

Denver Children's Home

Financial Statements

September 30, 2010 and 2009

(With Independent Auditor's Report Thereon)

Kundinger, Corder & Engle, P.C.

*Certified Public Accountants
475 Lincoln Street, Suite 200
Denver, Colorado 80203*

*Phone (303) 534-5953
Fax (303) 892-7776
Email mail@kcedenver.com*

Independent Auditor's Report

Board of Directors Denver Children's Home:

We have audited the accompanying statements of financial position of Denver Children's Home as of September 30, 2010 and 2009 and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Home's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Denver Children's Home as of September 30, 2010 and 2009 and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KUNDINGER, CORDER & ENGLE, P.C.

March 31, 2011

Denver Children's Home
Statements of Financial Position
September 30, 2010 and 2009

	2010	2009
Assets:		
Current assets:		
Cash and cash equivalents	\$ 272,439	446,342
Accounts receivable	328,536	463,564
Prepaid expenses	33,745	36,452
Short-term investments (note 3)	—	175,697
Total current assets	634,720	1,122,055
Property and equipment:		
Building improvements	1,344,692	1,131,868
Furniture, equipment and software	954,135	942,885
Vehicles	126,847	128,547
	2,425,674	2,203,300
Less accumulated depreciation and amortization	1,678,430	1,569,483
Net property and equipment	747,244	633,817
Beneficial interest in perpetual trusts (notes 2, 3 and 8)	2,996,363	2,887,811
Restricted net assets held by DCHF (notes 4, 7 and 8)	2,586,311	2,664,443
Total assets	\$ 6,964,638	7,308,126
Liabilities and Net Assets:		
Current liabilities:		
Accounts payable	\$ 43,887	158,019
Accrued payroll and payroll liabilities	73,110	74,667
Accrued vacation and sick pay	115,752	99,830
Other liabilities	7,135	14,891
Total current liabilities	239,884	347,407
Net assets:		
Unrestricted	1,021,339	1,344,133
Temporarily restricted (note 7)	1,740,260	1,707,877
Permanently restricted (note 8)	3,963,155	3,908,709
Total net assets	6,724,754	6,960,719
Commitments and contingency (notes 4, 5, 6, and 9)		
Total liabilities and net assets	\$ 6,964,638	7,308,126

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

Denver Children's Home
Statement of Activities
Year Ended September 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue:				
Net child care service revenue	\$ 1,943,323	–	–	1,943,323
Education revenue	940,429	–	–	940,429
Other income	198,121	–	–	198,121
Total operating revenue	<u>3,081,873</u>	<u>–</u>	<u>–</u>	<u>3,081,873</u>
Expenses:				
Program services:				
Long-term care and shelter care	1,551,433	–	–	1,551,433
Community-based services	956,938	–	–	956,938
Education	1,029,980	–	–	1,029,980
Room and board	678,150	–	–	678,150
Total program services	<u>4,216,501</u>	<u>–</u>	<u>–</u>	<u>4,216,501</u>
Supporting services:				
Management and general	726,610	–	–	726,610
Fund raising	176,136	–	–	176,136
Total supporting services	<u>902,746</u>	<u>–</u>	<u>–</u>	<u>902,746</u>
Total operating expenses	<u>5,119,247</u>	<u>–</u>	<u>–</u>	<u>5,119,247</u>
Total operating net loss	<u>(2,037,374)</u>	<u>–</u>	<u>–</u>	<u>(2,037,374)</u>
Non-operating revenue and expenses:				
Contributions from DCHF (note 4)	547,284	–	–	547,284
Cash contributions	668,306	100,139	–	768,445
In-kind contributions (note 1(f))	224,995	–	–	224,995
Special events revenue	160,672	–	–	160,672
Special events expenses	(56,075)	–	–	(56,075)
Distributions from perpetual trusts and interest income (note 2)	125,668	–	–	125,668
Change in value of perpetual trusts (note 2)	–	–	108,552	108,552
Net assets released from restrictions (note 7)	43,730	(43,730)	–	–
Total non-operating revenue and expenses	<u>1,714,580</u>	<u>56,409</u>	<u>108,552</u>	<u>1,879,541</u>
Change in net assets before change in net assets held by DCHF	(322,794)	56,409	108,552	(157,833)
Change in net assets held by DCHF	–	(24,026)	(54,106)	(78,132)
Change in net assets	(322,794)	32,383	54,446	(235,965)
Net assets at beginning of year	<u>1,344,133</u>	<u>1,707,877</u>	<u>3,908,709</u>	<u>6,960,719</u>
Net assets at end of year	<u>\$ 1,021,339</u>	<u>1,740,260</u>	<u>3,963,155</u>	<u>6,724,754</u>

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

Denver Children's Home
Statement of Activities
Year Ended September 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue:				
Net child care service revenue	\$ 2,511,757	-	-	2,511,757
Education revenue	1,004,396	-	-	1,004,396
Other income	323,206	-	-	323,206
Total operating revenue	<u>3,839,359</u>	<u>-</u>	<u>-</u>	<u>3,839,359</u>
Expenses:				
Program services:				
Long-term care and shelter care	1,776,819	-	-	1,776,819
Community-based services	1,109,950	-	-	1,109,950
Education	990,645	-	-	990,645
Room and board	706,194	-	-	706,194
Total program services	<u>4,583,608</u>	<u>-</u>	<u>-</u>	<u>4,583,608</u>
Supporting services:				
Management and general	673,161	-	-	673,161
Fund raising	193,185	-	-	193,185
Total supporting services	<u>866,346</u>	<u>-</u>	<u>-</u>	<u>866,346</u>
Total operating expenses	<u>5,449,954</u>	<u>-</u>	<u>-</u>	<u>5,449,954</u>
Total operating net loss	<u>(1,610,595)</u>	<u>-</u>	<u>-</u>	<u>(1,610,595)</u>
Non-operating revenue and expenses:				
Contributions from DCHF (note 4)	441,619	-	-	441,619
Cash contributions	586,453	60,094	-	646,547
In-kind contributions (note 1(f))	223,370	-	-	223,370
Special events revenue	190,702	-	-	190,702
Special events expenses	(60,878)	-	-	(60,878)
Distributions from perpetual trusts and interest income (note 2)	129,638	-	-	129,638
Change in value of perpetual trusts (note 2)	-	-	(84,357)	(84,357)
Net assets released from restrictions (note 7)	38,731	(38,731)	-	-
Contributions expense (note 1(f))	(82,917)	-	-	(82,917)
Total non-operating revenue and expenses	<u>1,466,718</u>	<u>21,363</u>	<u>(84,357)</u>	<u>1,403,724</u>
Change in net assets before change in net assets held by DCHF	(143,877)	21,363	(84,357)	(206,871)
Change in net assets held by DCHF	-	(138,741)	16,695	(122,046)
Change in net assets	<u>(143,877)</u>	<u>(117,378)</u>	<u>(67,662)</u>	<u>(328,917)</u>
Net assets at beginning of year	<u>1,488,010</u>	<u>1,825,255</u>	<u>3,976,371</u>	<u>7,289,636</u>
Net assets at end of year	<u>\$ 1,344,133</u>	<u>1,707,877</u>	<u>3,908,709</u>	<u>6,960,719</u>

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

Denver Children's Home
Statement of Functional Expenses
Year Ended September 30, 2010

	Program services				Supporting services			
	Long-term care and shelter care	Community-based services	Education	Room and board	Total program services	Management and general	Fund raising	Total supporting services
Salaries	\$ 1,124,608	631,076	648,416	175,628	2,579,728	472,860	114,849	587,709
Payroll taxes	102,111	50,559	55,014	14,887	222,571	38,248	9,284	47,532
Benefits	114,707	59,965	66,695	10,173	251,540	37,318	13,465	50,783
Insurance	3,300	16,924	10,285	23,055	53,564	15,852	1,809	17,661
Office supplies and expenses	11,792	8,107	6,690	4,543	31,132	4,706	1,246	5,952
Telephone and utilities	11,272	13,491	13,723	39,089	77,575	11,282	2,284	13,566
Publicity, conferences and travel	149	7,195	1,036	2,479	10,859	2,435	316	2,751
Repairs and maintenance	7,191	5,542	7,618	1,905	22,256	1,259	4,032	5,291
Dues and subscriptions	4,193	1,677	6,708	4,193	16,771	13,416	3,354	16,770
Recreation and special programs	12,032	3,869	1,257	-	17,158	2,301	-	2,301
Professional fees	74,411	21,359	-	58,097	153,867	81,717	-	81,717
Rent	55,200	35,880	44,160	115,920	251,160	22,080	2,760	24,840
Food and household supplies	7,573	40,132	84,724	122,707	255,136	5,423	1,339	6,762
In-kind materials and services	765	46,778	65,950	59,002	172,495	5,027	229	5,256
Special events expenses	-	-	-	-	-	-	56,075	56,075
Public relations	-	-	-	-	-	-	12,926	12,926
Depreciation and amortization	22,129	14,384	17,704	46,472	100,689	8,852	1,106	9,958
Other	-	-	-	-	-	3,834	7,137	10,971
Total functional expenses	1,551,433	956,938	1,029,980	678,150	4,216,501	726,610	232,211	958,821
Less expenses included with revenue in the statement of activities	-	-	-	-	-	-	(56,075)	(56,075)
Total expenses	\$ 1,551,433	956,938	1,029,980	678,150	4,216,501	726,610	176,136	902,746

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

Denver Children's Home
Statement of Functional Expenses
Year Ended September 30, 2009

	Program services				Supporting services				
	Long-term shelter care and	Community-based services	Education	Room and board	Total program services	Management and general	Fund raising	Total supporting services	
Salaries	\$ 1,347,941	713,998	665,994	165,045	2,892,978	447,747	105,741	553,488	3,446,466
Payroll taxes	123,087	59,123	57,014	11,206	250,430	36,018	8,419	44,437	294,867
Benefits	116,338	64,183	65,296	10,404	256,221	36,134	13,617	49,751	305,972
Insurance	3,300	15,121	8,942	23,662	51,025	11,484	1,722	13,206	64,231
Office supplies and expenses	5,442	8,175	8,914	16,324	38,855	6,270	1,660	7,930	46,785
Telephone and utilities	10,973	14,063	17,203	32,918	75,157	8,692	2,199	10,891	86,048
Publicity, conferences and travel	458	4,713	1,102	3,661	9,934	3,552	1,216	4,768	14,702
Repairs and maintenance	7,083	6,110	7,284	371	20,848	5,178	2,011	7,189	28,037
Dues and subscriptions	2,561	2,934	-	1,427	6,922	27,681	-	27,681	34,603
Recreation and special programs	15,713	6,735	949	-	23,397	-	45	45	23,442
Professional fees	79,560	27,151	-	24,542	131,253	47,926	-	47,926	179,179
Rent	16,560	35,880	44,160	154,560	251,160	22,080	2,760	24,840	276,000
Food and household supplies	10,549	91,896	73,773	162,509	338,727	5,436	1,226	6,662	345,389
In-kind materials and services	31,481	47,360	24,619	21,045	124,505	2,600	-	2,600	127,105
Special events expenses	-	-	-	-	-	-	60,878	60,878	60,878
Contributions expense	-	82,917	-	-	82,917	-	-	-	82,917
Public relations	-	-	-	-	-	-	51,607	51,607	51,607
Depreciation and amortization	5,773	12,508	15,395	78,520	112,196	7,697	962	8,659	120,855
Other	-	-	-	-	-	4,666	-	4,666	4,666
Total functional expenses	1,776,819	1,192,867	990,645	706,194	4,666,525	673,161	254,063	927,224	5,593,749
Less expenses included with revenue in the statement of activities	-	(82,917)	-	-	(82,917)	-	(60,878)	(60,878)	(143,795)
Total expenses	\$ 1,776,819	1,109,950	990,645	706,194	4,583,608	673,161	193,185	866,346	5,449,954

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

Denver Children's Home
Statements of Cash Flows
Years Ended September 30, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Change in net assets	\$ (235,965)	(328,917)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Change in net assets held by DCHF	78,132	122,046
Depreciation and amortization	110,647	120,855
Donated property and equipment	(47,244)	(13,348)
Change in value of beneficial interest in perpetual trusts	(108,552)	84,357
Decrease (increase) in operating assets:		
Accounts receivables	135,028	33,819
Prepaid expenses	2,707	(25,162)
Increase (decrease) in operating liabilities:		
Accounts payable	(114,132)	40,309
Accrued payroll and payroll liabilities	(1,557)	(48,506)
Accrued vacation and sick pay	15,922	(4,435)
Other liabilities	(7,756)	2,123
	(172,770)	(16,859)
Cash flows from investing activities:		
Payments for purchases of property and equipment	(176,830)	(139,715)
Net sales of short-term investments	175,697	111,761
	(1,133)	(27,954)
Net decrease in cash and cash equivalents	(173,903)	(44,813)
Cash and cash equivalents at beginning of year	446,342	491,155
Cash and cash equivalents at end of year	\$ 272,439	446,342
Supplemental disclosures:		
Donated property and equipment	\$ 47,244	13,348

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

Denver Children's Home
Notes to Financial Statements
September 30, 2010 and 2009

(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, an after school program, 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

Financial statement presentation follows the requirements of the *Not-for-Profit Entities – Presentation of Financial Statements* Topic of the FASB Accounting Standards Codification (FASB ASC). Under this standard, the Home is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

(d) Contributions

The Home follows the accounting requirements of the *Revenue Recognition* Topic of FASB ASC. In accordance with this standard, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, 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), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Restrictions met in the same period in which the related contributions are received are recorded as unrestricted support.

Denver Children's Home
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(e) Contributions Receivable

Unconditional pledges are recognized as revenue in the period the pledge is received. Contributions 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. Conditional pledges are recognized when the conditions on which they depend are substantially met. Uncollected contributions receivable are not expected to be significant.

(f) Contributed Property and Services

Contributed property and equipment are recorded at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

Contributed goods and services are recorded as contributions and corresponding expenses at their estimated fair values at the date of donation. In-kind contributions for the years ended September 30 consisted of the following:

	<u>2010</u>	<u>2009</u>
Property and equipment	\$ 47,244	13,348
Services	5,726	6,950
Materials	<u>172,025</u>	<u>203,072</u>
Total	<u>\$ 224,995</u>	<u>223,370</u>

During 2009, the Home was selected by a not-for-profit organization based in New York as the recipient of various new brand and non-brand apparel valued at \$82,917. The Home was granted authority to give away any items not used in its programs. As such, during 2009, the Home donated apparel valued at \$82,917 to other local nonprofit agencies. The Home received other donated materials and services for its programs in the normal course of operations totaling \$224,995 and \$140,453 in 2010 and 2009, respectively.

A number of volunteers have donated time in connection with the Home's activities. No amounts have been reflected in the accompanying financial statements for volunteers' donated services because they do not meet the criteria of recognition.

(g) Recognition of Income

Program services revenue is deemed to be earned and is reported as revenue when the Home has incurred expenditures or performed services in compliance with the provisions of the respective service agreements.

Denver Children's Home
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(h) Cash and Cash Equivalents

For purposes of the statements of cash flows, the Home considers all unrestricted highly liquid investments with original maturities of three months or less, that are not held as part of the investment portfolio, to be cash equivalents.

(i) Short-Term Investments

Short-term investments consist of certificates of deposit with original maturities of more than three months at the date of acquisition. The fair value of short-term investments is based on pricing inputs directly observable and on quoted prices for similar assets in active markets (Level 2). See note 3.

(j) 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 collectibility. Accounts deemed uncollectible are charged to the allowance in the year they are deemed uncollectible.

(k) 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.

(l) 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. The Home places its cash and cash equivalents with creditworthy, high quality, financial institutions. A significant portion of the funds are not 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 credit-worthiness 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.

(m) Use of 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 during the reporting period. Actual results could differ from those estimates.

Denver Children's Home
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(n) Functional Allocation of Expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the appropriate program and supporting services benefited.

(o) Income Tax Status

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 2010 and 2009, the Home did not incur any unrelated business income tax.

During 2010, the Home adopted guidance related to the uncertainty in income taxes. After evaluating the tax positions taken, none are considered to be uncertain; therefore, no amounts have been recognized as of September 30, 2010. If incurred, interest and penalties associated with uncertain tax positions would be recorded in the period assessed as other operating expense. No interest or penalties have been assessed as of September 30, 2010. Tax years that remain subject to examination include 2007 through 2009.

(p) Subsequent Events

Management is required to evaluate, through the date the financial statements are issued or available to be issued, events or transactions that may require recognition or disclosure in the financial statements, and to disclose the date through which subsequent events were evaluated. The Home's financial statements were available to be issued on March 31, 2011 and this is the date through which subsequent events were evaluated. Effective December 1, 2010, the lease agreements with the Foundation were renewed. See Note 4.

(2) 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, 2010 and 2009, respectively, as a beneficial interest in perpetual trusts of \$2,996,363 and \$2,887,811.

On an annual basis, the Home records the change in the value of the assets of the trusts. During the years ended September 30, 2010 and 2009, respectively, the change in value of trusts was \$108,552 and (\$84,357). The Home received \$124,890 and \$124,419 from the trusts during the years ended September 30, 2010 and 2009, respectively.

The Home also earned \$778 and \$5,219 in interest income on its cash investments during the years ended September 30, 2010 and 2009, respectively.

Denver Children's Home
Notes to Financial Statements, Continued

(3) Fair Value Measurements

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

The Home follows the provisions of the *Fair Value Measurements and Disclosures* Topic of FASB ASC, which among other things requires enhanced disclosures about financial instruments that are measured and reported at fair value. This standard establishes a hierarchical disclosure framework which prioritizes and ranks the level of market price observability used in measuring fair value. Market price observability is impacted by a number of factors, including the type of financial instrument and the characteristics specific to the financial instrument. Financial 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.

Financial 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.

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 which are generally included in this category include corporate and government bonds, less liquid and restricted equity securities and certain over-the-counter derivatives. For the Home, Level 2 financial instruments consist of short-term investments.

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, funds of hedge funds, and distressed debt. The Home's beneficial interest in perpetual trusts is based on Level 3 fair value measurements.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, a financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Denver Children's Home
Notes to Financial Statements, Continued

(3) Fair Value Measurements, Continued

The following table summarizes the valuation of the Home's financial instruments by the above fair value hierarchy levels as of September 30, 2010:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Interest in perpetual trusts	\$ 2,996,363	—	—	2,996,363
Total	\$ <u>2,996,363</u>	<u>—</u>	<u>—</u>	<u>2,996,363</u>

The following table summarizes the valuation of the Home's financial instruments by the above fair value hierarchy levels as of September 30, 2009:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Interest in perpetual trusts	\$ 2,887,811	—	—	2,887,811
Short-term investments	<u>175,697</u>	—	<u>175,697</u>	—
Total	\$ <u>3,063,508</u>	<u>—</u>	<u>175,697</u>	<u>2,887,811</u>

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, 2008	\$ 2,972,168
Net realized and unrealized gains	40,062
Distributions	<u>(124,419)</u>
Balance at September 30, 2009	2,887,811
Net realized and unrealized gains	233,442
Distributions	<u>(124,890)</u>
Balance at September 30, 2010	\$ <u>2,996,363</u>

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. At September 30, 2010, this was an unrealized gain of \$108,552.

(4) Denver Children's Home Foundation

In 1998, the Denver Children's Home 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 directors, 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 follows the provisions of the FASB ASC Topic of *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others* 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.

Denver Children's Home
Notes to Financial Statements, Continued

(4) Denver Children's Home Foundation, Continued

The Home leases its treatment facility, Discovery Home and administrative office from the Foundation. The leases expire December 1, 2012, have monthly rent expenditures of \$23,000 during the years ended September 30, 2010 and 2009 and require the Home to pay all costs associated with operation and maintenance of the facility. At September 30, 2010, minimum lease payments for future years under the leases totaled \$276,000 for 2011 and 2012. Rent paid by the Home to the Foundation totaled \$276,000 during each of the years ended September 30, 2010 and 2009.

During the years ended September 30, 2010 and 2009, respectively, the Home received contributions totaling \$547,284 and \$441,619 from the Foundation.

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

(5) Operating Leases

The Home has various other operating leases for office equipment that expire over the next four years. Future minimum lease payments under these noncancelable operating leases for the year ending September 30 are as follows:

2011	\$ 7,200
2012	2,655
2013	1,140
2014	<u>950</u>
Total future minimum lease payments	\$ <u>11,945</u>

Rent expense paid to all sources totaled \$286,328 and \$291,223 during the years ended September 30, 2010 and 2009, respectively. See Note 4 also.

(6) Line of Credit

The Home has a \$250,000 line of credit agreement with a bank that expires February 24, 2012 and is secured by all Home inventory, accounts receivable, and equipment. The Foundation has guaranteed the line of credit. The line of credit requires monthly interest-only payments at the bank's prime lending rate less 1/2%, with a rate floor of 3%. No amounts were outstanding under the agreement at September 30, 2010 and 2009.

(7) Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following at September 30:

	<u>2010</u>	<u>2009</u>
Cash contributions collected but not yet expended	\$ 120,741	64,332
Net assets held by Denver Children's Home Foundation	<u>1,619,519</u>	<u>1,643,545</u>
Total temporarily restricted net assets	\$ <u>1,740,260</u>	<u>1,707,877</u>

Net assets of \$43,730 and \$38,731 were released from restrictions during 2010 and 2009, respectively, as a result of the Home incurring expenditures satisfying the related restricted purposes.

Denver Children's Home
Notes to Financial Statements, Continued

(8) Permanently Restricted Net Assets

Permanently restricted net assets consisted of the following at September 30:

	<u>2010</u>	<u>2009</u>
Beneficial interest in perpetual trusts (note 2)	\$ 2,996,363	2,887,811
Net assets held by Denver Children's Home Foundation	<u>966,792</u>	<u>1,020,898</u>
Total permanently restricted net assets	<u>\$ 3,963,155</u>	<u>3,908,709</u>

(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 a fixed percentage of their earnings, not to exceed the annual limit set by the Internal Revenue Service. Employer contributions are discretionary and may be from 0% to 6% of employee compensation. Plan benefits vest 33% after one year, 67% after three years, and 100% after five years. The Home did not make employer discretionary matching contributions in 2010 or 2009.