Denver Children's Advocacy Center

Consolidated Financial Statements
and
Independent Auditors' Report
December 31, 2016 and 2015

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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, 2016 and 2015, 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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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May 17, 2017
Denver, Colorado

DENVER CHILDREN'S ADVOCACY CENTER

Consolidated Statements of Financial Position

	December 31, 2016	December 31, 2015
Assets		
Current assets		
Cash	$ 1,188,298	$ 947,308
Certificates of deposit	100,828	205,632
Accounts receivable	10,193	48,645
Grants and contributions receivable, net	220,530	381,556
Prepaid expenses	2,543	5,035
Total current assets	1,522,392	1,588,176
Non-current assets		
Grant receivable	-	33,333
Property and equipment, net	2,175,375	2,255,040
Total non-current assets	2,175,375	2,288,373
Total assets	$ 3,697,767	$ 3,876,549
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$ 33,862	$ 84,535
Accrued expenses	18,877	16,951
Current portion of note payable	20,733	27,841
Total current liabilities	73,472	129,327
Non-current liabilities		
Note payable, less current portion, net	365,378	378,117
Total liabilities	438,850	507,444
Commitments		
Net assets		
Unrestricted	3,167,511	3,075,890
Temporarily restricted	91,406	293,215
Total net assets	3,258,917	3,369,105
Total liabilities and net assets	$ 3,697,767	$ 3,876,549

See notes to consolidated financial statements.

DENVER CHILDREN'S ADVOCACY CENTER

Consolidated Statements of Activities

	For the Years Ended					
	December 31, 2016			December 31, 2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues and support						
Private grants	$ 198,789	$ 129,212	$ 328,001	$ 230,479	$ 320,000	$ 550,479
Contributions	207,747	-	207,747	143,147	-	143,147
Earned income						
Government grants and contracts	841,890	-	841,890	845,432	-	845,432
Seminar fees	47,090	-	47,090	93,021	-	93,021
Fees earned on donated goods, net	107,822	-	107,822	112,863	-	112,863
Special events, net of expenses of $22,128 (2016) and $32,133 (2015)	87,700	-	87,700	92,595	-	92,595
Interest income	813	-	813	1,945	-	1,945
In-kind contribution	22,215	-	22,215	38,993	-	38,993
Total revenues and support	1,514,066	129,212	1,643,278	1,558,475	320,000	1,878,475
Net assets released from restrictions	331,021	(331,021)	-	463,840	(463,840)	-
Total revenues and support	1,845,087	(201,809)	1,643,278	2,022,315	(143,840)	1,878,475
Expenses						
Program services	1,363,283	-	1,363,283	1,288,850	-	1,288,850
Supporting services						
Management and general	248,601	-	248,601	240,049	-	240,049
Fundraising	141,582	-	141,582	169,492	-	169,492
Total expenses	1,753,466	-	1,753,466	1,698,391	-	1,698,391
Change in net assets	91,621	(201,809)	(110,188)	323,924	(143,840)	180,084
Net assets at beginning of year	3,075,890	293,215	3,369,105	2,751,966	437,055	3,189,021
Net assets at end of year	$ 3,167,511	$ 91,406	$ 3,258,917	$ 3,075,890	$ 293,215	$ 3,369,105

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 Statement of Functional Expenses
For the Year Ended December 31, 2015

	Program Services	Supporting Services: Management and General	Supporting Services: Fundraising	Total
Payroll and related expenses	$ 920,551	$ 150,177	$ 89,279	$ 1,160,007
Depreciation and amortization	89,204	12,969	8,540	110,713
Contract labor	43,632	3,587	13,557	60,776
Grant writing and research	14,850	-	44,550	59,400
Supplies	42,916	2,087	1,033	46,036
Occupancy expenses	33,611	4,887	3,218	41,716
In-kind professional fees	29,770	9,223	-	38,993
Insurance	30,351	4,413	2,906	37,670
Professional fees	-	30,680	-	30,680
Technology	19,461	2,829	1,863	24,153
Interest	15,982	2,323	1,530	19,835
Travel and entertainment	14,118	3,498	491	18,107
Dues and subscriptions	11,816	1,718	1,131	14,665
Staff training	8,055	3,224	-	11,279
Printing and postage	8,981	1,306	860	11,147
Miscellaneous	5,552	857	534	6,943
Bad debt expense	-	6,271	-	6,271
Total	$ 1,288,850	$ 240,049	$ 169,492	$ 1,698,391

See notes to consolidated financial statements.

DENVER CHILDREN'S ADVOCACY CENTER

Consolidated Statements of Cash Flows

	For the Years Ended December 31, 2016	2015
Cash flows from operating activities		
Change in net assets	$ (110,188)	$ 180,084
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	113,105	110,713
Bad debt expense	15,674	6,271
Amortization of debt issuance costs	881	1,291
Changes in assets and liabilities		
Accounts receivable	38,452	(125)
Grants and contributions receivable	178,685	67,047
Prepaid expenses	2,492	315
Accounts payable	(50,673)	(83)
Accrued expenses	1,926	6,978
	300,542	192,407
Net cash provided by operating activities	190,354	372,491
Cash flows from investing activities		
Purchases of property and equipment	(33,440)	(87,788)
Interest income on certificates of deposit	(813)	(1,945)
Maturity of certificate of deposit	105,617	151,574
Net cash provided by investing activities	71,364	61,841
Cash flows from financing activities		
Payments on note payable	(20,728)	(26,696)
Net cash used in financing activities	(20,728)	(26,696)
Net increase in cash	240,990	407,636
Cash at beginning of year	947,308	539,672
Cash at end of year	$ 1,188,298	$ 947,308

Supplemental disclosure of cash flow information:

Cash paid for interest for the years ended December 31, 2016 and 2015 was $19,235 and $18,546, 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, 2016 and 2015, the Organization received $107,822 and $112,863, respectively, in net fees earned on donated goods.

Subsequent to year-end, the Organization was notified that the vendor ACF utilizes to support the donation of clothes and household articles is no longer able to provide this service beginning in March 2017. The Organization was unable to identify a replacement vendor and has determined that it will no longer operate ACF, which will result in an annual loss of revenue of approximately $100,000.

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 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, 2016 and 2015.

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, 2016 and 2015, 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 have terms of three months. Certificates of deposit are carried at cost plus accrued interest.

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

Accounts Receivable

Accounts receivable represent amounts due from performance of services by ACF to third parties. The Organization considers all amounts to be fully collectible; accordingly, no allowance for doubtful accounts is considered necessary for the years ended December 31, 2016 and 2015.

Grants and Contributions Receivable

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, 2016 and 2015, 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 $2,000 and $1,870 as of December 31, 2016 and 2015, respectively.

For the year ended December 31, 2016 and 2015, revenue by two customers of the Organization accounted for 24% and 23%, respectively, of total revenues and support. At December 31, 2016 and 2015, four and two contributors, respectively, accounted for 71% and 64%, 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.

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, 2016 and 2015.

Debt Issuance Costs

In April 2015, the FASB issued Accounting Standards Update ("ASU") No. 2015-03, *Interest—Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs*. The amended guidance 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. ASU No. 2015-03 is effective for fiscal years, and interim periods, beginning after December 15, 2015. The Organization has early adopted ASU No. 2015-03 and, as a result, reclassified debt issuance costs for all years presented. The Organization has determined that the current portion of the debt issuance costs is de minimis; therefore, the unamortized debt issuance costs are reflected as a direct deduction from long-term debt on the accompanying consolidated statements of financial position. 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, 2016 and 2015 was $881 and $1,291, respectively.

Functional Expenses

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

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, 2016 or 2015.

If incurred, interest and penalties associated with tax positions are recorded in the period assessed as miscellaneous administrative expense. No interest or penalties have been assessed as of December 31, 2016 and 2015.

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 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, 2018, 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.

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.

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 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.

Reclassifications

Certain amounts in the 2015 consolidated financial statements have been reclassified to conform to the 2016 presentation.

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.

Note 2 - Property and Equipment

Property and equipment consist of the following:

	December 31, 2016	December 31, 2015
Buildings	$ 1,875,123	$ 1,875,123
Building improvements	414,916	414,916
Land	343,066	343,066
Furniture, fixtures, and equipment	264,252	241,382
Software	87,225	76,655
	2,984,582	2,951,142
Less accumulated depreciation and amortization	(809,207)	(696,102)
	$ 2,175,375	$ 2,255,040

Depreciation and amortization expense for the years ended December 31, 2016 and 2015 was $113,105 and $110,713, respectively.

Note 3 - Note Payable

As of December 31, 2015, the Organization had a loan agreement with a bank. In April 2016, the Organization refinanced the loan agreement with a new bank to extend the maturity date to March 2031. The refinanced agreement provides for an interest rate of 4.30% and calls for 180 monthly payments of $3,110. The loan is collateralized by the deed of trust on the building located at 2139 Federal Boulevard, Denver, Colorado. The balance outstanding as of December 31, 2016 and 2015 was $397,231 and $407,787, respectively, and is reflected net of unamortized debt issuance costs of $11,120 and $1,829, respectively, on the accompanying consolidated statements of financial position.

In February 2017, the Organization paid the remaining loan balance in full.

Note 4 - Related Party Transactions

Individual Board of Directors members and related parties made contributions totaling $30,085 and $119,000 to the Organization for the years ended December 31, 2016 and 2015, respectively. As of December 31, 2016 and 2015, there were $166 and $11,500, respectively, of related party payables recorded in accounts payable primarily due to employee expense reimbursements.

Note 5 - 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,	
	2016	2015
Programs	$ 5,850	$ 20,782
Time restrictions	85,556	272,433
	$ 91,406	$ 293,215

Note 6 - 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 $8,254 and $10,882 to the Plan on behalf of participating employees during the years ended December 31, 2016 and 2015, 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 7 - 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, 2016 and 2015 was approximately $4,300 and $2,200, respectively.

Note 8 - 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 $22,215 and $38,993 as of December 31, 2016 and 2015, 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.