Tennyson Center for Children at Colorado Christian Home

Financial Statements and Supplementary Information

September 30, 2018 and 2017

(With Independent Auditor's Report Thereon)

Kundinger, Corder & Engle, P.C.

Certified Public Accountants

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Independent Auditor's Report

Board of Directors
Tennyson Center for Children at Colorado Christian Home:

We have audited the accompanying financial statements of Tennyson Center for Children at Colorado Christian Home, which comprise the statements of financial position as of September 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Tennyson Center for Children at Colorado Christian Home as of September 30, 2018 and 2017, 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.

Board of Directors
Tennyson Center for Children at Colorado Christian Home

Report on Supplementary Information
Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The management's discussion and analysis on pages 3-5 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Kundinger, Corder & Engle, P.C.

January 8, 2019

Tennyson Center for Children Overview

The Tennyson Center for Children at Colorado Christian Home (Tennyson), established in 1904, is one of Colorado's leading providers of education and therapeutic interventions for abused, neglected and traumatized children. Tennyson serves children ranging in age from 0 to 18 by providing immediate and long-term support for children and their families to truly stabilize, heal and reintegrate into society.

Tennyson launched a bold, new strategic plan at the end of fiscal year 2018 with the vision of Every Kid Forever. After a transitional year in fiscal year 2017 and a focus on thoughtful planning during fiscal year 2018, Tennyson and is now embarking on this new plan from a position of organizational and financial strength. Tennyson, under the direction of its CEO, reorganized Board of Directors and senior leadership team, transformed a significant loss in fiscal year 2017 of $977K to a gain of $872K in fiscal year 2018.

The Board approved strategic plan includes the following key points:

- Set a new standard for achieving positive outcomes for children who have experienced trauma.
- Test alternative programming models and uncover true costs and impact of earlier interventions.
- Serve kids directly and openly share our approaches and data statewide.
- Use the proof points in discovered thru data and dollars to influence state and local policy to change from a crisis intervention model to prevention.

These goals will help drive sustainable practices and funding models to reintegrate kids into our communities and ultimately to become successful adults.

Tennyson will continue to strengthen the organization in fiscal year 2019 in order to successfully implement the strategic plan by investing in staff, investing in the impact department and increasing organizational voice in Colorado. Also, in fiscal year 2019, the main campus will be undergoing a $2.0M repair project focusing primarily on the windows and roof due to hail storm damage. The financial statements in fiscal year 2018 include the initial proceeds from the insurance company due to the storm of $458K. The remainder of the proceeds, which will total $2.0M from the insurance company, will be received in fiscal year 2019 as the repairs are completed.

Financial Statements

Tennyson's financial statements are prepared in accordance with accounting principles generally accepted in the United States. The Statements of Financial Position; Activities; Functional Expenses and Cash Flows are prepared on an accrual basis, and combined with the notes to the financial statements, provide the reader with an overview of the financial position and activities of the organization.

Financial Position

Total assets increased between 2018 and 2017 by approximately $750K ($15.1M compared to $14.3M) primarily due to an increase in cash but also an increase in grants receivable at September 30, 2018. Tennyson had a strong year in fundraising which contributed to the increase in cash and the grants receivable.

The decrease in liabilities between 2018 and 2017 of approximately $129K ($778K compared to $907K) consists primarily of a decrease in accrued expenses driven by a decrease in accrued salaries and paid time off as staffing levels changed in 2018.

The difference between assets and liabilities represents the net assets of the organization, and the change in net assets over time is one indicator of the organization's improving or declining financial position. The net assets of the organization increased $872K in fiscal 2018 as Tennyson positioned itself to implement its strategic plan.

Revenue and Support

Total revenues overall for the fiscal year increased by $1.6M or 13% ($14.3M compared to $12.7M) from the prior year as Tennyson experienced a strong year with financial growth.

- Program service revenue consists of $8.5M of the $14.3M and increased $807K or 10% from the prior year. The increase is driven from an intentional expansion in the community based programs which will also continue into next fiscal year.
- Development revenue had significant increases as well in fiscal year 2018 with an increase of nearly $1.2M ($5.5M compared to $4.3M). Grants and individual donations both increased with renewed donor engagement and launching of the strategic plan.
- Other income which consists of investment returns and change in value of trusts decreased $348K in fiscal year 2018 as a result of stock market fluctuations.

Operating Expenses

Total expenses for the fiscal year remained fairly consistent with an increase of $213K for a total of $13.9M. Program service expenses are 79% of total expenses which is also consistent with the prior year. Some of the more significant changes in expenditures included:

- Salaries and related benefits total $10.3M in fiscal year 2018 as compared to $10.7M during the prior year. Personnel costs are Tennyson's largest expense as staff are providing direct care and the decrease during the year represents a controlled effort to "right-size" the staff levels consistent with the strategic initiatives.
- Professional fees increased $273K in the current fiscal year as contractors and consultants were utilized during the transition of the staffing noted above.
- Strategic planning expense of $368K was new and will only appear in fiscal year 2018, as Tennyson worked with a consulting group to fully develop the strategic plan including donor related materials and detailed implementation plan.
- Bad debts and refunds totaled $504K in fiscal year 2018 as Tennyson cleaned up the program service revenue accounts receivable and updated processes related to collections. In fiscal year 2017, Tennyson adjusted pledges receivables and total bad debt in 2017 was $378K.

Statements of Cash Flows

The Statements of Cash Flows represent Tennyson's change in cash and cash equivalents for the year and provides a summary of how cash was utilized. Overall cash balances increased $581K in fiscal year 2018 resulting from a positive inflow in cash provided by operating activities of $713K. This was a significant increase from the prior year as cash from operating activities was a deficit of $1.3M. This is another indication that Tennyson has repositioned itself and increased its financial health.

Currently Known Facts and Conditions

Tennyson's strategic plan is on target with its implementation plan for year one:

- The $2.0M in repairs fully funding by insurance proceeds noted above are approximately 65% complete.
- Tennyson's impact department continues to grow in order to monitor outcomes.
- Organizational voice is stronger than ever with Tennyson staff joining state and local task forces and numerous appearances in print and social media.

Contacting Tennyson Center's Financial Management

This Management's Discussion and Analysis, the accompanying financial statements and the notes to the financial statements are designed to provide readers with a general overview of Tennyson Center's finances and to reflect accountability and financial transparency relating to Tennyson's financial health. If you have questions about this report or need additional financial information, please contact the organization's financial team. Contact information may be found on the website at www.tennysoncenter.org.

Tennyson Center for Children at Colorado Christian Home
Statements of Financial Position
September 30, 2018 and 2017

	2018	2017
Assets:		
Cash and cash equivalents	$ 1,758,246	1,177,190
Accounts receivable, net of allowance of $178,080 and $192,082, respectively	1,278,928	1,253,638
Contributions and grants receivable, net (note 2)	452,702	321,436
Prepaids and other assets	119,925	122,438
Note receivable (note 3)	147,998	160,809
Investments (notes 5 and 7)	3,195,425	3,140,784
Restricted cash for unemployment claims	55,980	125,807
Charitable lead trusts receivable (notes 6 and 7)	1,161,620	1,194,622
Charitable remainder trust receivable (notes 6 and 7)	798,713	879,943
Beneficial interest in perpetual trusts (notes 6 and 7)	832,437	805,371
Property and equipment, net (notes 4 and 9)	5,297,679	5,174,817
Total assets	$ 15,099,653	14,356,855
Liabilities and Net Assets:		
Accounts payable	$ 87,259	96,176
Accrued expenses	690,874	810,965
Total liabilities	778,133	907,141
Net assets:		
Unrestricted:		
Operating	2,121,326	1,403,919
Net assets in property and equipment	4,652,679	4,529,817
Total unrestricted net assets	6,774,005	5,933,736
Temporarily restricted (note 9)	3,696,087	3,715,314
Permanently restricted (note 10)	3,851,428	3,800,664
Total net assets	14,321,520	13,449,714
Commitments (notes 8, 11 and 12)		
Total liabilities and net assets	$ 15,099,653	14,356,855

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

Tennyson Center for Children at Colorado Christian Home
Statement of Activities
Year Ended September 30, 2018

	Unrestricted	Temporarily Restricted	Total Operations	Permanently Restricted	Total
Revenue and support:					
Children and family service revenue:					
Residential	$ 2,403,702	–	2,403,702	–	2,403,702
Education	2,496,138	–	2,496,138	–	2,496,138
Day treatment	1,272,300	–	1,272,300	–	1,272,300
Community based	2,301,642	–	2,301,642	–	2,301,642
Total service revenue	8,473,782	–	8,473,782	–	8,473,782
Individual contributions	1,984,560	354,509	2,339,069	14,786	2,353,855
Grants	1,207,161	238,250	1,445,411	–	1,445,411
Bequests and memorial gifts	10,000	–	10,000	–	10,000
Special events revenue	1,821,120	54,000	1,875,120	–	1,875,120
Less direct benefits to donors	(414,609)	–	(414,609)	–	(414,609)
In-kind contributions (note 1(f))	198,297	–	198,297	–	198,297
Investment return (note 5)	3,859	184,518	188,377	–	188,377
Change in value of trusts (note 6)	53,247	(42,182)	11,065	27,066	38,131
Other income	110,258	–	110,258	8,912	119,170
Net assets released from restrictions:					
Due to expenditures, disbursements or receipt of payments (note 9)	808,322	(808,322)	–	–	–
Total revenue and support	14,255,997	(19,227)	14,236,770	50,764	14,287,534
Expenses:					
Program services	10,965,886	–	10,965,886	–	10,965,886
Supporting services:					
General and administrative	1,876,961	–	1,876,961	–	1,876,961
Fund raising	1,031,028	–	1,031,028	–	1,031,028
Total supporting services	2,907,989	–	2,907,989	–	2,907,989
Total expenses	13,873,875	–	13,873,875	–	13,873,875
Change in net assets before gain on insurance settlement	382,122	(19,227)	362,895	50,764	413,659
Gain on insurance settlement (note 14)	458,147	–	458,147	–	458,147
Change in net assets	840,269	(19,227)	821,042	50,764	871,806
Net assets at beginning of year	5,933,736	3,715,314	9,649,050	3,800,664	13,449,714
Net assets at end of year	$ 6,774,005	3,696,087	10,470,092	3,851,428	14,321,520

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

Tennyson Center for Children at Colorado Christian Home
Statement of Activities
Year Ended September 30, 2017

	Unrestricted	Temporarily Restricted	Total Operations	Permanently Restricted	Total
Revenue and support:					
Children and family service revenue:					
Residential	$ 2,503,359	–	2,503,359	–	2,503,359
Education	2,386,389	–	2,386,389	–	2,386,389
Day treatment	1,159,278	–	1,159,278	–	1,159,278
Community based	1,598,184	–	1,598,184	–	1,598,184
Other routine services	19,817	–	19,817	–	19,817
Total service revenue	7,667,027	–	7,667,027	–	7,667,027
Individual contributions	1,725,576	57,650	1,783,226	60,371	1,843,597
Grants	286,734	274,518	561,252	–	561,252
Bequests and memorial gifts	685,718	–	685,718	1,000	686,718
Special events revenue	1,063,030	341,065	1,404,095	–	1,404,095
Less direct benefits to donors	(407,536)	–	(407,536)	–	(407,536)
In-kind contributions (note 1(f))	235,527	–	235,527	–	235,527
Investment return (note 5)	5,151	317,155	322,306	–	322,306
Change in value of trusts (note 6)	56,664	197,141	253,805	20,031	273,836
Other income	87,147	–	87,147	9,626	96,773
Net assets released from restrictions:					
Due to expenditures, disbursements or receipt of payments (note 9)	765,204	(765,204)	–	–	–
Total revenue and support	12,170,242	422,325	12,592,567	91,028	12,683,595
Expenses:					
Program services	10,835,542	–	10,835,542	–	10,835,542
Supporting services:					
General and administrative	1,801,579	–	1,801,579	–	1,801,579
Fund raising	1,023,693	–	1,023,693	–	1,023,693
Total supporting services	2,825,272	–	2,825,272	–	2,825,272
Total expenses	13,660,814	–	13,660,814	–	13,660,814
Change in net assets	(1,490,572)	422,325	(1,068,247)	91,028	(977,219)
Net assets at beginning of year	7,424,308	3,292,989	10,717,297	3,709,636	14,426,933
Net assets at end of year	$ 5,933,736	3,715,314	9,649,050	3,800,664	13,449,714

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

Tennyson Center for Children at Colorado Christian Home
Statement of Functional Expenses
Year Ended September 30, 2018

	Program services	Supporting services: General and administrative	Supporting services: Fund raising	Supporting services: Total supporting services	Total expenses
Salaries and wages	$ 7,253,032	778,253	530,732	1,308,985	8,562,017
Employee benefits	624,443	50,620	35,637	86,257	710,700
Workers' compensation insurance	230,418	22,330	13,947	36,277	266,695
Payroll taxes	560,681	145,906	42,199	188,105	748,786
Children care costs	130,279	–	–	–	130,279
Professional fees	257,832	394,951	196,933	591,884	849,716
Strategic planning	368,260	–	–	–	368,260
Special events	–	–	414,609	414,609	414,609
General and office	125,546	234,247	59,414	293,661	419,207
Occupancy	412,958	23,946	6,582	30,528	443,486
Insurance	136,040	7,841	3,515	11,356	147,396
Staff recruiting and development	54,230	52,030	6,902	58,932	113,162
Travel and transportation	107,978	8,363	7,324	15,687	123,665
Marketing and appeals	38	767	59,306	60,073	60,111
Miscellaneous	1,339	43,552	14,358	57,910	59,249
Bad debt and refunds	458,949	–	45,027	45,027	503,976
Depreciation	111,427	84,705	2,879	87,584	199,011
In-kind materials and supplies	132,436	59,588	6,273	65,861	198,297
Total functional expenses	10,965,886	1,907,099	1,445,637	3,352,736	14,318,622
Less expenses included with revenue in the statement of activities	–	(30,138)	(414,609)	(444,747)	(444,747)
Total expenses	$ 10,965,886	1,876,961	1,031,028	2,907,989	13,873,875

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

Tennyson Center for Children at Colorado Christian Home
Statement of Functional Expenses
Year Ended September 30, 2017

	Program services	Supporting services: General and administrative	Supporting services: Fund raising	Supporting services: Total supporting services	Total expenses
Salaries and wages	$ 7,585,790	817,046	539,985	1,357,031	8,942,821
Employee benefits	637,982	62,795	38,668	101,463	739,445
Workers' compensation insurance	272,884	43,054	16,982	60,036	332,920
Payroll taxes	573,591	61,160	39,256	100,416	674,007
Children care costs	171,322	–	–	–	171,322
Professional fees	238,417	300,038	38,414	338,452	576,869
Special events	–	–	407,536	407,536	407,536
General and office	211,285	239,839	37,208	277,047	488,332
Occupancy	403,201	16,250	7,244	23,494	426,695
Insurance	96,761	5,393	2,546	7,939	104,700
Staff recruiting and development	70,872	80,167	14,498	94,665	165,537
Travel and transportation	85,563	12,354	5,183	17,537	103,100
Marketing and appeals	4,590	76,112	34,931	111,043	115,633
Miscellaneous	4,992	48,160	20,918	69,078	74,070
Bad debt and refunds	247,260	–	130,838	130,838	378,098
Depreciation	108,191	44,452	2,691	47,143	155,334
In-kind materials and supplies	122,841	18,355	94,331	112,686	235,527
Total functional expenses	10,835,542	1,825,175	1,431,229	3,256,404	14,091,946
Less expenses included with revenue in the statement of activities	–	(23,596)	(407,536)	(431,132)	(431,132)
Total expenses	$ 10,835,542	1,801,579	1,023,693	2,825,272	13,660,814

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

Tennyson Center for Children at Colorado Christian Home
Statements of Cash Flows
Years Ended September 30, 2018 and 2017

		2018	2017
Cash flows from operating activities:			
Change in net assets	$	871,806	(977,219)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:			
Depreciation		199,011	155,334
Contributions and investment return restricted for long-term purposes		(104,011)	(147,692)
Net realized and unrealized gains on investments		(127,449)	(282,123)
Provision for doubtful accounts		458,949	246,981
Provision for doubtful pledges		45,027	131,117
Change in value and distributions from trust assets		87,166	(147,526)
Decrease (increase) in operating assets:			
Accounts receivable		(484,239)	(382,493)
Contributions and grants receivable		(176,293)	(100,941)
Prepaids and other assets		2,513	(34,240)
Restricted cash		69,827	–
Increase (decrease) in operating liabilities:			
Accounts payable		(8,917)	31,529
Accrued expenses		(120,091)	163,501
Net cash provided by (used in) operating activities		713,299	(1,343,772)
Cash flows from investing activities:			
Purchases of investments and reinvested dividends and interest		(77,556)	(170,477)
Proceeds from sales of investments and distributions		150,364	140,078
Purchases of property and equipment		(321,873)	(16,153)
Net cash used in investing activities		(249,065)	(46,552)
Cash flows from financing activities:			
Collections of contributions receivable for long-term purposes		–	1,000
Collections on note receivable		12,811	12,106
Contributions and investment return restricted for long-term purposes		104,011	147,692
Net cash provided by financing activities		116,822	160,798
Net increase (decrease) in cash and cash equivalents		581,056	(1,229,526)
Cash and cash equivalents at beginning of year		1,177,190	2,406,716
Cash and cash equivalents at end of year	$	1,758,246	1,177,190

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

(1) Summary of Significant Accounting Policies

(a) General

Tennyson Center for Children at Colorado Christian Home (the Center) is a 501(c)(3) charity that provides educational, residential, day treatment and community-based programs for abused, neglected and traumatized children, ages five to eighteen. These programs are in the major metropolitan area of Denver, Colorado. The Center is dedicated to breaking the cycle of abuse and neglect, serving children, and strengthening families. The Center's primary sources of revenue are from private contributions, fundraising, and state and local municipality programs.

The Center is the sole member of a limited liability company, Tennyson Property Holdings, LLC. The accounts and activities of the LLC are included in the accompanying statements and all intercompany transactions have been eliminated.

(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 Center reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets.

(d) Contributions

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.

(1) Summary of Significant Accounting Policies, Continued

(e) Contributions Receivable

Unconditional pledges are recognized as revenue and initially recorded at fair value when verifiably committed. Pledges expected to be collected beyond one year are recorded at the present value of expected future cash flows using a risk adjusted discount rate. 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, Goods and Services

Contributed property and equipment are recorded at fair value at the date of donation. Contributed goods and services are recorded as contributions and corresponding expenses at their estimated fair values at the date of donation. Donated goods and services received for the years ended September 30 are as follows:

	2018	2017
Donated services	$ 52,580	–
Donated goods	145,717	235,527
Total in-kind contribution revenue	$ 198,297	235,527

Approximately 1,200 volunteers donate time each year in connection with the Center's activities. No amounts have been reflected in the accompanying financial statements for volunteers' donated services because they do not meet the criteria for recognition.

(g) Recognition of Revenue

Program services revenue is deemed to be earned and is reported as revenue when the Center has incurred expenditures or performed services in compliance with the provisions of the respective service agreements. Cash received for contracts in excess of allowable expenses incurred is recorded as unearned revenue, and allowable expenses incurred on contracts in excess of cash received are recorded as a receivable.

(h) Cash and Cash Equivalents

For purposes of the statements of cash flows, the Center 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) 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.

(1) Summary of Significant Accounting Policies, Continued

(j) Investments

The Center reports investments at fair value. Fair value is determined as more fully described under the fair value measurements policy in note 7. The Center's' management is responsible for the fair value measurement of investments reported in the financial statements and believes that the reported values are reasonable. Unrealized gains and losses are included in the change in net assets in the statements of activities.

(k) Property and Equipment

Property and equipment with initial cost or value of more than $2,000 are capitalized at cost or, if donated, the estimated fair market value of the asset at the date of donation. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets, from three to thirty years.

(l) Concentrations of Credit Risk

Financial instruments which potentially subject the Center to concentrations of credit risk consist of cash and cash equivalents, investments, contributions receivable and accounts receivable. The Center places its cash and cash equivalents with creditworthy, high quality, financial institutions. At times, a portion of these cash balances may not be insured by the FDIC or similar entity.

The Center has significant investments and is, therefore, subject to concentrations of credit risk. Investments are made by investment advisors engaged by the Center and are monitored by a committee of its board of directors and management. Though the market value of investments is subject to fluctuations on a year to year basis, management believes the investment policy is prudent for the long term welfare of the Center.

Credit risk with respect to accounts receivable and contributions receivable is generally diversified due to the large number of entities and credit-worthiness of the organizations and individuals that make payments or contributions to the Center.

The Center 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 Center'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.

(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 statement of activities. Accordingly, certain costs have been allocated among the appropriate program and supporting services benefited.

(o) Income Tax Status

The Center is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and qualifies for the charitable contribution deduction. Income from activities not directly related to the Center's tax-exempt purpose is subject to taxation as unrelated business income. During 2018 and 2017, the Center did not incur any unrelated business income tax.

Management is required to evaluate tax positions taken by the Center, and to recognize a tax liability if the Center has taken an uncertain position that probably would not be sustained upon examination by taxing authorities. The Center believes that is has appropriate support for any tax positions taken and that none would require recognition of a liability or disclosure in the financial statements. The Center is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Tax years that remain subject to examination include 2015 through 2017.

(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 Center's financial statements were available to be issued on January 8, 2019, and this is the date through which subsequent events were evaluated.

(q) Reclassifications

Certain 2017 financial statement amounts have been reclassified to conform to 2018 presentations.

(2) Contributions and Grants Receivable

Contributions and grants receivable of the Center at September 30, 2018 and 2017, respectively, consist primarily of pledges from individuals, foundations and agencies restricted for capital and endowment as well as operating purposes. Payments are scheduled to be received from contributions and grants receivable within one year. At September 30, 2018 and 2017, contributions and grant receivable totaling $452,702 and $321,436 are net of an allowance for doubtful accounts of $44,879 and $37,656, respectively.

Conditional contributions receivable, which have not been recognized in the accompanying financial statements because the conditions have not been met, totaled $125,000 and $0 at September 30, 2018 and 2017.

(3) Note Receivable

The Center previously received a donation of a 50% interest in a note receivable, secured by a deed of trust on property located in Thornton, Colorado. The Center's share of the note is due in monthly payments of $1,810 including interest at 5.75%, through May, 2027, totaling $213,350. The balance of the Center's share of the note at September 30, 2018 and 2017 was $147,998 and $160,809, respectively. During 2018 and 2017, the Center recorded interest income related to the note totaling $8,912 and $9,626, respectively.

(4) Property and Equipment

Property and equipment consists of the following at September 30:

	2018	2017
Land	$ 3,437,000	3,437,000
Buildings and equipment	2,401,858	2,327,221
Computer equipment and software	285,587	285,587
Vehicles	57,395	57,395
	6,181,840	6,107,203
Less accumulated depreciation	(1,131,397)	(932,386)
	5,050,443	5,174,817
Construction in progress	247,236	–
	$ 5,297,679	5,174,817

(5) Investments

The Center's investments are held in marketable securities which are exposed to various risks that may cause the reported value of the Center's investment assets to fluctuate from period to period and result in a material change to the net assets of the Center. Investments in equity securities fluctuate in value in response to many factors such as the activities and financial condition of individual companies, business and industry market conditions and the general economic environment. The value in fixed income securities fluctuate in response to changing interest rates, credit worthiness of issuers and overall economic policies that impact market conditions.

Investments are stated at their fair values and consist of the following at September 30:

	2018	2017
Exchange-traded funds	$ 244,534	231,239
Mutual funds-invested in debt securities	668,338	594,348
Mutual funds-invested in equity securities	2,282,553	2,315,197
Total	$ 3,195,425	3,140,784

(5) Investments, Continued

Investment return consists of the following for the years ended September 30:

	2018	2017
Interest and dividend income	$ 91,066	63,779
Net realized and unrealized gains on investments	127,449	282,123
Less investment fees	(30,138)	(23,596)
Net investment return	$ 188,377	322,306

As of September 30, 2018 and 2017, all of the Center's investments consist of endowment investments.

(6) Trusts

The Center is both an income (lead) and remainder beneficiary of a charitable trust administered by a third party. Under the terms of these agreements the Center receives income payments over the lives of other income beneficiaries. Upon the death of the final individual income beneficiary, the Center will receive a portion of the remainder. The value of the trusts is estimated using present value of anticipated payments using a 3.25% discount rate. The Center also previously received a gift consisting of a charitable lead annuity trust totaling $878,348, which was recorded as a contribution. At September 30, 2018 and 2017, the value of the lead trusts is estimated to be $1,161,620 and $1,194,622, respectively; the remainder interest value is estimated to be $798,713, and $879,943, respectively. The value of the trusts changed by ($42,182) and $197,141 during the years ended September 2018 and 2017, respectively, and the Center received income distributions totaling $72,050 and $69,646, respectively.

The Center is also a beneficiary of three 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 Center's total interest in the trusts is shown in the statements of financial position at September 30, 2018 and 2017, as a beneficial interest in perpetual trusts of $832,437 and $805,371, respectively. On an annual basis, the Center records the change in the value of the assets of the perpetual trusts. During the years ended September 30, 2018 and 2017, the change in the value of trusts was $80,313 and $76,695, respectively. The Center received income distributions totaling $53,247 and $56,664 from the trusts during the years ended September 30, 2018 and 2017, respectively.

(7) 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 Center 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 Center 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.
>
> 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.
>
> 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 Center's beneficial interest in perpetual trusts and charitable lead and remainder trusts are based on Level 3 inputs.

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 investments and are not necessarily an indication of risk or liquidity.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument, as well as the effects of market, interest and credit risk. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price 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 affects amounts reported in the Center's financial statements.

(7) Fair Value Measurements, Continued

The following table summarizes the fair value hierarchy levels used by the Center for its financial instruments as of September 30, 2018:

	Fair Value	Level 1	Level 2	Level 3
Investments:				
Exchange-traded funds	$ 244,534	244,534	–	–
Mutual funds-bonds	668,338	668,338	–	–
Mutual funds-equity	2,282,553	2,282,553	–	–
Subtotal investments:	3,195,425	3,195,425	–	–
Charitable lead trusts	1,161,620	–	–	1,161,620
Charitable remainder trust	798,713	–	–	798,713
Perpetual trusts	832,437	–	–	832,437
Total	$ 5,988,195	3,195,425	–	2,792,770

The following table summarizes the fair value hierarchy levels used by the Center for its financial instruments as of September 30, 2017:

	Fair Value	Level 1	Level 2	Level 3
Investments:				
Exchange-traded funds	$ 231,239	231,239	–	–
Mutual funds-bonds	594,348	594,348	–	–
Mutual funds-equity	2,315,197	2,315,197	–	–
Subtotal investments:	3,140,784	3,140,784	–	–
Charitable lead trusts	1,194,622	–	–	1,194,622
Charitable remainder trust	879,943	–	–	879,943
Perpetual trusts	805,371	–	–	805,371
Total	$ 6,020,720	3,140,784	–	2,879,936

The beneficial interest in perpetual trusts have been valued using a market approach. The fair value of the beneficial interest is determined by calculating the Center's proportionate share of the fair value of the assets contributed to the trusts as determined by the trustee. Fair value of lead and remainder trusts are determined using an income approach by calculating present value of future distributions expected to be received, using published life expectancy tables and a discount rate of 3.25%.

(7) Fair Value Measurements, Continued

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

Balance at September 30, 2016	$ 2,732,410
Change in value of trusts	273,836
Distributions	(126,310)
Balance at September 30, 2017	2,879,936
Change in value of trusts	38,131
Distributions	(125,297)
Balance at September 30, 2018	$ 2,792,770

(8) Operating Leases

The Center has various operating leases for office equipment and vehicles that expire over the next five years. Future minimum lease payments under these non-cancellable operating leases for the year ending September 30, 2018, are as follows:

2019	$ 247,173
2020	200,971
2021	163,893
2022	83,422
2023	4,454
Total future minimum lease payments	$ 699,913

Rent expense paid to all sources totaled $257,376 and $182,622 during the years ended September 30, 2018 and 2017, respectively.

(9) Temporarily Restricted Net Assets

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

	2018	2017
Contributions collected but not yet expended	$ 276,699	268,512
Unspent endowment earnings (note 10)	484,165	416,014
Contributions receivable	329,890	311,223
Donated property	645,000	645,000
Net assets held by charitable lead and remainder trusts (note 7)	1,960,333	2,074,565
Total temporarily restricted net assets	$ 3,696,087	3,715,314

Net assets of $808,322 and $765,204 were released from restrictions during 2018 and 2017, respectively, as a result of the Center incurring expenditures satisfying the related restricted purposes, receiving payments on pledges, or disbursements from the endowment and trusts.

(10) Endowment Assets and Permanently Restricted Net Assets

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

	2018	2017
Beneficial interest in perpetual trusts (note 6)	$ 832,437	805,371
Operating endowment	3,018,991	2,995,293
Total permanently restricted net assets	$ 3,851,428	3,800,664

The State of Colorado has adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Center has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation and in the absence of explicit donor stipulations to the contrary, The Center classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Board in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, The Center considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the Center and the donor-restricted endowment funds
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other Center resources
(7) The investment policies of the Center.

(10) Endowment Assets and Permanently Restricted Net Assets, Continued

Following are the changes in the endowment net assets for the year ended September 30, 2018 and 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, September 30, 2016	$ –	210,189	2,924,296	3,134,485
Investment return:				
Investment income	–	35,032	–	35,032
Net appreciation (realized and unrealized)	–	282,123	–	282,123
Total investment return	–	317,155	–	317,155
Other income	–	–	9,626	9,626
Contributions	–	–	61,371	61,371
Appropriation of endowment assets for expenditure	–	(111,330)	–	(111,330)
Endowment net assets, September 30, 2017	–	416,014	2,995,293	3,411,307
Investment return:				
Investment income	–	46,302	–	46,302
Net appreciation (realized and unrealized)	–	138,216	–	138,216
Total investment return	–	184,518	–	184,518
Other income	–	–	8,912	8,912
Contributions	–	–	14,786	14,786
Appropriation of endowment assets for expenditure	–	(116,367)	–	(116,367)
Endowment net assets, September 30, 2018	$ –	484,165	3,018,991	3,503,156

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Center to retain as a fund of perpetual duration. There were no funds with deficiencies as of September 30, 2018 and 2017.

Return Objectives and Risk Parameters

The Center's assets include donor-restricted funds that the Center must hold in perpetuity. The Center has adopted investment policies for endowment assets that attempt to provide a reasonable, predictable, stable and sustainable level of income that supports current needs and provides for growth in assets and income over time. The Center's spending policies reflect donor restrictions on the original gift.

(10) Endowment Assets and Permanently Restricted Net Assets, Continued

Strategies Employed for Achieving Objectives
To satisfy its long-term rate-of-return objectives, the Center relies on a total return strategy, in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Center targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

Distribution Policy and How the Investment Objectives Relate to Distribution Policy
The Center has a policy of appropriating for distribution each year that amount of investment income which it deems prudent.

(11) Retirement Plan

The Center participates in the Pension Plan of the Christian Church (Disciples of Christ). The Center does not incur any administrative costs of the plan due to its relationship with Disciples of Christ. During the years ended September 30, 2018 and 2017, the employer matched up to 4% of the participants' eligible compensation, in accordance with the provisions of the plan. During the years ended September 30, 2018 and 2017, the Center made contributions to the plan totaling $70,197 and $69,287, respectively.

(12) Line of Credit

The Center has an open line of credit to help finance its short-term capital needs. The line provides for borrowing up to $250,000 and is secured by a deed of trust on all real property owned by the Center. The line bears interest of 5.25% and expires on January 1, 2020. No borrowings were made against the line during the years ended September 30, 2018 and 2017, and there was no outstanding balance at September 30, 2018 and 2017.

(13) Related Party Transaction

During the years ended September 30, 2018 and 2017, the Center incurred marketing expense totaling $113,664 and $56,361, respectively, to a company majority owned by a member of the board of directors. At September 30, 2018 and 2017, total amounts due to this company were $19,920 and $7,127, respectively. This transaction was reviewed and approved by the board of directors in accordance with the Center's conflict of interest policy.

(14) Gain on Insurance Settlement

During 2017, a hail storm caused significant damage to the Center's building. The Center is expected to receive approximately $2,000,000 in insurance proceeds as a result of the incident. The Center received insurance proceeds totaling $458,147 during the year ended September 30, 2018.