

CHILDHAVEN

JUNE 30, 2017 AND 2016
FINANCIAL STATEMENTS



Bader Martin, PS Certified Public Accountants + Business Advisors



Independent Auditors' Report

Board of Trustees
Childhaven
Seattle, Washington

We have audited the accompanying financial statements of Childhaven, which comprise the statements of financial position as of June 30, 2017 and 2016, 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, 2017 and 2016, 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 13, 2017

CHILDHAVEN

STATEMENTS OF FINANCIAL POSITION

	June 30,	
	2017	2016
ASSETS		
Current assets:		
Cash	\$ 587,848	\$ 1,618,662
Service fees receivable	613,962	510,769
Pledges receivable	1,450,854	1,484,785
Other receivables	38,428	36,185
Prepaid expenses	406,642	380,210
Total current assets	3,097,734	4,030,611
Investments	8,179,428	7,430,892
Beneficial interest in perpetual trust	582,009	546,785
Contributions receivable - charitable lead trust	16,713	18,689
Noncurrent pledges receivable, net	1,091,728	1,114,766
Property and equipment, net	10,477,001	10,603,669
	<u>\$ 23,444,613</u>	<u>\$ 23,745,412</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and other liabilities	\$ 176,676	\$ 192,387
Accrued wages and benefits	449,461	441,511
Total current liabilities	626,137	633,898
Deferred compensation plan	64,281	59,570
Defined benefit pension obligation	1,542,229	1,885,332
Total liabilities	2,232,647	2,578,800
Net assets:		
Unrestricted:		
Undesignated	11,716,609	12,109,124
Board designated	2,352,390	2,280,709
	14,068,999	14,389,833
Temporarily restricted	3,990,745	3,686,438
Permanently restricted	3,152,222	3,090,341
Total net assets	21,211,966	21,166,612
Total liabilities and net assets	<u>\$ 23,444,613</u>	<u>\$ 23,745,412</u>

See notes to financial statements.

CHILDHAVEN

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating activities:				
Revenue and support:				
Service fees from governmental agencies	\$ 3,612,178			\$ 3,612,178
Contributions, net	3,232,895	\$ 1,320,267	\$ 26,657	4,579,819
United Way of King County	610,119			610,119
Special events, net of expenses of \$273,131	676,940			676,940
Government and other grants	249,635			249,635
Investment income, net	338,160	155,583		493,743
Other income (loss), net	57,269	2,226	35,224	94,719
Net assets released from restrictions	1,173,769	(1,173,769)		
Total operating revenue and support	9,950,965	304,307	61,881	10,317,153
Expenses:				
Program services:				
Therapeutic child care	8,227,640			8,227,640
Research	76,808			76,808
Supporting services:				
Management and general	1,227,347			1,227,347
Fundraising	1,083,107			1,083,107
Total operating expenses	10,614,902			10,614,902
Change in net assets from operating activities	(663,937)	304,307	61,881	(297,749)
Non-operating activities, change in pension obligation	343,103			343,103
Total change in net assets	(320,834)	304,307	61,881	45,354
Net assets, beginning of year	14,389,833	3,686,438	3,090,341	21,166,612
Net assets, end of year	\$14,068,999	\$ 3,990,745	\$ 3,152,222	\$21,211,966

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	3,225,070	\$ 1,857,480	\$ 79,048	5,161,598
United Way of King County	629,790			629,790
Special events, net of expenses of \$258,111	617,445			617,445
Government 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)		
Total operating revenue and support	9,366,254	1,075,312	42,435	10,484,001
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
Total operating expenses	9,786,936			9,786,936
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)
Total change in net assets	(969,852)	1,075,312	42,435	147,895
Net assets, beginning of year	15,359,685	2,611,126	3,047,906	21,018,717
Net assets, end of year	\$14,389,833	\$ 3,686,438	\$ 3,090,341	\$21,166,612

See notes to financial statements.

CHILDHAVEN

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2017

	Program services			Supporting services			
	Therapeutic child care	Research	Total	Management and general	Fundraising	Total	Total
Salaries	\$ 4,918,139	\$ 39,610	\$ 4,957,749	\$ 478,472	\$ 714,533	\$ 1,193,005	\$ 6,150,754
Benefits	615,509	6,491	622,000	47,769	50,071	97,840	719,840
Payroll taxes	477,754	4,548	482,302	47,823	67,364	115,187	597,489
Pension, life premiums	430,075	4,449	434,524	118,738	50,269	169,007	603,531
Temporary workers	45,268		45,268	51,758	9,778	61,536	106,804
Total salaries and related expenses	6,486,745	55,098	6,541,843	744,560	892,015	1,636,575	8,178,418
Advertising				28,052	25,057	53,109	53,109
Equipment rental/maintenance	53,898	106	54,004	46,153	20,441	66,594	120,598
Occupancy	519,884	2,933	522,817	27,207	33,177	60,384	583,201
Other	16,483	(97)	16,386	20,459	37,240	57,699	74,085
Postage and printing	1,221		1,221	8,139	24,803	32,942	34,163
Professional fees	27,538	4,286	31,824	207,196	4,159	211,355	243,179
Recruitment	20,827		20,827	60,518	5,443	65,961	86,788
Research		11,589	11,589				11,589
Specific assistance to individuals	53,940	300	54,240	60	119	179	54,419
Subscriptions	5,820		5,820	6,209	3,640	9,849	15,669
Supplies	379,558	17	379,575	20,536	2,710	23,246	402,821
Telephone	50,199	161	50,360	2,565	2,092	4,657	55,017
Training	49,547		49,547	24,917	4,855	29,772	79,319
Transportation	187,482		187,482	4,058	795	4,853	192,335
Total expenses before depreciation	7,853,142	74,393	7,927,535	1,200,629	1,056,546	2,257,175	10,184,710
Depreciation	374,498	2,415	376,913	26,718	26,561	53,279	430,192
	<u>\$ 8,227,640</u>	<u>\$ 76,808</u>	<u>\$ 8,304,448</u>	<u>\$ 1,227,347</u>	<u>\$ 1,083,107</u>	<u>\$ 2,310,454</u>	<u>\$ 10,614,902</u>

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 and 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
	<u>\$ 7,375,008</u>	<u>\$ 90,183</u>	<u>\$ 7,465,191</u>	<u>\$ 1,156,988</u>	<u>\$ 1,164,757</u>	<u>\$ 2,321,745</u>	<u>\$ 9,786,936</u>

See notes to financial statements.

CHILDHAVEN

STATEMENTS OF CASH FLOWS

	Year ended June 30,	
	2017	2016
Cash flows from operating activities:		
Increase in net assets	\$ 45,354	\$ 147,895
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	430,192	383,907
Gains on investments, net	(295,318)	(60,546)
Contributions restricted to endowments	(44,219)	(13,951)
Contributed stock	(45,306)	(24,727)
Loss on disposition of property and equipment	4,270	8,126
Change in value of charitable lead trust	(2,226)	(176)
Change in value of beneficial interest in perpetual trust	(35,224)	36,613
Net changes in operating accounts:		
Receivables	(105,436)	(170,351)
Prepaid expenses	(26,432)	(108,930)
Pledges receivable	(288,977)	(1,275,974)
Contributions receivable - charitable lead trust	4,202	4,202
Accounts payable	(15,711)	77,182
Accrued wages and benefits	12,661	52,926
Defined benefit pension obligation	(343,103)	549,170
Total adjustments	(750,627)	(542,529)
Net cash used in by operating activities	(705,273)	(394,634)
Cash flows from investing activities:		
Proceeds from sales of investments	1,248,223	1,080,347
Purchase of investments	(1,379,261)	(1,316,026)
Purchase of property and equipment	(307,794)	(213,938)
Net cash used in investing activities	(438,832)	(449,617)
Cash flows from financing activities, collection of pledges and contributions restricted to endowment	113,291	148,026
Net change in cash	(1,030,814)	(696,225)
Cash at beginning of year	1,618,662	2,314,887
Cash at end of year	\$ 587,848	\$ 1,618,662
Noncash investing and financing activities, stock contributed for pledge payments	\$ 276,874	\$ 284,353

See notes to financial statements.

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS

1. Summary of significant accounting policies:

Organization:

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

Childhaven's principal program, 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, 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.

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 statements of activities.

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of significant accounting policies (continued):

Contributions:

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily or permanently restricted. If a restriction is fulfilled in the same reporting period in which the contribution is received, the contribution is reported as unrestricted.

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

Fair value measurements:

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

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

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

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of significant accounting policies (continued):

Property and equipment:

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

Income taxes:

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

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

Use of estimates in preparation of financial statements:

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

Functional expenses:

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

Reclassifications:

Certain reclassifications were made to the June 30, 2016 financial statements to conform to the current period presentation. The reclassifications have no effect on previously reported change in net assets or net assets.

Subsequent events:

Childhaven has evaluated subsequent events through December 13, 2017, the date which the financial statements were available to be issued.

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Pledges receivable:

Pledges receivable at June 30, 2017 are due to be collected as follows:

In less than one year	\$	1,450,854
In one to five years		<u>1,319,462</u>
		2,770,316
Less:		
Allowance for uncollectible accounts		(115,000)
Unamortized discount (2% discount factor)		<u>(112,734)</u>
Pledges receivable, net	\$	<u><u>2,542,582</u></u>

Two donors had outstanding pledges totaling approximately \$1,400,000 at June 30, 2017. Three donors had outstanding pledges totaling approximately \$1,054,000 at June 30, 2016.

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. Childhaven met the matching provisions and recorded \$200,000 and \$400,000 of contribution revenue in 2017 and 2016, respectively, relating to this pledge.

During 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 both 2017 and 2016.

Childhaven has met all the conditions for both grants as of June 30, 2017.

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Investments:

	June 30, 2017		
	Cost	Fair value	Unrealized gain (loss)
Cash equivalents	\$ 575,470	\$ 575,470	
U.S. equities	1,529,626	2,258,550	\$ 728,924
International equity mutual funds	554,571	580,832	26,261
Corporate debt securities	4,652,799	4,518,918	(133,881)
U.S. government obligations	241,062	245,658	4,596
	\$ 7,553,528	\$ 8,179,428	\$ 625,900

	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
	\$ 7,080,077	\$ 7,430,892	\$ 350,815

Investment income consists of the following:

	Year ended June 30,	
	2017	2016
Interest and dividends	\$ 198,425	\$ 182,771
Net realized and unrealized gains	295,318	60,546
	\$ 493,743	\$ 243,317

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. Contributions receivable – charitable lead trust:

Childhaven is a beneficiary of a charitable lead trust. The donor contributed \$500,000 and specified that 5% of the fair value at the end of each calendar year be distributed to the beneficiaries for a period of 20 years (with final payment in 2023). Childhaven receives 20% of the amount distributed. The contribution receivable is recorded at the estimated present value of the future cash flows discounted at 8%. The fair value of the assets in the trust was \$418,578 and \$404,258 at June 30, 2017 and 2016, respectively. Childhaven received \$4,202 and \$4,042 from the trust during 2017 and 2016, respectively.

Future payments are expected to be received as follows:

In less than one year	\$	4,186
In one to five years		16,744
In more than five years		<u>4,186</u>
		25,116
Less unamortized discount		<u>(8,403)</u>
Contributions receivable - charitable lead trust	\$	<u>16,713</u>

5. Beneficial interest in perpetual trust:

In the 1950s Childhaven received a gift that the donor specified be invested in perpetuity with income to be used to support Childhaven programs. The assets are held by a third party trustee. Net realized and unrealized gains and losses related to the beneficial interest are reported as changes in permanently restricted net assets. Childhaven received \$20,428 and \$21,947 of investment income from the trust for the years ended June 30, 2017 and 2016, respectively.

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. In-kind contributions:

There were no contributed in-kind services included in contributions on the statement of activities during 2017. Childhaven received \$125,000 of in-kind contributions during 2016.

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 \$145,000 and \$116,000 during 2017 and 2016, 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 \$8,568,833 at June 30, 2017.

	June 30,	
	2017	2016
Buildings and improvements	\$ 16,924,489	\$ 16,903,414
Equipment	1,714,587	1,617,569
Vans	871,638	791,974
	<u>19,510,714</u>	<u>19,312,957</u>
Less accumulated depreciation	(9,737,083)	(9,412,658)
Land	703,370	703,370
	<u>\$ 10,477,001</u>	<u>\$ 10,603,669</u>

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Defined benefit pension plan:

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

Childhaven made employer contributions of approximately \$300,000 and \$305,000 during 2017 and 2016, respectively. Benefits and expenses paid by the Plan were approximately \$192,000 and \$403,000 for 2017 and 2016, respectively.

Obligations and funded status:

Net periodic pension costs include the following components:

	Year ended June 30,	
	2017	2016
Service cost		\$ 10,200
Interest cost	\$ 292,130	204,565
Expected return on Plan assets	(237,436)	(290,847)
Amortization of loss	199,698	100,823
Net period pension costs included in employee benefits	<u>\$ 254,392</u>	<u>\$ 24,741</u>

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

	June 30,	
	2017	2016
Projected benefit obligation	\$ 5,871,358	\$ 5,861,073
Fair value of assets	4,329,129	3,975,741
Unfunded pension obligation	<u>\$ (1,542,229)</u>	<u>\$ (1,885,332)</u>

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Defined benefit pension plan (continued):

Obligations and funded status (continued):

Amounts not yet recognized as components of net periodic benefit cost in the statement of activities for the years ended June 30, 2017 and 2016 consist of net unrecognized actuarial loss of \$1,830,284 and \$2,127,779, respectively.

The accumulated benefit obligation was \$5,871,358 and \$5,861,073 at June 30, 2017 and 2016, respectively.

Assumptions:

	2017	2016
Weighted-average assumptions used to determine benefit obligations at June 30:		
Discount rate	4.50%	5.00%
Weighted-average assumptions used to determine net periodic pension cost for years ended June 30:		
Discount rate	5.00%	4.00%
Expected return on plan assets	6.00%	7.50%

Plan assets:

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

	2017		2016	
Cash	\$ 8,773	0.20%	\$ 331	0.01%
Interest bearing cash	276,328	6.38%	352,424	8.86%
Corporate bonds	2,500,735	57.77%	2,294,014	57.70%
Common stock	695,413	16.06%	585,299	14.72%
Unit investment trusts	837,090	19.34%	735,876	18.51%
Other	10,790	0.25%	7,797	0.20%
	\$ 4,329,129	100%	\$ 3,975,741	100%

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Defined benefit pension plan (continued):

Plan assets (continued):

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

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

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

Cash flows:

Childhaven expects to contribute approximately \$400,000 to the Plan during the 2018 fiscal year. No Plan assets are expected to be returned to Childhaven during 2018.

The following benefit payments are expected to be paid:

<u>Year ending June 30,</u>	
2018	\$ 37,780
2019	45,375
2020	56,995
2021	88,693
2022	131,384
2023 through 2027	1,173,758

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Defined contribution pension plans:

Employees of Childhaven may participate in an Internal Revenue Code section 403(b) retirement savings plan, established January 1, 1978. Childhaven contributes a percentage of the employee's salary based on years of service. Contributions made for the years ended June 30, 2017 and 2016 were approximately \$200,000 and \$180,000, 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. The executive employee left Childhaven during fiscal year 2017. The 457(b) deferred compensation plan is being disbursed in semi-annual payments over three years beginning February 2017.

10. Fair value measurements:

Fair value for the split interest agreements are measured using the fair value of the assets held in the trusts as reported by the trustees as of June 30, 2017 and 2016. 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, 2017 and 2016.

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

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

10. Fair value measurements (continued):

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
	\$ 5,060,675	\$ 6,364,647	\$ 546,785

The following is a summary of changes in the fair value of the Level 3 investments for the year ended June 30, 2017:

	Beneficial interest in perpetual trust
Beginning of year	\$ 546,785
Interest and dividends	20,428
Distributions	(20,428)
Change in fair value of split interest agreement	35,224
End of year	\$ 582,009

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. Temporarily restricted net assets:

	June 30,	
	2017	2016
Purpose restricted:		
Maintenance and repair of		
Broadway facility	\$ 761,334	\$ 730,909
Lovsted Scholarship	375,343	371,035
Helping Hands Fund	103,739	110,990
Event Sponsorship	14,000	29,500
Team Turtle Scholarship	52,615	40,000
Aven Foundation Scholarship		14,211
Crisis Nursery	515,257	552,665
Branding	213,376	255,260
Home Visitation Expansion	125,000	50,000
Transportation		48,600
Time restricted:		
Annual Fund multi-year pledges	1,789,299	1,416,710
Unappropriated endowment income	24,069	47,869
Charitable lead trust - Note 4	16,713	18,689
	<u>\$ 3,990,745</u>	<u>\$ 3,686,438</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

12. Permanently restricted net assets:

	June 30,	
	2017	2016
Second Century Campaign	\$ 2,570,213	\$ 2,543,556
Beneficial interest in perpetual trust - Note 5	582,009	546,785
	<u>\$ 3,152,222</u>	<u>\$ 3,090,341</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.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

13. Endowments (continued):

Return objectives and risk parameters:

Childhaven has adopted investment and spending policies for endowment assets, approved by the Board 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 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 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. There were no deficiencies at June 30, 2017 and 2016.

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

13. Endowments (continued):

Changes in endowment net assets consist of the following:

	Year ended June 30, 2017			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Endowment net assets, beginning of the year	\$ 2,280,709	\$ 1,307,842	\$ 3,090,341	\$ 6,678,892
Contributions		17,562	26,657	44,219
Investment gain	100,581	155,583	35,224	291,388
Amounts appropriated for expenditure	(28,900)	(163,887)		(192,787)
Endowment net assets, end of year	\$ 2,352,390	\$ 1,317,100	\$ 3,152,222	\$ 6,821,712
	Year ended June 30, 2016			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
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	\$ 2,280,709	\$ 1,307,842	\$ 3,090,341	\$ 6,678,892

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

13. Endowments (continued):

Endowment net assets consist of the following:

	June 30, 2017			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Donor restricted funds		\$ 555,766	\$ 3,152,222	\$ 3,707,988
Board designated - maintenance reserve	\$ 1,823,651	761,334		2,584,985
Board designated - endowment funds	528,739			528,739
	\$ 2,352,390	\$ 1,317,100	\$ 3,152,222	\$ 6,821,712
	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
	\$ 2,280,709	\$ 1,307,842	\$ 3,090,341	\$ 6,678,892

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 of Trustees as part of a board designated endowment for the facility's maintenance and repair.

CHILDHAVEN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

14. Concentrations:

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

There were no concentrations of donors in the current year. Contributions from one donor accounted for approximately 20% of total contributions during the year ended June 30, 2016.

Childhaven's therapeutic childcare workers, representing approximately 52% of Childhaven's employees at June 30, 2017, are members of the United Food and Commercial Workers International Union (the Union). Childhaven's contract with the Union expired December 31, 2014. During 2015, Childhaven renegotiated with the Union and a new contract was signed. The new Union contract expires in December 2018. Childhaven's other employees are not represented by a union.