Contribution receivable, charitable lead trust		22,715	
Pension plan assets, separate account		3,664,855	
Pension plan assets, group annuity contract			\$ 369,241
Beneficial interest in perpetual trust			583,398
	<b>\$ 1,656,259</b>	<b>\$ 7,325,425</b>	<b>\$ 952,639</b>

The following is a summary of changes in the fair value of the Level 3 investments for the year ended June 30, 2016:

	Beneficial interest in perpetual trust	Group annuity contract	Total
Beginning of year	\$ 583,398	\$ 369,241	\$ 952,639
Interest and dividends	21,947	589	22,536
Distributions	(21,947)		(21,947)
Change in value of split interest agreement	(36,613)		(36,613)
Sales, transfers to Levels 1 and 2		(369,830)	(369,830)
End of year	<b>\$ 546,785</b>	<b>\$ -</b>	<b>\$ 546,785</b>

# CHILDHAVEN

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 11. Temporarily restricted net assets:

	June 30,	
	2016	2015
Purpose restricted:		
Maintenance and repair of		
Broadway facility	\$ 730,909	\$ 736,237
Lovsted Scholarship	371,035	375,499
Helping Hands Fund	110,990	120,904
Event Sponsorship	29,500	50,500
Team Turtle Scholarship	40,000	35,264
Aven Foundation Scholarship	14,211	25,459
Crisis Nursery	552,665	
Branding	255,260	
Home Visitation Expansion	50,000	
Transportation	48,600	
Time restricted:		
Annual Fund multi-year pledges	1,416,710	1,192,462
Unappropriated endowment income	47,869	52,086
Charitable lead trust - Note 4	18,689	22,715
	<u>\$ 3,686,438</u>	<u>\$ 2,611,126</u>

# CHILDHAVEN

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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### 12. Permanently restricted net assets:

	June 30,	
	2016	2015
Second Century Campaign	\$ 2,543,556	\$ 2,464,508
Beneficial interest in perpetual trust - Note 5	546,785	583,398
	<u>\$ 3,090,341</u>	<u>\$ 3,047,906</u>

### 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. Management determined that endowment fund deficiencies were not material at June 30, 2016 and 2015, respectively.

# CHILDHAVEN

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 13. Endowments (continued):

Changes in endowment net assets consist of the following:

	Year ended June 30, 2016			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Endowment net assets, beginning of the year	\$2,294,939	\$1,327,029	\$3,047,906	\$6,669,874
Contributions		13,485	79,047	92,532
Investment gain (loss)	61,698	71,663	(36,612)	96,749
Amounts appropriated for expenditure	(75,928)	(104,335)		(180,263)
Endowment net assets, end of year	<b><u>\$2,280,709</u></b>	<b><u>\$1,307,842</u></b>	<b><u>\$3,090,341</u></b>	<b><u>\$6,678,892</u></b>
	Year ended June 30, 2015			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
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	24,981	28,410	(32,250)	21,141
Amounts appropriated for expenditure	(48,129)	(30,196)		(78,325)
Endowment net assets, end of year	<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>

# CHILDHAVEN

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 13. Endowments (continued):

Endowment net assets consist of the following:

	June 30, 2016			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Donor restricted funds		\$ 576,933	\$3,090,341	\$3,667,274
Board designated - maintenance reserve	\$1,772,686	730,909		2,503,595
Board designated - endowment funds	508,023			508,023
	<b><u>\$2,280,709</u></b>	<b><u>\$1,307,842</u></b>	<b><u>\$3,090,341</u></b>	<b><u>\$6,678,892</u></b>
	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>

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 donor accounted for approximately 20% and 12% total contributions during each of the years ended June 30, 2016 and 2015, respectively.

Childhaven's therapeutic child care workers, representing approximately 53% of Childhaven's employees at June 30, 2016, 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 renegotiated with the union and a new contract was signed. The new union contract expires in December 2017.