DENVER PRESCHOOL PROGRAM, INC.

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2018

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To the Board of Directors
Denver Preschool Program, Inc.

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of Denver Preschool Program, Inc. (a Colorado nonprofit corporation), which comprise of the statement of financial position as of December 31, 2018, and the related statements of activities and changes in net assets, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

Managements' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 Denver Preschool Program, Inc. as of December 31, 2018, and the changes in net assets, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

GC2 Professional Services P.C.

GC2 PROFESSIONAL SERVICES PC
Certified Public Accountants

Aurora, Colorado
February 11, 2019

DENVER PRESCHOOL PROGRAM, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018

	WITHOUT DONOR RESTRICTION	WITH DONOR RESTRICTION	TOTAL ALL
ASSETS			
CASH AND CASH EQUIVALENTS	$ 24,746,997	$ -	$ 24,746,997
RECEIVABLES	23,772	-	23,772
PREPAID EXPENSES	25,705	-	25,705
FIXED ASSETS, at cost, net	515,944	-	515,944
RIGHT TO USE ASSETS - Operating Leases	239,943	-	239,943
TOTAL ASSETS	$ 25,552,361	$ -	$ 25,552,361
LIABILITIES AND NET ASSETS			
ACCOUNTS PAYABLE	$ 4,311,353	$ -	$ 4,311,353
ACCRUED EXPENSES	9,577	-	9,577
OPERATING LEASE LIABILITY	239,943	-	239,943
	4,560,873	-	4,560,873
NET ASSETS			
Undesignated	20,197,751	-	20,197,751
Board designated	793,737	-	793,737
	20,991,488	-	20,991,488
TOTAL LIABILITIES & NET ASSETS	$ 25,552,361	$ -	$ 25,552,361

-The Accompanying Notes Are An Integral Part Of These Financial Statements-

DENVER PRESCHOOL PROGRAM, INC.
STATEMENT OF ACTIVITES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2018

	WITHOUT DONOR RESTRICTION	WITH DONOR RESTRICTION	TOTAL ALL
Support and Revenue			
Government contract revenue	$ -	$ 22,044,765	$ 22,044,765
Public support	1,095	-	1,095
Investment income, net	27,101	-	27,101
(Loss) on dispostion of furniture & equipment	(3,934)	-	(3,934)
Net assets released from restrictions	22,044,765	(22,044,765)	-
Total support and revenue	22,069,027	-	22,069,027
Expenses			
Program	10,633,689	-	10,633,689
Supporting services	867,571	-	867,571
Total expenses	11,501,260	-	11,501,260
CHANGES IN NET ASSETS	10,567,767	-	10,567,767
NET ASSETS, beginning	10,423,721	-	10,423,721
NET ASSETS, ending	$ 20,991,488	$ -	$ 20,991,488

DENVER PRESCHOOL PROGRAM, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

	WITHOUT DONOR RESTRICTION	WITH DONOR RESTRICTION	TOTAL ALL
CASH FLOWS FROM OPERATING ACTIVITIES:			
Change in net assets	$ 10,567,767	$ -	$ 10,567,767
Adjustments to reconcile net cash provided by operating activities:			
Depreciation	21,998	-	21,998
Loss on disposition of furniture & equipment	3,934	-	3,934
Change in certain assets and liabilities	(7,773,032)	-	(7,773,032)
Cash flows from operating activities	2,820,667	-	2,820,667
CASH FLOWS FROM INVESTING ACTIVITIES:			
Fixed assets addition	(532,062)	-	(532,062)
	(532,062)	-	(532,062)
CASH FLOWS FROM FINANCING ACTIVITIES:			
None	-	-	-
	-	-	-
NET CHANGE IN CASH	2,288,605	-	2,288,605
CASH, beginning	22,458,392	-	22,458,392
CASH, ending	$ 24,746,997	$ -	$ 24,746,997

Ending cash will be applied to future tuition credits and quality improvement costs.

DENVER PRESCHOOL PROGRAM, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	SUPPORTING SERVICES	PROGRAM	TOTAL
Parent tuition credit	$ -	$ 14,607,160	$ 14,607,160
Quality improvement*	-	2,322,319	2,322,319
Community outreach	-	742,799	742,799
Evaluation	-	701,573	701,573
Parent eligibility	-	687,618	687,618
Outside services	820	43,846	44,666
Accounting principle change (ASU 2018-08)	-	(8,482,514)	(8,482,514)
Salaries	428,186	-	428,186
Professional fees	92,429	10,888	103,317
Employee benefits	80,096	-	80,096
Equipment expense	69,951	-	69,951
Rent and utilities	52,661	-	52,661
Taxes, payroll	31,572	-	31,572
Training, books & subscriptions	26,088	-	26,088
Depreciation	21,998	-	21,998
Insurance	15,341	-	15,341
Supplies	12,343	-	12,343
Computer expense - in house	9,375	-	9,375
Meetings	8,428	-	8,428
Telephone, telecommunications	7,943	-	7,943
Automobile expenses	5,106	-	5,106
Hiring and annual review	2,051	-	2,051
Payroll processing	1,489	-	1,489
Postage, mailing service	952	-	952
Printing and copying	742	-	742
	$ 867,571	$ 10,633,689	$ 11,501,260

* Quality improvement consists of two components: quality rating for providers and quality improvement grants that include coaching, coursework, professional development and classroom materials.

-The Accompanying Notes Are An Integral Part Of These Financial Statements-

The Denver Preschool Program, Inc. “(DPP”) is a Colorado Non-Profit corporation. DPP is organized and operated as a tax-exempt charitable organization within the meaning of Internal Revenue Code Section 501(c)(3). The purpose of DPP is to administer the Denver Preschool Program as defined in Article III of Chapter 11, Denver Revised Municipal Code, as amended, and in accordance with any agreement for administration of the Denver Preschool Program entered into by and between DPP and the City and County of Denver. DPP is providing tuition credits for children of Denver families the year before the child is eligible for kindergarten. The family may use the tuition credit with any preschool provider who is licensed by the State of Colorado and has a contract with DPP, regardless of where the provider is located. DPP may also provide grants to assist the child care provider in increasing the quality of their programs.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ALLOWANCE FOR BAD DEBTS - The Organization uses the allowance method for bad debts. Under this method, an estimation of the uncollectible portion of receivables is offset against the receivable. As accounts are determined to be uncollectible, the receivable and the allowance account are reduced.

BASIS OF PRESENTATION – Financial statement presentation follows the recommendations of the Accounting Standards Codification (“ASC”) as found in ASC 958.” Under ASC 958, the Organization is required to report information regarding its financial position and activities according to two classes of net assets:

1. **Net assets without donor restrictions:** Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of DPP’s management and the Board of Directors.
2. **Net assets with donor restrictions:** Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of DPP or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

   Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities

CASH AND CASH EQUIVALENTS – For purposes of cash flows, DPP considers all demand deposits and money market accounts as cash and cash equivalents.

CONTRIBUTIONS – Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Contributions of services are recognized only if the services received either (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

In-kind contributions are recorded as revenue and expense at their estimated fair value at the date of donation. Such donations are reported as support without donor restriction unless the donor has restricted the donated asset to a specific purpose.

EXPENSE ALLOCATION – The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. For the year ended December 31, 2018, all costs were recorded either as program costs or support costs.

PROPERTY AND EQUIPMENT - Amounts capitalized as property and equipment, including additions and improvements to existing assets, are recorded at cost. Fixed assets are depreciated using the straight-line method over 5 to 7 years.

Maintenance cost and repairs are expensed when incurred; renewals and betterments are capitalized. When assets are retired or otherwise disposed of, the respective costs and accumulated depreciation are removed from the accounts. The resulting gain or loss is included in the statement of activities, except for non-monetary exchanges in which the basis of the asset acquired is adjusted for the gain or loss.

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 the reported amounts of revenues and expenses during the reporting period. Some estimates are made based on management's expectation of what they believe to be expected future results. Actual amounts could differ from those estimates.

VALUATION OF INVESTMENTS - Investments are initially recorded at original cost or original donated value. Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

ACCOUNTING PRONOUNCEMENT ASU 2016-14 – On August 18, 2016, FASB (“Financial Accounting Standards Board”) issued ASU (“Accounting Standards Update) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. DPP has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

LEASE ACCOUNTING ASU 2016-02 – On February 25, 2016, FASB issued ASU 2016-02, Leases (Topic 842). DPP has adopted the provisions of the new lease standards of ASC 842 “Lease Accounting”. Under the new rules all leases are capitalized and reported on the statement of financial position as either “right to use asset – operating lease” or “right to use asset – financing lease”.

ACCOUNTING PRONOUNCEMENT ASU 2018-08 – On June 21, 2018, FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958) – *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The FASB issued this update to assist Not-for-Profit entities in (1) evaluating whether transactions should be accounted for as contributions within the scope of Topic 958 , or as exchange transactions subject to the other guidance and (2) determining whether a contribution is conditional. The changes required by this guide are reported in the statement of functional expenses identified as “Accounting principle change (ASU 2018-08).

NOTE 2 – RELATED PARTY TRANSACTIONS

Members of DPP’s Board of Directors are selected by the City and County of Denver. Eleven to fourteen members are appointed by the Mayor and one member is appointed by the City Council. All members appointed to the board must be approved by a vote of the City Council of Denver. Accordingly, all support provided by the City is a related party transaction and the contract referred to in Note 9 below with the City should be considered as negotiated with a related party.

DPP has entered into a lease agreement to rent its offices which are located in a building in which the Housing Authority of the City and County of Denver is the Master Tenant/Landlord. See Note 6 below for a summary of the lease.

NOTE 3 - DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through February 11, 2019, the date that the financial statements were available to be issued.

NOTE 4 - INCOME TAXES

The Organization is exempt from income taxes under Internal Revenue Code Section 501(c)(3); consequently, no provision or liability for income taxes has been provided in the accompanying financial statements. Because DPP is considered a component of the City and County of Denver, it is not required to file a tax return with the Internal Revenue Service.

The Organization has adopted provisions of ASC 740-10, "Accounting for Uncertainty in Income Taxes", which prescribes when to recognize and how to measure the financial statement effects, if any, of income tax positions taken or expected to be taken on its income tax returns, including the position that the Organization continues to qualify to be treated as a tax-exempt entity for both federal and state income tax purposes. These rules require management to evaluate the likelihood that, upon examination by relevant taxing jurisdictions, those income tax positions would be sustained.

The Organization undergoes an annual analysis of its various tax positions, assessing the likelihood of those positions being upheld upon examination with relevant tax authorities, as defined by ASC 740-10. Management does not believe there to be any uncertain tax positions and has thus not recorded any related provision.

NOTE 5 – FIXED ASSETS

A summary of the fixed assets and the respective accumulated depreciation is as follows:

Description	Cost Basis	Accumulated Depreciation	Net Book Value
Furniture and equipment	$ 63,546	$ 22,752	$ 40,794
Leasehold improvements	493,783	18,633	475,150
Totals	$ 557,329	$ 41,385	$ 515,944

NOTE 6 – LONG TERM LEASE

OPERATING LEASES

OFFICE LEASE – DPP has entered into an agreement to lease its office. The lease term is to expire on March 31, 2023. The rent under the lease is calculated using a base monthly rent of $4,574. The base rent is increased 1.5% per year on the anniversary of the occupancy of the premises, April 1, 2018. In addition to the base monthly rent, DPP is also required to pay its share of pro rata utilities and all charges, maintenance and repair expenses or impositions of any kind charged. Any time after the first year of the term, the Landlord has the option to terminate the Lease with or without cause and without penalty or the charge of a termination fee by giving a 180-day notice. However, the Landlord is required to reimburse DPP for all reasonable, including attorney fees, and out-of-pocket expenses related to the relocation of DPP to other premises and for the unamortized portion of DPPs improvements costs paid by DPP using a 5-year straight-line amortization.

The present value of the lease was calculated using a 2% discount rate which resulted in recording a right to use asset and liability in the amount of $269,178.

OFFICE EQUIPMENT LEASE – DPP has entered into an agreement to lease a copier. The lease expires in February 2022. The lease requires a monthly payment of $270. The present value of the lease was calculated using a 11.275% discount rate.

The minimum future lease payments for all operating leases as of December 31, 2018, are as follows:

December 31,	
2019	$ 63,316
2020	64,217
2021	65,132
2022	63,360
2023	14,563
Total payments before discount	270,588
Discount adjustment	(30,645)
Total discounted future payments	239,943
Less: current portion	53,735
Long term portion	$ 186,208

OTHER INFORMATION: Lease costs reported in the statement of activities are as follows:

Operating lease costs are included in the following line items:	
Rent and utilities	$ 41,164
Equipment expense	2,700
Total	$ 43,864

Additional information:	
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ 43,864
Weighted average of remaining lease term from operating leases	4.2 years
Weighted average discount rate for operating leases	2.37%

NOTE 7 – RETIREMENT PLAN

The Organization established an Internal Revenue Code §401(k) retirement plan which covers substantially all employees. The Organization matched 100% of the employees' contributions up to a maximum of 4% of the employees' compensation.

Retirement plan expense for the year ended December 31, 2018, is $17,206.

NOTE 8 – CONCENTRATION OF RISK

CASH BALANCES: DPP maintains cash balances at one financial institution located in the Denver metropolitan area. Accounts are insured by the Federal Deposit Insurance Corporation up to $250,000. In addition to any FDIC coverage, DPP has been notified by the State of Colorado, Department of Regulatory Agencies, Division of Banking that its deposits qualify under the Public Deposit Protection Act ("PDPA"). Under this act, all of DPP's deposits are collateralized by an irrevocable letter of credit issued by the Federal Home Loan Bank of Cincinnati.

SUPPORT AND REVENUE: The City and County of Denver represents 99.9% of total support and revenue for the year December 31, 2018.

DENVER PUBLIC SCHOOLS: Denver Public Schools ("DPS") provides a significant portion of the preschool services that families select for their children. During the year ended December 31, 2018, DPP paid to DPS approximately $8,906,000 in tuition credits and $408,719 in quality improvement expenses. This represents approximately 60.98%

of total tuition credits and 17.6% in quality improvement expenses. Also, as of December 31, 2018, included in accounts payable is approximately $2,999,000 of tuition credits and quality improvement expenses payable to DPS.

NOTE 9 – CITY AND COUNTY OF DENVER AGREEMENT

DPP entered into an agreement with the City and County of Denver to provide services under the Denver Preschool Program as provided in Article III of Chapter 11, Denver Revised Municipal Code. The term of the agreement is effective January, 2015 and subject to unilateral options by the City and County of Denver for additional one (1) year renewal options ending December 31, 2026. The final conclusive termination date shall be the date DPP has expended all of the distributions received under the agreement and will have provided a final report to the City and County of Denver. The agreement provides that the City and County of Denver will notify DPP on or about August 1 of each year if it intends not to exercise a renewal for the next year.

Funding under the agreement is made through appropriation by City Council on an annual basis. During September of each year, the Executive Director of the Denver Mayor's Office of Children's Affairs can request a supplemental appropriation of funds if it determines that the tax collections are in excess of the original appropriation for the year. Also, in May of each subsequent year, the Executive Director of the Denver Mayor's Office for of Children's Affairs and DPP will perform a reconciliation of actual tax receipts to amounts distributed. Any over or underpayment of funds are to be settled by the following September.

The agreement also provides that no more than 7% of the distributions can be expended on administration expenses. For the year ended December 31, 2018, DPP used 5.62% of the distributions for administration expenses . The agreement does allow that any unexpended administrative funds can be carried forward to future years for use as either administrative funds or program funds. The DPP Board allocated unexpended funds to renovate the offices and create a large community space for public use; consequently, $529,205 was used for those tenant improvements. The following is a schedule of the unexpended funds as of December 31, 2018:

Unexpended funds from 2017	$ 3,113,951
G&A amount allowed for 2018	1,543,134
G&A expenses for 2018	(867,571)
Tenant improvements	(529,205)
Unexpended funds to 2018	$ 3,260,308

NOTE 10 – COMMITMENTS

TUTION CREDITS: DPP qualifies applicants for the 12 months of the school year (September 2018 through August 2019) for the tuition credits. As of December 31, 2018, DPP has calculated future commitments for tuition credits in the amount of $8,982,525.

The estimate is composed of two items: 1) amounts due under the contract between DPP and DPS and 2) amounts due to Community Programs. The amount due to DPS was estimated by reducing the total contract amount by the total tuition credits billed to DPP from DPS. For the Community Programs, DPP has calculated a “fulfillment” percentage based upon its experience using the historical data for awards and payments.

QUALITY IMPROVEMENT GRANTS: DPP will award participating agencies grants towards improving the agency’s skill level of the teachers and materials and supplies for the benefit of the children. As of December 31, 2018, DPP has estimated future commitments for quality improvement grants in the amount of $1,057,482.

Each agency or, in the case of DPS, a school’s ECE Program, is awarded quality improvements credits based upon its program rating, number of DPP classrooms and the type of license the center holds. Providers must submit their completed Memorandum of Understanding to DPP by August 31st in order to access quality improvement resources.

LONG-TERM CONTRACTS: DPP has entered into various contracts with vendors to provide services on behalf of DPP. These contracts terminate from December, 2019 through August, 2020. A Summary of the estimated future payments under these agreements are as follows:

	AMOUNT
Payments due for the year ended December 31,	
2019	$ 1,191,622
2020	475,195
Total	$ 1,666,817

These contracts do allow for upward or downward adjustments or termination due to the service provider not attaining certain performance standards, if an increase or reduction in scope of services is needed or if funding from the City is reduced.

NOTE 11 – CASH FLOWS

The following is an analysis of the changes in certain assets and liabilities:

	WITHOUT DONOR RESTRICTION	WITH DONOR RESTRICTION
ASSETS (increase) decrease		
Receivables	$ (18,776)	$ -
Prepaid expenses	(4,640)	-
LIABILITIES increase (decrease)		
Accounts payable	713,560	-
Accrued expenses	(8,463,004)	-
	$ (7,772,860)	$ -

NOTE 12 – AVAILABILITY AND LIQUIDITY

The following represents DPP's financial assets at December 31, 2018:

Financial assets at year-end:	
Cash and cash equivalents	$ 24,746,997
Receivables	23,772
Total financial assets	24,770,769
Less amounts not available to be used within one year:	
Net assets with donor restrictions	0
Less net assets with purpose restrictions to be met in Less than a year	0
	0
Financial assets available to meet general expenditures over the next twelve months	$ 24,770,769

DPP's reserve target is approximately the sum of a 20% loss of revenues each year over three years (60%). DPP is projecting revenues from $20MM to $22MM per year. Based on this, the reserve target should be approximately $13MM. As part of its liquidity plan, excess cash is invested in money market accounts.

NOTE 13 – BOARD DESIGNATED FUNDS

T.E.A.C.H. and CDA – The Board of Directors approved a Designated Fund for the purpose of funding scholarships for the T.E.A.C.H.® scholarships ("TEACH") and for the initial investment in a Child Development Associate (CDA™) Credential Scholarship Program.

T.E.A.C.H.® scholarships: DPP will provide a scholarship which will pay for 90% of tuition, textbooks and a stipend for the recipient continued employment at the early childhood program where the recipient is employed.

QI EXPANSION – In January 2018, DPP's Board approved the allocation of designated funds to expand DPP's QI Framework to include 3-year-old preschool classrooms in addition to DPP's existing QI Framework for 4-year-old classrooms. The expansion resources mirrored DPP's existing Framework to include coaching, flexible-choice funding (professional development, early childhood college courses, classroom learning materials), CLASS® observations, curriculum/assessment funding, achievement awards and DPP T.E.A.C.H.® / CDA™ scholarships eligibility. Expenses began in June - August 2018 with a pilot launch of the expansion over the summer, with the full QI expansion launching with the start of the 2018-2019 school year in September 2018.

An analysis of the Board Designated Funds are as follows:

PURPOSE	BEGINNING BALANCE	ADDITIONS	RELEASED	ENDING BALANCE
T.E.A.C.H.	$ 288,715	$ 2,849	$ 0	$ 291,564
CDA	51,285	0	51,285	0
QI Expansion	0	700,000	197,827	502,173
	$ 340,000	$ 702,849	$ 534,978	$ 793,737

NOTE 14 - FAIR VALUE MEASUREMENTS

	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:				
Cash	$ 24,746,997	$ 24,746,997	$ 0	$ 0
Receivables	23,772	0	0	23,772
Property & Equipment	500,000	0	0	500,000
Right to use asset – operating leases	239,943	0	0	239,943
Financial Liabilities:				
Accounts payable	4,311,525	0	0	4,311,525
Accrued expenses	9,577	0	0	9,577
Lease liability, operating	293,943	0	0	293,943

Financial assets valued using level 1 inputs are based on quoted market prices within active markets. Financial assets and liabilities valued using level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. Financial assets and liabilities valued using level 3 inputs were valued using management's assumptions about what market participants would utilize in pricing the asset or liability. For receivables and payables, the carrying amount is a reasonable estimate of fair value due to the relatively short period of time between origination and collection or payment.

DENVER PRESCHOOL PROGRAM

The 2018 calendar year concluded a significant chapter in the Denver Preschool Program's operational lifespan when Jennifer Landrum, DPP's President and CEO since June 2013, resigned her position effective January 18, 2019. Ellen Braun, DPP's deputy director, was named interim President and CEO and will lead the organization until the Board of Directors names a new President and CEO following a search conducted by Board and community members.

The Denver Preschool Program is funded through Denver City and County sales tax revenue first approved by voters in 2006 and again in 2014. The organization continues to be financially sound and maintains an ongoing evaluation of its management practices to ensure it remains a strong and viable organization into the future. This past year, the Board of Directors and staff engaged in several initiatives that will serve to strengthen the organization and ensure it is able to fulfill its commitment to Denver's 4-year-olds and their families, the preschool providers who support them, and the broader early childhood community.

<u>Quality Control and Compliance</u>

In 2018, the Denver Preschool Program provided $14,607,160 in tuition credits that supported 4,702 students who attended preschool during the 2017-2018 school year and 3,913 more students who began preschool in the 2018-2019 school year. The process to accomplish this includes contracting with nearly 250 community and public preschools to provide preschool; receiving and approving student applications from parents for tuition reimbursement; collecting and verifying attendance at the end of each month from providers for each DPP-approved student; and reimbursing providers the correct tuition reimbursement based on DPP's tuition credit scale for each DPP student in preschool. Tuition credits are paid directly to providers on behalf of each family and that amount is deducted from the family's tuition bill.

The DPP Board and staff work to make this process as friendly and easy for Denver families and preschool providers to navigate, while also safeguarding Denver voters' investment in this critical part of a child's life. To that end, we evaluated, expanded and strengthened our Quality Assurance Program (QAP). This program annually audits the DPP's application approval, attendance verification, billing and payment processes. In prior years, DPP has randomly selected 10 schools to audit and ensure all policies and procedures are being followed with integrity. While DPP has never found egregious mismanagement of its program policies, the program does catch errors in the process, most resulting from a misunderstanding of policy implementation. In 2018, the Board and staff believed the QAP should be strengthened and expanded to review a minimum of 24 schools each year. DPP also held mandatory provider meetings during the summer of 2018 to ensure preschool program administrators understand and implement DPP policies as intended.

Board of Directors
As of 12/31/2018

Chris Watney, Chair
People & Possibilities

Zach Hochstadt, Vice Chair
Mission Minded, Inc.

Susan Steele, Secretary/Treasurer
Temple Hoyne Buell Foundation

Dr. Rosemarie Allen
Metropolitan State University of Denver

Michael Baker
Gold Crown Management

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Denver City Council – District 11

Anna Jo Haynes
Mile High Montessori

Dr. Rebecca Kantor
University of Colorado Denver, School of Education & Human Development

Penny May
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Janice Sinden
Denver Center for the Performing Arts

Mike Yankovich
Children's Museum of Denver at the Marsico Campus

FUNDING QUALITY PRESCHOOL FOR DENVER

305 Park Ave. West, Ste. B Denver, CO 80205 720.287.5055 720.287.5063 info@dpp.org dpp.org

The 2018 audit incorporates early adoption of three accounting rules as discussed in the footnotes. The organization chose to implement all these rules in 2018 to limit the impact across multiple audited financials.

Operational and Administrative Reserves

The following audited financial statements will show that DPP is over-reserved in both its operation and administrative areas. This is the result of Denver's growing economy since the Great Recession. The Board and staff are aware of and concerned by the organization's growing reserve balance and will continue to take steps to ensure that DPP's reserve policy is strong for the future. DPP also is committed to ensuring reserves are deployed into the community and supportive of the organization's mission to ensure Denver's 4-year-olds have access to high quality preschool. To that end, the Board adopted a zero-based budgeting policy for 2019 and the foreseeable future so that no additional operational revenues will be going to reserves. The Board also approved the creation of a task force charged with evaluating and making recommendations on how best DPP can investigate supplemental supports for Denver 4-year-old students and the programs and teachers who serve them.

DPP already has deployed reserves through scholarships to preschool teachers that help them achieve associate and bachelor's degrees, or a Child Development Associate™ Credential. DPP also has implemented monetary incentives that reward early childhood professionals for engaging in high quality practices. During 2017, the organization examined its tuition credit scale parameters and made key changes to direct more dollars to families through tuition reimbursement and helped to reduce dollars going toward reserves. In 2018, DPP also expanded its quality improvement program to include support to classrooms and teachers serving Denver 3-year-olds in addition to the 4-year-old classrooms and teachers already being supported through its quality improvement efforts.

Physical Plant Improvement and Expansion

DPP has operated at 305 Park Avenue West, Suite B since 2010. During that time, it has shared space with four other organizations. In early 2018, the last of those non-profits announced they would be moving into a larger space, and DPP had the opportunity to expand into the vacant space. The Board allocated monies from DPP's administrative reserves to renovate the space and create a large community room for public use. Staff offices and common spaces were also renovated and modernized to create a more ergonomic and aesthetically pleasing environment. The Denver Preschool Program welcomed its supporters and friends in early 2019 to a space that was created in alignment with our strategic plan. The new community room exudes our strategic priorities by supporting early childhood education professionals to ensure they are well qualified, effective and valued in addition to championing, advocating and partnering to advance early childhood policies and strategies, and responding to community needs that help our youngest learners succeed. The new Michael B. Hancock Community Room seats up to 45 people and will be available for local nonprofits to hold meetings and trainings at no cost.

Staff
As of 12/31/2018

Jennifer Landrum
President and CEO

Ellen Braun
Deputy Director

Dr. Marina Mendoza
Director of Enrollment and Evaluation

Chris Miller
Director of Quality Initiatives

Tricia Nelson
Director of Communications

Angeles Ross
Office Manager

2019 and Beyond

Looking ahead to 2019, DPP is committed to evaluating its internal capacity and making any needed adjustments to enable it to achieve the goals set out in the 2017-2021 strategic plan. These efforts include working with our community partners to find Denver 4-year-olds who are not attending preschool; and understanding and addressing the barriers that keep families from participating in the program. Operationally, the organization will review the possibility of moving to a program-year budgeting process to align with our operational calendar and allow for more transparency to management, Board and voters in how dollars are spent. DPP will also update the existing reserves policy and create investment policies to ensure the organization is leveraging reserves in the best possible way. This small, but mighty, organization will continue to look to the future to uphold our vision that every Denver child enters kindergarten ready to reach their full potential.

Sincerely,

Jennifer Landrum
President and CEO (2018)

Ellen Braun
Interim CEO (2019)

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