Denver Children's Home

Financial Statements

September 30, 2022 and 2021

(With Independent Auditor's Report Thereon)

Kundinger, Corder & Montoya, P.C.

Certified Public Accountants

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Certified Public Accountants

Independent Auditor's Report

Board of Directors
Denver Children's Home

Opinion

We have audited the accompanying financial statements of Denver Children's Home (the Home), which comprise the statements of financial position as of September 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Home as of September 30, 2022 and 2021, 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.

Emphasis of Matter – Restatement

As described in Note 10 to the financial statements, the Home's net assets at September 30, 2020 have been restated to reflect a contribution receivable that was previously not recorded. Our opinion is not modified with respect to this matter.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Home and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Home's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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Board of Directors
Denver Children's Home

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Home's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Home's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Kundinger, Corder & Montoya, P.C.

January 31, 2023

Denver Children's Home
Statements of Financial Position
September 30, 2022 and 2021

	2022	2021
Assets		
Current assets		
Cash and cash equivalents	$ 1,018,480	655,169
Accounts receivable	630,850	539,721
Contributions receivable	600,000	800,000
Prepaid expenses	9,391	7,933
Total current assets	2,258,721	2,002,823
Property and equipment		
Building improvements	1,619,792	1,589,547
Furniture, equipment and software	671,767	644,244
Vehicles	113,006	74,702
	2,404,565	2,308,493
Less accumulated depreciation and amortization	(1,941,122)	(1,827,787)
Net property and equipment	463,443	480,706
Restricted cash for capital purposes	549,068	330,153
Beneficial interest in perpetual trusts (notes 3, 4 and 7)	3,119,470	4,003,811
Restricted net assets held by DCHF (notes 5 and 7)	6,553,361	5,571,458
Total assets	$ 12,944,063	12,388,951
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$ 388,371	126,823
Accrued payroll and other liabilities	288,312	212,463
Payable to DCHF	408,879	124,904
Total current liabilities	1,085,562	464,190
Net assets (note 7)		
Without donor restrictions	871,433	1,208,100
With donor restrictions	10,987,068	10,716,661
Total net assets	11,858,501	11,924,761
Commitments (notes 5, 6, 8 and 9)		
Total liabilities and net assets	$ 12,944,063	12,388,951

The accompanying notes are an integral part of the financial statements.

Denver Children's Home
Statement of Activities
Year Ended September 30, 2022

	Without donor restrictions	With donor restrictions	Total
Revenue			
Net child care service revenue	$ 5,756,416	–	5,756,416
Education revenue	939,826	–	939,826
Contributed nonfinancial assets (note 1(i))	67,419	–	67,419
Total operating revenue	6,763,661	–	6,763,661
Expenses			
Program services			
Residential treatment care	3,574,566	–	3,574,566
Community-based services	1,125,343	–	1,125,343
Education	1,463,218	–	1,463,218
Discovery Home	272,827	–	272,827
Total program services	6,435,954	–	6,435,954
Management and general	715,279	–	715,279
Total operating expenses	7,151,233	–	7,151,233
Total operating net loss	(387,572)	–	(387,572)
Non-operating revenue and expenses			
Cash contributions and grants	879,132	512,975	1,392,107
Fund raising expenses	(325,135)	–	(325,135)
Contributions to DCHF (note 5)	(1,009,286)	–	(1,009,286)
Distributions from perpetual trusts and interest income (note 3)	160,633	–	160,633
Change in value of perpetual trusts (note 3)	–	(884,341)	(884,341)
Other income	5,431	–	5,431
Net assets released from restrictions (note 7)	340,130	(340,130)	–
Total non-operating revenue and expenses	50,905	(711,496)	(660,591)
Change in net assets before change in net assets held by DCHF	(336,667)	(711,496)	(1,048,163)
Change in net assets held by DCHF	–	981,903	981,903
Change in net assets	(336,667)	270,407	(66,260)
Net assets at beginning of year	1,208,100	10,716,661	11,924,761
Net assets at end of year	$ 871,433	10,987,068	11,858,501

The accompanying notes are an integral part of the financial statements.

Denver Children's Home
Statement of Activities
Year Ended September 30, 2021

	Without donor restrictions	With donor restrictions	Total
Revenue			
Net child care service revenue	$ 3,786,985	–	3,786,985
Education revenue	1,017,643	–	1,017,643
Grant and contract revenue	65,913	–	65,913
Contributed nonfinancial assets (note 1(i))	67,802	–	67,802
Total operating revenue	4,938,343	–	4,938,343
Expenses			
Program services			
Residential treatment care	2,973,589	–	2,973,589
Community-based services	938,268	–	938,268
Education	1,323,183	–	1,323,183
Discovery Home	262,119	–	262,119
Total program services	5,497,159	–	5,497,159
Management and general	599,633	–	599,633
Total operating expenses	6,096,792	–	6,096,792
Total operating net loss	(1,158,449)	–	(1,158,449)
Non-operating revenue and expenses			
Contributions from DCHF (note 5)	298,100	–	298,100
Cash contributions	1,784,444	275,007	2,059,451
Fund raising expenses	(256,580)	–	(256,580)
Contributions to DCHF (note 5)	(1,106,119)	–	(1,106,119)
Distributions from perpetual trusts and interest income (note 3)	149,909	–	149,909
Change in value of perpetual trusts (note 3)	–	570,812	570,812
Other income	20,853	–	20,853
Net assets released from restrictions (note 7)	233,270	(233,270)	–
Total non-operating revenue and expenses	1,123,877	612,549	1,736,426
Change in net assets before change in net assets held by DCHF	(34,572)	612,549	577,977
Change in net assets held by DCHF	–	1,683,438	1,683,438
Change in net assets	(34,572)	2,295,987	2,261,415
Net assets at beginning of year, as previously reported	1,242,672	7,620,674	8,863,346
Prior period restatement (note 10)	–	800,000	800,000
Net assets at beginning of year, as restated	1,242,672	8,420,674	9,663,346
Net assets at end of year	$ 1,208,100	10,716,661	11,924,761

The accompanying notes are an integral part of the financial statements.

Denver Children's Home
Statement of Functional Expenses
Year Ended September 30, 2022

	Program services					Supporting services			
	Residential treatment care	Community-based services	Education	Discovery Home	Total program services	Management and general	Fund raising	Total supporting services	Total expenses
Salaries	$ 2,295,549	865,954	639,002	148,640	3,949,145	403,306	190,967	594,273	4,543,418
Payroll taxes	193,920	70,570	55,605	15,306	335,401	31,058	15,210	46,268	381,669
Benefits	274,639	50,969	37,651	8,647	371,906	29,268	26,154	55,422	427,328
Insurance	45,221	6,906	32,021	10,752	94,900	21,502	3,514	25,016	119,916
Office supplies and expenses	11,251	6,624	7,429	303	25,607	6,487	1,795	8,282	33,889
Telephone and utilities	39,245	17,942	38,977	8,334	104,498	5,155	4,867	10,022	114,520
Publicity, conferences and travel	66,259	23,691	19,524	1,018	110,492	6,856	319	7,175	117,667
Repairs and maintenance	92,274	16,540	115,934	10,758	235,506	27,275	20,922	48,197	283,703
Dues and subscriptions	–	–	1,200	–	1,200	22,612	–	22,612	23,812
Recreation and special programs	15,504	2,391	59,717	5,668	83,280	–	–	–	83,280
Professional fees	158,983	16,569	61,806	5,151	242,509	131,225	10,852	142,077	384,586
Rent	112,800	13,200	112,800	26,400	265,200	13,200	12,000	25,200	290,400
Food and household supplies	186,312	9,603	227,548	22,035	445,498	4,123	3,878	8,001	453,499
In-kind materials and services	37,445	11,788	15,328	2,858	67,419	–	–	–	67,419
Public relations	–	–	–	–	–	–	14,817	14,817	14,817
Depreciation and amortization	45,164	12,596	38,676	6,957	103,393	5,406	4,536	9,942	113,335
Other	–	–	–	–	–	7,806	15,304	23,110	23,110
Total operating expenses	3,574,566	1,125,343	1,463,218	272,827	6,435,954	715,279	325,135	1,040,414	7,476,368
Contributions to DCHF	560,563	176,476	229,462	42,785	1,009,286	–	–	–	1,009,286
Total expenses	$ 4,135,129	1,301,819	1,692,680	315,612	7,445,240	715,279	325,135	1,040,414	8,485,654

The accompanying notes are an integral part of the financial statements.

Denver Children's Home

Statement of Functional Expenses

Year Ended September 30, 2021

	Program services					Supporting services			
	Residential treatment care	Community-based services	Education	Discovery Home	Total program services	Manage-ment and general	Fund raising	Total supporting services	Total expenses
Salaries	$ 1,918,153	685,431	630,912	138,928	3,373,424	238,616	158,904	397,520	3,770,944
Payroll taxes	161,809	57,301	53,236	11,619	283,965	19,942	13,216	33,158	317,123
Benefits	136,459	45,957	45,010	9,353	236,779	16,618	11,450	28,068	264,847
Insurance	49,923	11,535	34,275	2,307	98,040	18,520	1,901	20,421	118,461
Office supplies and expenses	9,064	7,166	9,377	142	25,749	6,992	2,725	9,717	35,466
Telephone and utilities	32,043	13,796	31,154	7,942	84,935	5,497	3,897	9,394	94,329
Publicity, conferences and travel	29,158	18,804	11,709	3,875	63,546	9,078	565	9,643	73,189
Repairs and maintenance	82,091	17,168	73,488	12,376	185,123	34,759	14,996	49,755	234,878
Dues and subscriptions	–	–	180	972	1,152	32,931	–	32,931	34,083
Recreation and special programs	10,155	2,033	13,794	2,858	28,840	–	–	–	28,840
Professional fees	206,543	34,540	113,564	10,632	365,279	181,279	16,100	197,379	562,658
Rent	114,026	16,852	109,362	26,400	266,640	25,024	6,436	31,460	298,100
Food and household supplies	149,584	7,106	158,983	26,359	342,032	3,449	3,420	6,869	348,901
In-kind materials and services	32,349	10,207	14,395	2,851	59,802	–	–	–	59,802
Public relations	1,500	–	–	–	1,500	–	10,972	10,972	12,472
Depreciation and amortization	40,732	10,372	23,744	5,505	80,353	4,123	2,863	6,986	87,339
Other	–	–	–	–	–	2,805	9,135	11,940	11,940
Total operating expenses	2,973,589	938,268	1,323,183	262,119	5,497,159	599,633	256,580	856,213	6,353,372
Contributions to DCHF	598,335	188,795	266,246	52,743	1,106,119	–	–	–	1,106,119
Total expenses	$ 3,571,924	1,127,063	1,589,429	314,862	6,603,278	599,633	256,580	856,213	7,459,491

The accompanying notes are an integral part of the financial statements.

Denver Children's Home
Statements of Cash Flows
Years Ended September 30, 2022 and 2021

		2022	2021
Cash flows from operating activities			
Change in net assets	$	(66,260)	2,261,415
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities			
Change in net assets held by DCHF		(981,903)	(1,683,438)
Depreciation and amortization		113,335	87,339
Change in value of beneficial interest in perpetual trusts		884,341	(570,812)
Forgiveness of Paycheck Protection Program loan		–	(809,000)
Change in operating assets and liabilities			
Accounts receivable		(91,129)	(13,654)
Contributions receivable		200,000	12,041
Prepaid expenses		(1,458)	(4,731)
Accounts payable		261,548	(59,644)
Accrued payroll and other liabilities		75,849	(73,105)
Payable to DCHF		283,975	124,904
Deferred revenue		–	(65,239)
Net cash provided by (used in) operating activities		678,298	(793,924)
Cash flows from investing activities			
Sales of investments		–	100,726
Payments for purchases of property and equipment		(96,072)	(218,170)
Net cash used in investing activities		(96,072)	(117,444)
Net increase (decrease) in cash and cash equivalents and restricted cash		582,226	(911,368)
Cash and cash equivalents and restricted cash at beginning of year		985,322	1,896,690
Cash and cash equivalents and restricted cash at end of year	$	1,567,548	985,322

Supplemental disclosures

Reconciliation of cash items in the statements of financial position to the statements of cash flows

		2022	2021
Cash and cash equivalents	$	1,018,480	655,169
Restricted cash for capital purposes		549,068	330,153
Total cash and cash equivalents and restricted cash shown above	$	1,567,548	985,322

The accompanying notes are an integral part of the financial statements.

(1) Summary of Significant Accounting Policies

(a) General

Denver Children’s Home (the Home), is a Colorado not-for-profit residential treatment center founded in 1881 to serve children and adolescents having persistent social, emotional, educational, or maladaptive behavior problems. The Home's main treatment facility is located in Denver, Colorado, and consists of a residential treatment program, a day treatment center, a transitional living program, and an on-grounds school. The Home's activities are supported primarily through contributions and program service fees received from various state and local government agencies.

(b) Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting, and accordingly reflect all significant receivables, payables, and other liabilities.

(c) Financial Statement Presentation

The Home is required to present information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purposes in performing the primary objectives of the Home. These net assets may be used at the discretion of the Home’s management and board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Home or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

(d) Cash and Cash Equivalents

The Home considers all highly liquid investments with an initial maturity of three months or less, and which are not held as part of the investment portfolio or subject to donor restrictions for long-term purposes, to be cash equivalents.

(e) Concentrations of Credit Risk

Financial instruments which potentially subject the Home to concentrations of credit risk consist of cash and cash equivalents and accounts receivable. At times, a portion of the cash balances may not be insured by the FDIC or related entity. Credit risk with respect to accounts receivable is generally diversified due to the large number of entities and creditworthiness of the organizations that comprise the Home’s customer base.

The Home receives a substantial amount of its support from various state and local government agencies. If a significant reduction in the future level of this support occurs with no offsetting increase in other funding streams, or if certain reimbursable costs are disallowed, it may have an effect on the Home's programs and activities.

(1) Summary of Significant Accounting Policies, Continued

(f) Accounts Receivable

The change in net assets is charged with an allowance for estimated uncollectible accounts based on past experience and on analysis of current accounts receivable collectability. Accounts deemed uncollectible are charged to the allowance in the year they are deemed uncollectible.

(g) Property and Equipment

The Home follows the practice of capitalizing, at cost, all expenditures for property and equipment in excess of $5,000. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from three to twenty years.

(h) Revenue Recognition

Contributions and grants
Contributions and grants are recognized when cash, securities or other assets, and unconditional promises to give is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend are substantially met.

All donor restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Contributions and grants receivable are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year. There was no allowance for uncollectible amounts at September 30, 2022 and 2021.

Government contracts and grants are treated as contributions that are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses. Consequently, at September 30, 2022, there were no conditional contributions relating to these contracts and grants for which no amounts have been received in advance, and which have not been recognized in the accompanying financial statements.

Special events revenue
Special events revenue is comprised of income from an exchange transaction equal to the cost of direct benefits to donors and gifts and grants for amounts received in excess of direct costs. Gifts and grants revenue is recognized following revenue recognition policies discussed above, and exchange transaction revenue is recognized the day the event takes place.

Childcare service and education revenue
Medicaid, counties, and school districts are billed as the Home has incurred expenditures or performed services in compliance with the provisions of the respective service agreements. Revenue is recognized in the month in which the services were rendered. No funds are received in advance.

(1) Summary of Significant Accounting Policies, Continued

(h) Revenue Recognition, Continued

Grant and contract revenue
Grant revenue consists of EARSS grant funding from the Colorado Department of Education. Amounts received prior to services provided are included in deferred revenue and recognized as services are provided.

(i) Contributed Nonfinancial Assets

The Home received the following contributions of nonfinancial assets for the year ended September 30:

	2022	2021
Meals/Food	$ 37,979	40,392
Gifts/Supplies	18,880	21,740
Entertainment	6,335	5,670
Use of space	4,000	–
Other services	225	–
	$ 67,419	67,802

Contributed materials are recorded as contributions and corresponding expenses at their estimated fair values at the date of donation. During the year ended September 30, 2022 and 2021, the Home valued contributed materials using the current price located on a publicly available website if the item is a match for the website item when donated or the price provided by the vendor.

Contributed advertising and other services are recognized as in-kind revenues at their estimated fair value if they create or enhance nonfinancial assets or require specialized skills that would need to be purchased if they were not donated. In the years ended September 30, 2022 and 2021, the Home received contributed advertising and other services that are reported using current rates provided by the service provider. The Home also receives a significant amount of donated services from unpaid volunteers who assist with the Home's activities. No amounts have been recognized in the statements of activities for volunteers' donated services because the criteria for recognition have not been satisfied.

(j) Functional Allocation of Expenses

The costs of providing program and supporting services have been summarized on a functional basis in the accompanying statement of functional expenses. The Home incurs expenses that directly relate to, and can be assigned to, a specific program or supporting activity. The Home also conducts a number of activities which benefit both its program objectives as well as supporting services (i.e., management and general and fund raising activities). These costs, which are not specifically attributable to a specific program or supporting activity, are allocated by management on a consistent basis among program and supporting activities benefited, based on either financial or nonfinancial data.

(k) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses. Actual results could differ from those estimates.

(1) Summary of Significant Accounting Policies, Continued

(l) Income Taxes

The Home is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and qualifies for the charitable contribution deduction. Accordingly, the accompanying financial statements contain no provision for income taxes. However, income from activities not directly related to the Home's tax-exempt purpose is subject to taxation as unrelated business income. During 2022 and 2021, the Home did not incur any unrelated business income tax.

Management is required to evaluate tax positions taken by the Home and to recognize a tax liability (or asset) if the Home has taken an uncertain position that more likely than not would not be sustained upon examination by taxing authorities. The Home believes that it has appropriate support for any tax positions taken and that none would require recognition of a liability (or asset) or disclosure in the financial statements. The Home is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The previous three years remain subject to examination by the IRS.

(m) Subsequent Events

The Home has evaluated subsequent events through January 31, 2023, the date the financial statements were available to be issued.

(n) New Accounting Pronouncement

During 2022, the Home adopted Accounting Standards Update (ASU) No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This standard is aimed at increasing the transparency of contributed nonfinancial assets for not-for-profit entities through enhancements to presentation and disclosure. The provisions of ASU No. 2020-07 have been implemented in the accompanying financial statements on a retrospective basis. The amendments under this accounting standard update do not change the recognition and measurement requirements for contributed nonfinancial assets. Accordingly, there is no effect on net assets in connection with its implementation.

(o) Reclassifications

Certain reclassifications have been made to the 2021 financial statements to conform to the 2022 presentation.

(2) Liquidity and Availability of Financial Assets

The following reflects the Home's financial assets as of September 30 available within one year for general expenditures:

	2022	2021
Financial assets at year-end		
Cash and cash equivalents	$ 1,018,480	655,169
Accounts receivable	630,850	539,721
Total financial assets available for general expenditures within one year	$ 1,649,330	1,194,890

(2) Liquidity and Availability of Financial Assets, continued

The Home receives program service revenue and significant contributions restricted by donors, and considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. In addition, the Home could request access to the restricted net assets held by Denver Children's Home Foundation (the Foundation or DCHF), subject to the approval of the DCHF Board of Trustees. In the event the need arises to utilize the board-designated funds for liquidity purposes, the board-designated funds could be drawn upon through board resolution. The organization manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The organization has a liquidity policy to maintain current financial assets less current liabilities at a minimum of 30 days operating expenses. To achieve these targets, the entity forecasts its future cash flows and monitors its liquidity quarterly and its reserves annually. During the years ended September 30, 2022 and 2021 the level of liquidity and reserves were managed within the policy requirements.

(3) Trusts

The Home is a beneficiary of various perpetual trusts administered by third-party trustees. A perpetual trust is an arrangement in which a donor establishes and funds a trust which grants the not-for-profit organization the irrevocable right to receive income earned on the trust assets in perpetuity, but never receive the assets held by the trust. The Home's total interest in the trusts is shown in the statements of financial position at September 30, 2022 and 2021, respectively, as a beneficial interest in perpetual trusts of $3,119,470 and $4,003,811.

On an annual basis, the Home records the change in the value of the assets of the trusts. During the years ended September 30, 2022 and 2021, respectively, the change in value of trusts was ($884,341)and $570,812. The Home received $160,633 and $149,909 from the trusts during the years ended September 30, 2022 and 2021, respectively.

(4) Fair Value Measurements

The carrying amount reported in the statements of financial position for cash and cash equivalents, accounts and contributions receivable, prepaid expenses, and liabilities approximate fair value because of the immediate or short-term maturities of these financial instruments.

The Home reports required types of financial instruments in accordance with fair value accounting standards. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and to minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. Fair value measurement standards also require the Home to classify these financial instruments into a three-level hierarchy based on the priority inputs to the valuation technique. Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

(4) Fair Value Measurements, Continued

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. The types of financial instruments included in Level 1 include mutual funds, listed equities, cash, and cash equivalents.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Financial instruments that are generally included in this category include corporate and government bonds, less liquid and restricted equity securities and certain over-the-counter derivatives.

Level 3 – Pricing inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the financial instrument. The inputs into the determination of fair value require significant management judgment or estimation. Financial instruments that are included in this category generally include limited partnership interests in corporate private equity and real estate funds, hedge funds, absolute return funds and distressed debt.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. These classifications (Level 1, 2 and 3) are intended to reflect the observability of inputs used in the valuation of financial instruments and are not necessarily an indication of risk or liquidity.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument, as well as the effects of market, interest and credit risk. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observablity and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affects amounts reported in the Home's financial statements.

The following table summarizes the fair value hierarchy levels used by the Home for its financial instruments as of September 30, 2022:

	Fair Value	Level 1	Level 2	Level 3
Interest in perpetual trusts	$ 3,119,470	–	–	3,119,470
Total	$ 3,119,470	–	–	3,119,470

The following table summarizes the fair value hierarchy levels used by the Home for its financial instruments as of September 30, 2021:

	Fair Value	Level 1	Level 2	Level 3
Interest in perpetual trusts	$ 4,003,811	–	–	4,003,811
Total	$ 4,003,811	–	–	4,003,811

The beneficial interest in perpetual trusts has been valued using a market approach. The fair value of the beneficial interest is determined by calculating the Home's proportionate share of the fair value of the assets contributed to the trusts. There were no changes in the valuation technique during the current year.

(4) Fair Value Measurements, Continued

The changes in financial instruments measured at fair value for which the Home has used Level 3 inputs to determine fair value are as follows:

Balance at September 30, 2020	$ 3,432,999
Net realized and unrealized gains	720,721
Distributions	(149,909)
Balance at September 30, 2021	4,003,811
Net realized and unrealized losses	(723,708)
Distributions	(160,633)
Balance at September 30, 2022	$ 3,119,470

This standard also requires disclosure for Level 3 financial instruments of the change in unrealized gain (loss) included in the change in net assets related to financial instruments still held at the reporting date. This was an unrealized loss of ($884,341) during 2022 and an unrealized gain of $570,812 during 2021.

(5) Denver Children's Home Foundation

In 1998, the Denver Children's Home Foundation (the Foundation) was formed to operate exclusively for the benefit of and to assist in carrying out the mission of the Home. The Foundation is governed by a separate board of trustees, and the Foundation owns and controls all funds within the Foundation, subject to any restrictions imposed by donors, until such funds are distributed to the Home by resolution of the Foundation's board.

The Home is the sole voting member of the Foundation, however the bylaws of the Foundation provide that any amendments to the bylaws must be approved by a two-third majority of the Foundation board of trustees and is subject to the approval by the Home. The Home also has certain other protective rights that require the Home's approval prior to the Foundation entering into any sale transaction of real or personal property, any merger or reorganization transaction, or borrowing transaction. The Home and the Foundation are financially interrelated organizations, but the Home does not technically control the Foundation given the fact that any changes to the Foundation bylaws must be approved by a two-thirds majority of the Foundation board of trustees.

Given the absence of control, the Home does not consolidate the Foundation, but rather follows the accounting standard that requires a beneficiary organization, such as the Home, to report in its financial statements assets held for its benefit by an endowment organization, such as the Foundation, and to adjust its interest in such assets for the changes in net assets held by the endowment organization, notwithstanding that the beneficiary organization has no legal claim to such assets until the endowment organization distributes such assets to the beneficiary organization. At September 30, 2022 and 2021, Foundation's total net assets were $6,553,361 and $5,571,458, respectively.

The Home leases from the Foundation its treatment facility, Discovery Home and administrative office under lease agreements that continue on a month-to-month basis. The leases require monthly rent expenditures of $24,200, to the Foundation and require the Home to pay all costs associated with operating and maintaining the facilities. Rent expenditures to the Foundation totaled $290,400 and $298,100 during the years ended September 30, 2022 and 2021, respectively.

During the years ended September 30, 2022 and 2021, the Home received contributions totaling $0 and $298,100 from the Foundation, and made contributions to the Foundation totaling $1,009,286 and $1,106,119, respectively.

See note 6 related to the Foundation's guarantee of the Home's line of credit.

(6) Line of Credit

The Home has a $250,000 line of credit agreement with a bank that expires March 5, 2023 and is secured by all Home inventory, accounts receivable, and equipment. The Foundation has pledged their investment balance as collateral for the line of credit. The line of credit requires monthly interest-only payments equal to the greater of the Overnight LIBOR-Based Rate or the sum of the Overnight LIBOR plus the Rate Margin of 1.25%. No amounts were outstanding under the agreement at September 30, 2022 and 2021.

(7) Net Assets

The Home's net assets with donor restrictions consisted of the following at September 30:

	2022	2021
Cash contributions collected for restricted purposes but not yet expended or subject to the passage of time	$ 25,798	11,500
Contributions receivable	600,000	800,000
Contributions restricted for capital purposes	549,068	329,892
Colorado Department of Education grant	139,371	–
Net assets held by Denver Children's Home Foundation	5,530,549	4,362,497
	6,844,786	5,503,889
Amounts not subject to spending policy or appropriation		
Net assets held by Denver Children's Home Foundation	1,022,812	1,208,961
Beneficial interest in perpetual trusts	3,119,470	4,003,811
	4,142,282	5,212,772
Total net assets with donor restrictions	$ 10,987,068	10,716,661

Net assets of $340,130 and $233,270 were released from restrictions during 2022 and 2021, respectively, as a result of the Home incurring expenses satisfying the restricted purposes or a stipulated time restriction ended.

(8) Retirement Plan

The Home's 403(b) tax sheltered annuity plan is a defined contribution plan that covers all eligible employees who have completed one year of service. Participants are eligible to contribute up to 100% of their earnings, not to exceed the annual limit set by the Internal Revenue Service. Employer contributions are discretionary and may be from 0% to 6% of employee compensation. Plan benefits vest 33% after one year, 67% after three years, and 100% after five years. The Home made a discretionary employer contribution of $152,534 in 2022 and $0 in 2021.

(9) Leases

The Home is obligated under operating leases for office equipment that expire through July 2024. Future minimum lease payments under the non-cancelable operating leases as of the years ending September 30 are:

2023	$ 8,681
2024	3,907
Total minimum lease payments	$ 12,588

The rent expense to the Foundation is not included in the future minimum lease payment schedule as the arrangement is not under a non-cancelable lease agreement. Total rent expense for the Home in 2022 and 2021 was $301,097 and $309,181, respectively.

(10) Prior Period Adjustment

During 2022, management determined that a $1,000,000 pledge to the Home was made in August 2020 and was not properly recognized at September 30, 2020. A $200,000 payment on the pledge was made in September 2020. Corrections to accounts for 2020 were made resulting in the following restated balances at September 30, 2020.

	As originally stated	Effect of correction	Restated
Statement of financial position			
Contributions receivable	$ –	800,000	800,000
Net assets	$ 7,620,674	800,000	8,420,674

Corrections to accounts for 2021 were made resulting in the following restated balances at September 30, 2021.

	As originally stated	Effect of correction	Restated
Statement of financial position			
Contributions receivable	$ –	800,000	800,000
Net assets	$ 9,916,661	800,000	10,716,661