Denver Children's Home

Financial Statements

September 30, 2023 and 2022

(With Independent Auditor's Report Thereon)

Kundinger, Corder & Montoya, P.C.

Certified Public Accountants

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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, 2023 and 2022, 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, 2023 and 2022, 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 (GAAP).

Basis for Opinion
We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 GAAP, 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, which 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 aggregate, 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 GAAS, 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 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 aggregate, which 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 30, 2024

Denver Children's Home
Statements of Financial Position
September 30, 2023 and 2022

		2023	2022
Assets			
Current assets			
Cash and cash equivalents	$	2,608,028	1,018,480
Accounts receivable		972,610	630,850
Contributions receivable (note 3)		503,138	600,000
Prepaid expenses		16,441	9,391
Total current assets		4,100,217	2,258,721
Property and equipment			
Building improvements		1,858,867	1,619,792
Furniture, equipment and software		736,671	671,767
Vehicles		209,986	113,006
		2,805,524	2,404,565
Less accumulated depreciation and amortization		(2,097,811)	(1,941,122)
Net property and equipment		707,713	463,443
Restricted cash for capital purposes		667,650	549,068
Beneficial interest in perpetual trusts (notes 4, 5 and 8)		3,286,677	3,119,470
Restricted net assets held by DCHF (notes 6 and 8)		7,098,888	6,553,361
Total assets	$	15,861,145	12,944,063
Liabilities and Net Assets			
Current liabilities			
Accounts payable	$	259,434	388,371
Accrued payroll and other liabilities		278,666	288,312
Payable to DCHF		302,496	408,879
Total current liabilities		840,596	1,085,562
Net assets (note 8)			
Without donor restrictions		3,118,882	871,433
With donor restrictions		11,901,667	10,987,068
Total net assets		15,020,549	11,858,501
Commitments (notes 6, 7, and 9)			
Total liabilities and net assets	$	15,861,145	12,944,063

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

Denver Children's Home
Statement of Activities
Year Ended September 30, 2023

	Without donor restrictions	With donor restrictions	Total
Revenue			
Net child care service revenue	$ 8,056,913	–	8,056,913
Education revenue	997,933	–	997,933
Contributed nonfinancial assets (note 1(i))	191,484	–	191,484
Total operating revenue	9,246,330	–	9,246,330
Expenses			
Program services			
Residential treatment care	4,311,732	–	4,311,732
Community-based services	1,281,039	–	1,281,039
Education	1,441,023	–	1,441,023
Discovery Home	383,259	–	383,259
Total program services	7,417,053	–	7,417,053
Management and general	823,899	–	823,899
Total operating expenses	8,240,952	–	8,240,952
Total operating net return	1,005,378	–	1,005,378
Non-operating revenue and expenses			
Contributions from DCHF (note 6)	72,182	–	72,182
Cash contributions and grants	932,361	514,519	1,446,880
Fund raising expenses	(338,016)	–	(338,016)
Distributions from perpetual trusts (note 4)	221,943	–	221,943
Change in value of perpetual trusts (note 4)	–	167,207	167,207
Interest income	33,335	–	33,335
Other income	7,612	–	7,612
Net assets released from restrictions (note 8)	312,654	(312,654)	–
Total non-operating revenue and expenses	1,242,071	369,072	1,611,143
Change in net assets before change in net assets held by DCHF	2,247,449	369,072	2,616,521
Change in net assets held by DCHF	–	545,527	545,527
Change in net assets	2,247,449	914,599	3,162,048
Net assets at beginning of year	871,433	10,987,068	11,858,501
Net assets at end of year	$ 3,118,882	11,901,667	15,020,549

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 6)	(1,009,286)	–	(1,009,286)
Distributions from perpetual trusts and interest income (note 4)	160,633	–	160,633
Change in value of perpetual trusts (note 4)	–	(884,341)	(884,341)
Other income	5,431	–	5,431
Net assets released from restrictions (note 8)	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 Functional Expenses
Year Ended September 30, 2023

	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	$ 2,800,036	965,157	642,332	192,428	4,599,953	423,561	204,774	628,335	5,228,288
Payroll taxes	247,297	83,497	61,947	20,720	413,461	33,914	16,613	50,527	463,988
Benefits	362,126	67,840	48,292	15,245	493,503	44,696	10,546	55,242	548,745
Insurance	49,987	7,164	32,875	17,044	107,070	23,076	3,996	27,072	134,142
Office supplies and expenses	19,555	6,070	23,444	722	49,791	5,513	3,591	9,104	58,895
Telephone and utilities	40,000	18,077	38,901	15,134	112,112	5,841	5,291	11,132	123,244
Publicity, conferences and travel	61,971	29,162	27,147	9,107	127,387	6,794	876	7,670	135,057
Repairs and maintenance	98,784	24,329	86,331	15,904	225,348	31,011	17,132	48,143	273,491
Dues and subscriptions	19	485	180	–	684	15,991	–	15,991	16,675
Recreation and special programs	24,056	10,151	45,661	7,308	87,176	–	188	188	87,364
Professional fees	147,276	13,913	47,786	3,808	212,783	177,364	9,926	187,290	400,073
Rent	112,800	13,200	112,800	26,400	265,200	13,200	12,000	25,200	290,400
Food and household supplies	222,577	11,648	188,899	38,416	461,540	5,341	5,763	11,104	472,644
In-kind materials and services	61,310	18,216	20,490	5,450	105,466	–	–	–	105,466
Public relations	–	–	–	–	–	17,595	28,756	46,351	46,351
Depreciation and amortization	63,938	12,130	63,938	15,573	155,579	6,297	5,833	12,130	167,709
Other	–	–	–	–	–	13,705	12,731	26,436	26,436
Total expenses	$ 4,311,732	1,281,039	1,441,023	383,259	7,417,053	823,899	338,016	1,161,915	8,578,968

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

Statements of Cash Flows

Years Ended September 30, 2023 and 2022

	2023	2022
Cash flows from operating activities		
Change in net assets	$ 3,162,048	(66,260)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Change in net assets held by DCHF	(545,527)	(981,903)
Depreciation and amortization	167,709	113,335
Change in value of beneficial interest in perpetual trusts	(167,207)	884,341
Capitalized non-cash contributions	(86,018)	–
Loss on disposal of fixed asset	17,595	–
Change in operating assets and liabilities		
Accounts receivable	(341,760)	(91,129)
Contributions receivable	96,862	200,000
Prepaid expenses	(7,050)	(1,458)
Accounts payable	(128,937)	261,548
Accrued payroll and other liabilities	(9,646)	75,849
Payable to DCHF	(106,383)	283,975
Net cash provided by operating activities	2,051,686	678,298
Cash flows from investing activities		
Payments for purchases of property and equipment	(343,556)	(96,072)
Net cash used in investing activities	(343,556)	(96,072)
Net increase in cash and cash equivalents and restricted cash	1,708,130	582,226
Cash and cash equivalents and restricted cash at beginning of year	1,567,548	985,322
Cash and cash equivalents and restricted cash at end of year	$ 3,275,678	1,567,548

Supplemental disclosures of cash flow information

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

	2023	2022
Cash and cash equivalents	$ 2,608,028	1,018,480
Restricted cash for capital purposes	667,650	549,068
Total cash and cash equivalents and restricted cash shown above	$ 3,275,678	1,567,548

Noncash investment and financing transactions

	2023	2022
Donated property and equipment	$ 86,018	–

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

<u>Contributions and grants</u>
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, 2023 and 2022.

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, 2023, 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.

<u>Special events revenue</u>
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.

<u>Childcare service and education revenue</u>
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:

	2023	2022
Capitalized assets	$ 86,018	–
Gifts/supplies	42,119	18,880
Meals/food	37,732	37,979
Other services	16,961	225
Entertainment	8,654	6,335
Use of space	–	4,000
	$ 191,484	67,419

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, 2023 and 2022, 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, 2023 and 2022, 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 statements 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 2023 and 2022, 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 30, 2024, the date the financial statements were available to be issued.

(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:

	2023	2022
Financial assets at year-end		
Cash and cash equivalents	$ 2,608,028	1,018,480
Accounts receivable	972,610	630,850
Total financial assets available for general expenditures within one year	$ 3,580,638	1,649,330

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, 2023 and 2022 the level of liquidity and reserves were managed within the policy requirements.

(3) Contributions Receivable

Contributions receivable consist of the following at September 30:

	2023	2022
General contributions	$ 3,138	–
Capital campaign contributions	500,000	600,000
Total contributions receivable	$ 503,138	600,000

Contributions receivable at September 30 consist of pledges that are expected to be received as follows:

	2023	2022
Receivable in one year	$ 203,138	200,000
Receivable in two to five years	300,000	400,000
Total contributions receivable	$ 503,138	600,000

Amounts due in more than one year have not been discounted to their net present value due to immateriality. Management believes that all pledges are collectible, accordingly, there is no allowance for doubtful accounts.

(4) 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, 2023 and 2022, respectively, as a beneficial interest in perpetual trusts of $3,286,677 and $3,119,470.

On an annual basis, the Home records the change in the value of the assets of the trusts. During the years ended September 30, 2023 and 2022, respectively, the change in value of trusts was $169,922 and ($884,341). The Home received $221,943 and $160,633 from the trusts during the years ended September 30, 2023 and 2022, respectively.

(5) 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:

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.

(5) Fair Value Measurements, Continued

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 several 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 observability 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 affect 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, 2023:

	Fair Value	Level 1	Level 2	Level 3
Interest in perpetual trusts	$ 3,286,677	–	–	3,286,677
Total	$ 3,286,677	–	–	3,286,677

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 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.

(5) 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, 2021	$ 4,003,811
Net realized and unrealized losses	(723,708)
Distributions	(160,633)
Balance at September 30, 2022	3,119,470
Net realized and unrealized gains	389,150
Distributions	(221,943)
Balance at September 30, 2023	$ 3,286,677

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 gain of $167,207 during 2023 and an unrealized loss of ($884,341) during 2022.

(6) 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, 2023 and 2022, Foundation's total net assets were $7,098,888 and $6,553,361, 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 during each of the years ended September 30, 2023 and 2022.

During the years ended September 30, 2023 and 2022, the Home received contributions totaling $72,182 and $0 from the Foundation, respectively. The Home made contributions to the Foundation of $1,009,286 during 2023 and 2022, respectively.

See note 7 related to the Foundation's guarantee of the Home's line of credit.

(7) Line of Credit

The Home has a $250,000 line of credit agreement with a bank that expires February 28, 2024 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 3.30%, the Prime Rate plus 0.125%, or the Daily Simple SOFR Rate plus 3.30%. No amounts were outstanding under the agreement at September 30, 2023 and 2022.

(8) Net Assets

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

	2023	2022
Cash contributions collected for restricted purposes but not yet expended or subject to the passage of time	$ 160,000	25,798
Contributions receivable	503,138	600,000
Contributions restricted for capital purposes	667,650	549,068
Colorado Department of Education grant	185,737	139,371
Net assets held by Denver Children's Home Foundation	5,968,798	5,530,549
	7,485,323	6,844,786
Amounts not subject to spending policy or appropriation		
Net assets held by Denver Children's Home Foundation	1,130,090	1,022,812
Beneficial interest in perpetual trusts	3,286,677	3,119,470
	4,416,767	4,142,282
Total net assets with donor restrictions	$ 11,902,090	10,987,068

Net assets of $312,654 and $340,130 were released from restrictions during 2023 and 2022, respectively, as a result of the Home incurring expenses satisfying the restricted purposes or a stipulated time restriction ended.

(9) 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. As of March 2023, the Home matches 100% of employee elective deferrals that are less than or equal to 6%. Plan benefits vest 34% after one year, 67% after three years, and 100% after five years. The Home made discretionary employer contributions and matching contributions totaling $214,415 in 2023 and $152,534 in 2022.