Denver Children's Advocacy Center

Consolidated Financial Statements
and
Independent Auditors' Report
December 31, 2017 and 2016

EKS&H

DENVER CHILDREN'S ADVOCACY CENTER

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Denver Children's Advocacy Center
Denver, Colorado

We have audited the accompanying consolidated financial statements of Denver Children's Advocacy Center, which are comprised of the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Denver Children's Advocacy Center as of December 31, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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April 11, 2018
Denver, Colorado

DENVER CHILDREN'S ADVOCACY CENTER

Consolidated Statements of Financial Position

	December 31, 2017	December 31, 2016
Assets		
Current assets		
Cash	$ 1,080,892	$ 1,188,298
Certificates of deposit	-	100,828
Investments	35,793	-
Grants, contributions, and accounts receivable, net	226,844	230,723
Prepaid expenses	2,738	2,543
Total current assets	1,346,267	1,522,392
Non-current assets		
Property and equipment, net	2,072,495	2,175,375
Total assets	$ 3,418,762	$ 3,697,767
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$ 29,781	$ 33,862
Accrued expenses	26,192	18,877
Deferred revenue	8,481	-
Current portion of note payable	-	20,733
Total current liabilities	64,454	73,472
Non-current liabilities		
Note payable, less current portion, net	-	365,378
Total liabilities	64,454	438,850
Commitments		
Net assets		
Unrestricted	3,191,210	3,167,511
Temporarily restricted	163,098	91,406
Total net assets	3,354,308	3,258,917
Total liabilities and net assets	$ 3,418,762	$ 3,697,767

See notes to consolidated financial statements.

DENVER CHILDREN'S ADVOCACY CENTER

Consolidated Statements of Activities

	For the Years Ended					
	December 31, 2017			December 31, 2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues and support						
Private grants	$ 395,183	$ 169,000	$ 564,183	$ 198,789	$ 129,212	$ 328,001
Contributions	153,610	-	153,610	207,747	-	207,747
Earned income						
Government grants and contracts	1,016,422	-	1,016,422	841,890	-	841,890
Seminar fees	15,327	-	15,327	47,090	-	47,090
Fees earned on donated goods, net	51,804	-	51,804	107,822	-	107,822
Special events, net of expenses of $14,184 (2017) and $22,128 (2016)	56,774	-	56,774	87,700	-	87,700
Investment income	135	-	135	813	-	813
In-kind contribution	23,713	-	23,713	22,215	-	22,215
Total revenues and support	1,712,968	169,000	1,881,968	1,514,066	129,212	1,643,278
Net assets released from restrictions	97,308	(97,308)	-	331,021	(331,021)	-
Total revenues and support	1,810,276	71,692	1,881,968	1,845,087	(201,809)	1,643,278
Expenses						
Program services	1,411,337	-	1,411,337	1,363,283	-	1,363,283
Supporting services						
Management and general	229,139	-	229,139	248,601	-	248,601
Fundraising	146,101	-	146,101	141,582	-	141,582
Total expenses	1,786,577	-	1,786,577	1,753,466	-	1,753,466
Change in net assets	23,699	71,692	95,391	91,621	(201,809)	(110,188)
Net assets at beginning of year	3,167,511	91,406	3,258,917	3,075,890	293,215	3,369,105
Net assets at end of year	$ 3,191,210	$ 163,098	$ 3,354,308	$ 3,167,511	$ 91,406	$ 3,258,917

See notes to consolidated financial statements.

DENVER CHILDREN'S ADVOCACY CENTER

Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2017

	Program Services	Supporting Services: Management and General	Supporting Services: Fundraising	Total
Payroll and related expenses	$ 1,023,589	$ 146,991	$ 70,111	$ 1,240,691
Depreciation and amortization	99,054	10,101	8,798	117,953
Contract labor	58,252	11,191	3,122	72,565
Grant writing and research	17,250	-	51,750	69,000
Insurance	34,557	3,524	3,069	41,150
Technology	30,002	3,059	2,665	35,726
Travel and entertainment	27,231	2,718	284	30,233
Staff training	27,282	2,656	119	30,057
Occupancy expenses	20,778	2,119	1,845	24,742
In-kind professional fees	21,563	2,150	-	23,713
Professional fees	-	21,669	-	21,669
Supplies	17,303	3,430	623	21,356
Interest	12,081	1,232	1,073	14,386
Printing and postage	11,713	1,194	1,040	13,947
Bad debt expense	-	11,839	-	11,839
Dues and subscriptions	9,041	922	803	10,766
Miscellaneous	1,641	4,344	699	6,684
Advertising	-	-	100	100
Total	$ 1,411,337	$ 229,139	$ 146,101	$ 1,786,577

See notes to consolidated financial statements.

DENVER CHILDREN'S ADVOCACY CENTER

Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2016

	Program Services	Supporting Services: Management and General	Supporting Services: Fundraising	Total
Payroll and related expenses	$ 989,005	$ 158,058	$ 78,012	$ 1,225,075
Depreciation and amortization	95,958	12,770	4,377	113,105
Contract labor	68,371	10,530	1,570	80,471
Grant writing and research	16,500	-	49,500	66,000
Technology	35,209	4,686	1,607	41,502
Insurance	30,687	4,084	1,400	36,171
In-kind professional fees	20,515	1,700	-	22,215
Supplies	17,665	3,585	808	22,058
Staff training	13,567	7,250	-	20,817
Interest	17,066	2,271	779	20,116
Occupancy expenses	16,074	2,139	733	18,946
Professional fees	-	17,731	-	17,731
Travel and entertainment	11,428	4,616	1,240	17,284
Bad debt expense	-	15,674	-	15,674
Printing and postage	12,606	1,678	575	14,859
Dues and subscriptions	7,940	1,057	362	9,359
Direct services	6,500	-	-	6,500
Miscellaneous	4,192	772	190	5,154
Advertising	-	-	429	429
Total	$ 1,363,283	$ 248,601	$ 141,582	$ 1,753,466

See notes to consolidated financial statements.

DENVER CHILDREN'S ADVOCACY CENTER

Consolidated Statements of Cash Flows

	For the Years Ended December 31, 2017	2016
Cash flows from operating activities		
Change in net assets	$ 95,391	$ (110,188)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	117,953	113,105
Bad debt expense	11,839	15,674
Write off and amortization of debt issuance costs	11,120	881
Unrealized loss on investments	91	-
Changes in operating assets and liabilities		
Grants, contributions, and accounts receivable	(7,960)	217,137
Prepaid expenses	(195)	2,492
Accounts payable	(4,081)	(50,673)
Accrued expenses	7,315	1,926
Deferred revenue	8,481	-
	144,563	300,542
Net cash provided by operating activities	239,954	190,354
Cash flows from investing activities		
Purchases of property and equipment	(15,073)	(33,440)
Interest income on certificates of deposit	(226)	(813)
Maturity of certificate of deposit	101,054	105,617
Purchase of investments	(35,884)	-
Net cash provided by investing activities	49,871	71,364
Cash flows from financing activities		
Payments on note payable	(397,231)	(20,728)
Net cash used in financing activities	(397,231)	(20,728)
Net (decrease) increase in cash	(107,406)	240,990
Cash at beginning of year	1,188,298	947,308
Cash at end of year	$ 1,080,892	$ 1,188,298

Supplemental disclosure of cash flow information:

Cash paid for interest for the years ended December 31, 2017 and 2016 was $3,266 and $19,235, respectively.

See notes to consolidated financial statements.

Note 1 - Organization and Summary of Significant Accounting Policies

Organization

The Denver Children's Advocacy Center (the "Organization") is a not-for-profit organization whose mission is to prevent abuse, strengthen families, and restore childhood. The Organization strives to ensure that every child in the Denver metro area who has been traumatized by sexual abuse or by witnessing homicide or domestic violence receives immediate, compassionate, and effective forensic interviewing; assessment; and, if needed, mental health and medical treatment.

The Advocacy Center Foundation ("ACF"), a supporting 501(c)(3) organization, was formed in May 2005 to administer the proceeds from donations of clothing and household articles given on behalf of the Organization. As a supporting organization, ACF is incorporated as a separate legal entity, and the Organization is the sole voting member of ACF. The activities of ACF are required to be consolidated under generally accepted accounting principles ("U.S. GAAP"). All significant inter-entity transactions have been eliminated.

ACF was formed to handle the proceeds from the conversion of donated clothing and household articles to cash in order to help support the Organization's exempt purpose. ACF is contracted with a third party for the maintenance duties of donation drop boxes as well as the pickup and delivery of the donated goods to the contracted purchaser. The contracted purchaser then pays ACF for the goods received, and ACF pays the third party for the maintenance duties.

For the years ended December 31, 2017 and 2016, the Organization received $51,804 and $107,822, respectively, in net fees earned on donated goods.

The Organization was notified that the vendor ACF utilized to support the donation of clothes and household articles was no longer able to provide this service beginning March 2017. The Organization was unable to identify a replacement vendor and ACF operations ceased in June 2017.

The Organization supports the following programmatic activities:

> The Treatment and Integrated Services Program provides assessment and mental health services for children ages 1 to 17 who have been sexually abused or who have experienced other trauma. The Organization strengthens vulnerable families by ensuring their access to a wide range of supportive services.
>
> The Rapid Response Program provides child forensic interviews and medical exams, which are of vital importance to the investigation and prosecution of child sexual assault and other crimes against children. Bilingual victim advocacy services are available to every client at the Organization.

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Organization (continued)

The Community Outreach Program operates with the goal of providing effective tools to prevent abuse. When working with a school through the Denver Safe from the Start prevention program, the Organization educates parents, caregivers, and teachers on healthy sexual development, signs of abuse and neglect, and the resources to respond to abuse. Additional education is also offered in the form of trainings, workshops, and seminars for professionals, non-offending family members, and the service community involved with child abuse and neglect.

Basis of Presentation

The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 958, *Not-for-Profit Entities*, which generally requires contributions received or made, including unconditional promises to give, to be recognized in the period received or made at fair value. It also requires the presentation of a statement of cash flows and requires that amounts be classified based on the presence or absence of donor-imposed restrictions. Under ASC Topic 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets:

Unrestricted amounts are those currently available at the discretion of the Board of Directors for use in the Organization's operations and those resources invested in property and equipment.

Temporarily restricted amounts are monies restricted by donors specifically for certain time periods, purposes, or programs.

Permanently restricted amounts are assets that must be maintained permanently by the Organization as required by the donor. The Organization did not have any permanently restricted net assets as of December 31, 2017 and 2016.

Cash

Cash includes cash on hand, amounts held in banks, and highly liquid investments purchased with an original maturity of three months or less. At December 31, 2017 and 2016, the Organization had cash in excess of federally insured limits.

Certificates of Deposit

Certificates of deposit are interest-bearing, are held at financial institutions, and are carried at cost plus accrued interest. The Organization's certificate of deposit matured during 2017.

Investments

The Organization accounts for investments in equity securities at fair value with the change in unrealized gains or losses included in the consolidated statements of activities.

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Grants, Contributions, and Accounts Receivable

Accounts receivable represent amounts due from performance of services to third parties. Grants and contributions receivable consist of amounts due from grantors for performance of services provided to customers, clients, and third parties and unconditional pledges recognized as revenue in the period the pledge is received. Pledges are recorded at the net realizable value if expected to be collected in one year and at fair value based on the present value of the future cash flows if expected to be collected in more than one year. As of December 31, 2017 and 2016, no discount has been recorded as the amount is insignificant to the consolidated financial statements.

The Organization provides an allowance for doubtful accounts based on historical collection experiences and a review of the current status of grants and contributions receivable. The allowance for doubtful accounts was $0 and $2,000 as of December 31, 2017 and 2016, respectively.

For the year ended December 31, 2017 and 2016, revenue by two customers of the Organization accounted for 26% and 24%, respectively, of total revenues and support. At December 31, 2017 and 2016, three and four contributors, respectively, accounted for 63% and 71%, respectively, of total grants and contributions receivable.

Contributions

Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions are recognized when cash or ownership of donated assets is unconditionally promised to the Organization. Amounts of temporarily restricted contributions are subsequently released to unrestricted net assets when expenses have been incurred in satisfaction of those restrictions. Restrictions met in the same period in which the related contributions are received are recorded as unrestricted support.

All revenue received in advance of services performed is deferred and recognized in the year of service.

Property and Equipment

Land, buildings and improvements, and equipment purchased by the Organization are recorded at cost. Depreciation is computed using the straight-line method over a period of five to seven years for equipment, ten years for building improvements, and thirty years for buildings.

Website development costs are included in property and equipment and are accounted for in accordance with U.S. GAAP, which requires all costs in the planning stage to be expensed as incurred and costs incurred in the website application and infrastructure development stage to be capitalized until the website is substantially complete and ready for its intended use. The capitalized costs are amortized on a straight-line basis over the expected benefit period of five years.

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Long-Lived Assets

The Organization periodically evaluates the carrying value of long-lived assets for possible impairment whenever events or changes in circumstances indicate that the book value of the assets may not be recoverable. An impairment loss is recognized when the sum of the undiscounted future cash flows is less than the carrying amount of the asset, in which case a write-down is recorded to reduce the related asset to its estimated fair value. No impairment losses were recognized during the years ended December 31, 2017 and 2016.

Debt Issuance Costs

The Organization follows FASB Accounting Standards Update ("ASU") No. 2015-03, *Interest—Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs*, which requires that debt issuance costs related to a recognized debt liability be presented in the consolidated statement of financial position as a direct deduction from the carrying value of the related debt. The debt issuance costs are amortized on a straight-line basis over the term of the debt, which approximates the effective interest method. Amortization expense for the years ended December 31, 2017 and 2016 was $126 and $881, respectively. Due to the repayment of the debt in full during 2017, debt issuance costs of $10,994 were written off.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code").

The Organization applies a more-likely-than-not measurement methodology to reflect the financial statement impact of uncertain tax positions taken or expected to be taken in a tax return. After evaluating the tax positions taken, none are considered to be uncertain; therefore, no amounts have been recognized as of December 31, 2017 or 2016.

If incurred, interest and penalties associated with tax positions are recorded in the period assessed as miscellaneous management and general expense. No interest or penalties have been assessed as of December 31, 2017 and 2016.

Functional Expenses

Expenses that are not specifically attributable to program services or supporting services are allocated by management based on various allocation factors.

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Recently Issued Accounting Pronouncements

In August 2016, the FASB issued ASU No. 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. The amendment applies to all not-for-profit entities. The amendment reduces the classes of net assets to net assets with donor restrictions and net assets without donor restrictions; removes the reconciliation of cash flows to the indirect method if using the direct method; requires the reporting of investment returns, net of expenses, with no disclosure of netted expenses required; and requires the use, in the absence of explicit donor stipulations, of the placed-in-service approach for reporting expiration of restrictions on cash or other asset donations and requires disclosure of expenses by both their natural and functional classification on the face of the statement of activities, as a separate statement or in the notes to the financial statements. In addition, the amendment provides enhanced disclosures on amounts and purposes of board designations and appropriations, composition of net assets with donor restrictions, discussion of liquidity for the year following year-end, discussion of liquidity of financial assets at year-end, methodology used to allocate costs between program and support functions, and underwater endowment funds. The amendment is effective for all fiscal years beginning after December 15, 2017 with early adoption allowed. Entities should apply the amendment in this update retrospectively to all periods presented.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes current revenue recognition requirements and industry-specific guidance. The codification was amended through additional ASUs and, as amended, requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. The Organization is required to adopt the new standard in 2019 and may adopt either retrospectively to each prior reporting period presented or as a cumulative-effect adjustment as of the date of adoption using one of two retrospective application methods.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The new standard establishes a right-of-use ("ROU") model that requires a lessee to record an ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating with classification affecting the pattern of expense recognition on the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements with certain practical expedients available.

The Organization is currently evaluating the impact of these standards on its consolidated financial statements.

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP 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 consolidated financial statements and the reported amounts of revenue, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The Organization has evaluated all significant subsequent events through the auditors' report date, which is the date the consolidated financial statements were available to be issued, and determined that there were no material subsequent events requiring recognition or disclosure.

Note 2 - Fair Value Measurements

The Organization values its financial assets and liabilities based on 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. In order to increase consistency and comparability in fair value measurements, the following fair value hierarchy prioritizes inputs used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable prices that are based on inputs not quoted on active markets but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available.

The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement. These classifications (Levels 1, 2, or 3) are intended to reflect the observability of the inputs used in the valuation of investments and are not necessarily an indication of risk or liquidity.

The following assets are measured at fair value on a recurring basis as of December 31, 2017:

Description	Level 1	Level 2	Level 3	Total
Equity mutual fund	$ 35,793	$ -	$ -	$ 35,793

The following is a description of the valuation methodology used for assets measured at fair value on a recurring basis:

Equity mutual fund - Valued at the closing price reported on an active market on which the individual securities are traded.

Note 3 - Property and Equipment

Property and equipment consist of the following:

	December 31, 2017	December 31, 2016
Buildings	$ 1,875,123	$ 1,875,123
Building improvements	414,916	414,916
Land	343,066	343,066
Furniture, fixtures, and equipment	277,825	264,252
Software	88,725	87,225
	2,999,655	2,984,582
Less accumulated depreciation and amortization	(927,160)	(809,207)
	$ 2,072,495	$ 2,175,375

Depreciation and amortization expense for the years ended December 31, 2017 and 2016 was $117,953 and $113,105, respectively.

Note 4 - Note Payable

The Organization had a loan agreement with a bank that was paid in full during 2017.

Note 5 - Related Party Transactions

Individual Board of Directors members and related parties made contributions totaling $49,595 and $30,085 to the Organization for the years ended December 31, 2017 and 2016, respectively.

Note 6 - Temporarily Restricted Net Assets

Temporarily restricted net assets represent the net proceeds of donations, which have been restricted by the donors to be used only for the following purposes:

	December 31, 2017	December 31, 2016
Programs	$ 114,000	$ 5,850
Time restrictions	49,098	85,556
	$ 163,098	$ 91,406

Note 7 - Retirement Plan

The Organization sponsors a defined contribution tax deferred annuity plan (the "Plan") as outlined in Section 403(b) of the Code. Employees are eligible to participate in the Plan once they have satisfied the age and service requirements. The Organization matches the employee's deferral up to the lesser of $5,200 or 25% of the employee's deferral. The Organization contributed $7,780 and $8,254 to the Plan on behalf of participating employees during the years ended December 31, 2017 and 2016, respectively. The Organization also provides employees the opportunity to contribute additional amounts on a pre-tax basis to the Plan. The Plan allows employees to defer a discretionary amount of their salaries, not to exceed the limit defined by the Plan.

Note 8 - Commitments

The Organization has a non-cancelable operating lease for office equipment, which expires in June 2020. Future minimum lease payments under this lease are approximately $4,300 per year. Rent expense under this lease for the years ended December 31, 2017 and 2016 was approximately $4,300.

Note 9 - Donated Services

Donated services are provided to the Organization by individuals possessing skills that would typically be purchased if not provided by donation. Donated services are recorded at their fair value in the period received. The Organization recorded in-kind revenue and expense of $23,713 and $22,215 for the years ended December 31, 2017 and 2016, respectively.

The Organization also receives a significant amount of donated services from unpaid volunteers who assist in fundraising and special projects. No amounts have been recognized on the consolidated statements of activities because the criteria for recognition have not been satisfied.