

DENVER PRESCHOOL PROGRAM, INC.

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2021

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To the Board of Directors
Denver Preschool Program, Inc.

INDEPENDENT AUDITORS' REPORT

Opinion

We have audited the accompanying financial statements of Denver Preschool Program, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

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, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Denver Preschool Program, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate that raise substantial doubt about Denver Preschool Program, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Denver Preschool Program, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate that raise substantial doubt about Denver Preschool Program, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



GC2 PROFESSIONAL SERVICES PC
Certified Public Accountants

Aurora, Colorado
February 21, 2022

DENVER PRESCHOOL PROGRAM, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2021

	WITHOUT DONOR RESTRICTION	WITH DONOR RESTRICTION	TOTAL ALL
ASSETS			
CASH AND CASH EQUIVALENTS	\$ 20,406,148	\$ -	\$ 20,406,148
RECEIVABLES	150,566	-	150,566
PREPAID EXPENSES	20,272	-	20,272
FIXED ASSETS, at cost, net	171,766	-	171,766
RIGHT TO USE ASSETS - Operating Leases, net	<u>74,844</u>	<u>-</u>	<u>74,844</u>
TOTAL ASSETS	<u>\$ 20,823,596</u>	<u>\$ -</u>	<u>\$ 20,823,596</u>
LIABILITIES AND NET ASSETS			
ACCOUNTS PAYABLE	\$ 3,943,410	\$ -	\$ 3,943,410
ACCRUED EXPENSES	29,798	-	29,798
OPERATING LEASE LIABILITY	<u>74,844</u>	<u>-</u>	<u>74,844</u>
	<u>4,048,052</u>	<u>-</u>	<u>4,048,052</u>
NET ASSETS			
Undesignated	(2,169,424)	-	(2,169,424)
Board designated	<u>18,944,968</u>	<u>-</u>	<u>18,944,968</u>
	<u>16,775,544</u>	<u>-</u>	<u>16,775,544</u>
TOTAL LIABILITIES & NET ASSETS	<u>\$ 20,823,596</u>	<u>\$ -</u>	<u>\$ 20,823,596</u>

-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, 2021

	WITHOUT DONOR RESTRICTION	WITH DONOR RESTRICTION	TOTAL ALL
Support and Revenue			
Government contract revenue	\$ -	\$ 23,601,151	\$ 23,601,151
Government grant	-	150,000	150,000
Other revenues	1,881	-	1,881
Public support	140	-	140
Net assets released from restrictions	<u>23,751,151</u>	<u>(23,751,151)</u>	<u>-</u>
Total support and revenue	<u>23,753,172</u>	<u>-</u>	<u>23,753,172</u>
Expenses			
Program	25,101,321	-	25,101,321
General & administration	<u>1,142,834</u>	<u>-</u>	<u>1,142,834</u>
Total expenses	<u>26,244,155</u>	<u>-</u>	<u>26,244,155</u>
CHANGES IN NET ASSETS	(2,490,983)	-	(2,490,983)
NET ASSETS, beginning	<u>19,266,527</u>	<u>-</u>	<u>19,266,527</u>
NET ASSETS, ending	<u>\$ 16,775,544</u>	<u>\$ -</u>	<u>\$ 16,775,544</u>

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

DENVER PRESCHOOL PROGRAM, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021

	WITHOUT DONOR RESTRICTION	WITH DONOR RESTRICTION	TOTAL ALL
CASH FLOWS FROM OPERATING ACTIVITIES:			
Change in net assets	\$ (2,490,983)	\$ -	\$ (2,490,983)
Adjustments to reconcile net cash provided by operating activities:			
Depreciation	122,165	-	122,165
Change in certain assets and liabilities:			
Assets (increase) decrease:			
Receivables	(150,566)	-	(150,566)
Prepaid expenses	5,141	-	5,141
Liabilities increase (decrease):			
Accounts payable	(121,834)	-	(121,834)
Accrued expenses	7,791	-	7,791
	<u>(2,628,286)</u>	<u>-</u>	<u>(2,628,286)</u>
Cash flows from operating activities	<u>(2,628,286)</u>	<u>-</u>	<u>(2,628,286)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Increase in right to use asset - operating lease	(2,639)	-	(2,639)
Decrease in right to use asset - operating lease	58,107	-	58,107
Fixed assets addition	(2,642)	-	(2,642)
	<u>52,826</u>	<u>-</u>	<u>52,826</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase in operating lease liability	2,639	-	2,639
Reduction in operating lease liability	(58,107)	-	(58,107)
	<u>(55,468)</u>	<u>-</u>	<u>(55,468)</u>
NET CHANGE IN CASH	<u>(2,630,928)</u>	<u>-</u>	<u>(2,630,928)</u>
CASH, beginning	<u>23,037,076</u>	<u>-</u>	<u>23,037,076</u>
CASH, ending	<u>\$ 20,406,148</u>	<u>\$ -</u>	<u>\$ 20,406,148</u>

Ending cash will be applied to future programming and general & administration costs.

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

DENVER PRESCHOOL PROGRAM, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021

	PROGRAM	GENERAL & ADMINISTRATION	TOTAL
Parent tuition credit	\$ 19,947,762	\$ -	\$ 19,947,762
Quality improvement*	3,372,158	-	3,372,158
Community outreach	685,150	-	685,150
Parent eligibility	612,400	-	612,400
Salaries	-	582,456	582,456
Evaluation	442,733	-	442,733
Professional fees	18,344	149,351	167,695
Depreciation	-	122,165	122,165
Employee benefits	-	96,094	96,094
Rent and utilities	-	62,943	62,943
Taxes, payroll	-	41,480	41,480
Outside services	22,774	-	22,774
Insurance	-	15,865	15,865
Training, books & subscriptions	-	15,666	15,666
Hiring and annual review	-	12,975	12,975
Equipment expense	-	11,642	11,642
Supplies	-	8,082	8,082
Telephone, telecommunications	-	7,567	7,567
Computer expense - in house	-	7,240	7,240
Meetings	-	5,296	5,296
Payroll processing	-	1,896	1,896
Automobile expenses	-	1,234	1,234
Postage, mailing service	-	882	882
	<u>\$ 25,101,321</u>	<u>\$ 1,142,834</u>	<u>\$ 26,244,155</u>

* Quality improvement (QI) consists of several components: quality rating for providers and resources that include coaching on ECE and business administration best practices, professional development trainings and scholarships, workforce stipends, accreditation cost reimbursement, financial achievement awards for participating in certain QI activities, and grants that providers can use on a range of additional resources such as classroom learning materials, ECE college coursework, curricula and child assessment tools.

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

DENVER PRESCHOOL PROGRAM
NOTES TO FINANCIAL STATEMENTS
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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 and a small pilot to serve 3-year-olds. 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 childcare 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 requirements 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, whereby 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.

DENVER PRESCHOOL PROGRAM
NOTES TO FINANCIAL STATEMENTS
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CLASSIFICATION OF TRANSACTIONS – All revenues and net gains are reported as increases in net assets without donor restriction in the statement of activities unless the donor specified the use of the related resources for a particular purpose or in a future period. All expenses and net losses other than losses on donor restricted investments are reported as decreases in net assets without donor restrictions. Net gains on restricted investments increase net assets with donor restrictions, and net losses on restricted investments reduce that net asset class.

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.

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.

DONATED SERVICES - In accordance with ASC 958, contributions of services are recognized only if the services received either (a) create or enhance non-financial assets or (b) involve specialized skills provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

EXPENSE RECOGNITION AND ALLOCATION - The cost of providing the Organization's programs and other activities is summarized on a functional basis in the statement of activities and statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service.

General and administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the Organization. For the year ended December 31, 2021, all costs were recorded either as program costs or general & administration costs.

DENVER PRESCHOOL PROGRAM
NOTES TO FINANCIAL STATEMENTS
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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 3 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.

NOTE 2 – RELATED PARTY TRANSACTIONS

Members of DPP's Board of Directors are selected by the City and County of Denver. Ten to fourteen members are appointed by the Mayor and in addition, 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 10 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 8 below for a summary of the lease.

NOTE 3 – COVID-19

On January 30, 2020, the World Health Organization declared the novel coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020,

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declared it to be a pandemic. In April 2020, the Organization approved a COVID-19 Recession Planning Framework along with a proposed immediate budget reduction in anticipation of a decrease in sales tax revenue. Management monitored the fluctuating COVID-19 pandemic throughout 2021. As it continued to have an impact on our community and operations, the organization was able to pivot to use its available resources to more deeply support its preschool providers and families. Management continues to monitor the situation to assess further potential implications to operations and will take additional actions in an effort to mitigate adverse consequences should they arise.

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 – RETIREMENT PLAN

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

Retirement plan expense for the year ended December 31, 2021, is \$21,896.

DENVER PRESCHOOL PROGRAM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 6 – CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents as of December 31, 2021, is as follows:

Demand deposits	\$ 397,963
Money market account	3,376,781
Insured cash sweep account	<u>16,631,404</u>
 Total	 <u>\$ 20,406,148</u>

NOTE 7 – FIXED ASSETS AND RIGHT TO USE ASSETS

A summary of the fixed assets and the respective accumulated depreciation as of December 31, 2021, is as follows:

Description	Cost Basis	Accumulated Depreciation	Net Book Value
Furniture and equipment	\$ 62,311	\$ 30,295	\$ 32,016
Leasehold improvements	<u>493,783</u>	<u>354,033</u>	<u>139,750</u>
 Totals	 <u>\$ 556,094</u>	 <u>\$ 384,328</u>	 <u>\$ 171,766</u>

A summary of the right to use assets and the respective accumulated amortization as of December 31, 2021, is as follows:

Description	Cost Basis	Accumulated Depreciation	Net Book Value
Office lease	\$ 269,178	\$ 197,538	\$ 71,640
Office equipment	<u>13,130</u>	<u>9,926</u>	<u>3,204</u>
 Totals	 <u>\$ 282,308</u>	 <u>\$ 207,464</u>	 <u>\$ 74,844</u>

NOTE 8 – LONG TERM LEASES

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

DENVER PRESCHOOL PROGRAM
NOTES TO FINANCIAL STATEMENTS
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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 expenses and, 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.

OFFICE EQUIPMENT LEASE – DPP has entered into an agreement to lease a copier. The lease expires in March 2023. The lease requires a monthly payment of \$230. 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, 2021, are as follows:

December 31,		
2022	\$	60,798
2023		<u>15,253</u>
Total payments before discount		76,051
Discount adjustment		<u>(1,207)</u>
Total discounted future payments		74,844
Less: current portion		<u>59,652</u>
Long term portion	\$	<u><u>15,192</u></u>

OTHER INFORMATION: Lease costs reported in the statement of activities for the year ended December 31, 2021, are as follows:

Operating lease costs are included in the following line items:

Rent and utilities	\$	57,180
Equipment expense		<u>3,200</u>
Total	\$	<u><u>60,380</u></u>

Additional information:

Cash paid for amounts included in the measurement of lease liabilities:

Operating cash flows from operating leases	\$	60,380
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Weighted average of remaining lease term from operating leases	1.25 years
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Weighted average discount rate for operating leases	2.24%
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DENVER PRESCHOOL PROGRAM
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2021

NOTE 9 – BOARD DESIGNATED FUNDS

3-YEAR-OLD TUITION CREDIT PILOT – The Board of Directors approved a designated fund in 2021 for the purpose of funding tuition credits to a small cohort of 3-year-olds with a household income at or below 185 percent of the federal poverty line and enrolled in a high-quality DPP-participating community-based preschool program.

DPP (GAP) SCHOLARSHIPS – The DPP Scholarship Pilot was approved in 2019 to address affordability of preschool and better support to Denver’s lowest-income families. Scholarships are designed to fully cover the cost of care for families living at or below 300 percent of the federal poverty line, attend at least 25 hours per week at preschool, and are not receiving other public funding.

BONUS YEAR PRESCHOOL – In 2021 the Board approved a designated fund for the 2021-2022 program year to provide tuition credits to children who will spend one more year in preschool before transitioning to kindergarten.

EDUCATOR SCHOLARSHIPS – The Board of Directors approved a Designated Fund in 2017 for the purpose of funding scholarships for the Educator Scholarship Fund.

DESIGNATED RESERVES – In December 2021, the Board of Directors approved a new Board-Designated Reserve Policy. That policy is reflected in the financial statements effective December 31, 2021. The reserve target is defined as the approximate amount needed to cover core program and administrative costs in the event that DPP’s revenue ceases at the conclusion of a calendar year. This reserve should also include the necessary funds for proper transfer/storage of multi-year evaluation data. For the 2021-2022 program year, the reserve target equals eight months of tuition credits and quality improvement dollars, administrative expenses in alignment with our 7 percent allocation, plus data storage/transfer and any transition costs estimated at \$500,000.

An analysis of the Board Designated Funds as of December 31, 2021, are as follows:

3-year-old Tuition Credit Pilot	\$ 5,538,210
DPP (GAP) Scholarship	2,795,886
Bonus Year Preschool	99,727
Educator Scholarships	145
Designated Reserves	<u>10,511,000</u>
	<u>\$ 18,944,968</u>

NOTE 10 – 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

DENVER PRESCHOOL PROGRAM
 NOTES TO FINANCIAL STATEMENTS
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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, 2021, DPP used 4.84% 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 following is a schedule of the unexpended administrative funds as of December 31, 2021:

Unexpended funds from 2020	\$ 4,240,815
G&A amount allowed for 2021	1,652,081
G&A expenses for 2021	<u>(1,142,834)</u>
Unexpended funds to 2022	<u>\$ 4,750,062</u>

NOTE 11 – 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 99.4% of total support and revenue for the year December 31, 2021.

DENVER PRESCHOOL PROGRAM
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2021

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, 2021, DPP paid to DPS approximately \$10,737,724 in tuition credits and \$412,270 in quality improvement expenses. This represents approximately 53.8% of total tuition credits and 17.3% in quality improvement expenses. Also, as of December 31, 2021, included in accounts payable is approximately \$1,545,800 of tuition credits payable to DPS. This represents approximately 44.4% of accounts payable.

NOTE 12 – AVAILABILITY AND LIQUIDITY

The following represents DPP’s financial assets as of December 31, 2021:

Financial assets at year-end:	
Cash and cash equivalents	\$ 20,406,148
Receivables	<u>150,566</u>
Total financial assets	<u>20,556,714</u>
Less amounts not available to be used within one year:	
Net assets with donor restrictions	-
Less net assets with purpose restrictions to be met in Less than a year	<u>-</u>
	<u>-</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 20,556,714</u>

As part of its liquidity plan, excess cash is invested in money market accounts and an insured cash sweep account.

An allocation of the financial assets as of December 31, 2021, are as follows:

Total financial assets	\$ 20,556,714
Board designated	<u>\$ 18,533,663</u>
Total financial assets designated	<u>18,533,663</u>
Financial assets available for day-to-day Program and operational expenses	<u>\$ 2,023,051</u>

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DECEMBER 31, 2021

NOTE 13 – LONG-TERM CONTRACTS

DPP has entered into various contracts with vendors to provide services on behalf of DPP. These contracts terminate through 2023. The estimated amount of the future payments under these agreements are as follows:

December 31, 2022	\$ 3,899,840
2023	<u>1,759,463</u>
Total	<u>\$ 5,659,303</u>

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 or eliminated.

NOTE 14 – SUBSEQUENT EVENTS

In preparing the financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through February 21, 2022, the date that the financial statements were available to be issued and has determined that there were no events or transactions that require additional disclosure.

Denver Preschool Program Management Discussion and Analysis



The Denver Preschool Program (DPP) is a nonprofit organization funded through Denver City and County sales tax revenue, first approved by voters in 2006 and again in 2014. DPP supports families by offering universal tuition credits to offset the cost of preschool. The organization also works to improve the quality of preschool in Denver, conducts outreach to and engages with families and providers, and evaluates student progress. DPP remains financially sound, and is steadfast in maintaining an ongoing evaluation of its management practices to ensure it continues as a strong and viable organization into the future.

The 2021 calendar year saw continued challenges due to the COVID-19 pandemic and the rising cost of living in Denver. The organization prioritized how to use available resources to more deeply support the DPP's preschool providers and families during these times of uncertainty and instability. Key highlights of 2021 include:

- The launch of a new pilot to support Denver's 3-year-olds
- Provided \$25.1 million in programming expenses
- Continued to utilize our reserves to support the needs of the community

DPP provided **\$19.95 million** in tuition credits in 2021. DPP significantly expanded its tuition credit system supports in 2021, increasing spending by \$4.85 million compared to the previous year. The tuition credit system is inclusive of:

- The typical 4-year-old tuition credit scale;
- DPP Scholarship Pilot, which fully covers the cost of tuition for children at or below 300% of the federal poverty line;
- Preschool for 3s Pilot, supporting a small cohort of 3-year-olds through our tuition credit scale;
- And the Bonus Preschool Year Pilot, aimed at providing tuition credits to children who will spend an additional year in preschool.

All tuition credit funding is paid directly to providers on behalf of each family, then deducted from the families' tuition bills. These tuition credits supported 4,019 students who attended preschool in the 2020-2021 school year, and 4,215, 4-year-old students as well as 354, 3-year-olds who attended preschool in the 2021-2022 school year.

The organization proudly invested **\$3.37 million** in quality improvement supports to more than 260 preschools. These quality improvement dollars provided schools with funding for teacher and director professional development, coursework, grants, workforce stipends, coaching, scholarships and classroom materials, helping to ensure that Denver preschoolers receive a high-quality education.

Board of Directors

As of 12/31/2021

Michael Baker, Chair
Gold Crown Management

Dr. Lydia Prado, Vice Chair
Lifespan Local

Chris Daues, Treasurer
Rubin Brown

Amber Münck, Secretary
Cosmic Wilderness Adventures

Erin Brown
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La Vie and Company

Councilwoman Amanda Sandoval
Denver City Council – District 1

Janice Sinden
Denver Center for the Performing Arts

Susan Steele
Temple Hoyne Buell Foundation

Financial Management

DPP updated its reserve target and reserve policy to give the organization adequate funds to weather economic downturns while preparing for the future. The reserve policy identifies our Long-Term Reserves for a Program Wind Down, designed to provide needed funding to maintain program offerings at current levels while ensuring adequate organizational capacity to deliver programming in a quality and effective manner. The 2021 financials indicate the long-term reserves target at \$10.511 million when fully funded and \$8.43 million of reserves designated for pilot programming, bringing our overall Board designated reserves as of December 31, 2021 to \$18.94 million. Our net assets at \$16.78 million reflect a \$2.17 million gap for our long-term reserves. The Board of Directors are aware of this gap and are committed to supporting Denver preschool and families through the pandemic and beyond.

Our reserves are the reason we were able to navigate a difficult year in 2021, allowing us to keep our tuition credit funding at pre-pandemic levels and create new pilot programs, helping our providers to keep their doors open to continue serving Denver's families.

DPP also shifted to a program year budget for its fiscal operations, to align with its program operations. This shift allows for more transparency for management, board and voters, reduces risk of error and creates a better tool to manage operations and program funds.

DPP continued its record of strong financial management despite the COVID-19 pandemic – including a clean 2021 audit – and closely monitored revenue projections and economic forecasts that impacted the city sales tax. This allowed the organization to adjust expenses and reallocate funding to new areas of need, maintaining financial stability while deepening impact for preschools and families.

Pivoting with a Purpose

DPP pivoted to equitably expand access to quality preschool by launching a two-year pilot to support 3-year-old children through monthly tuition credits. Preschool for 3s is grounded in equity, focusing on children with the highest financial need. DPP also continued its DPP Scholarship program, covering up to 100% of preschool tuition costs for a small cohort of families at or below 300 percent of the Federal Poverty Line. These paired with the 4-year-old tuition credit scale continues to support Denver families to access high-quality preschool.

In order to maintain preschool capacity allowing for families to have safe and reliable child care to continue to work, DPP more deeply invested in our preschool providers through our Sustainability Grants. In total, we distributed \$785,000 directly to providers last year.

2022 and Beyond

Looking ahead, DPP remains committed to its values of **access for all; informed choice; high quality, intentional inclusivity; and leadership in action**. These efforts include leaning into the big challenges and opportunities that the Denver community faces, including continued low enrollment and staffing shortages at preschool providers, while deepening the focus on the new needs that have arisen such as integrating the DPP's funding to

Staff

As of 12/31/2021

Elsa Holguín
President and CEO

Ellen Braun
Chief Operating Officer

Nayely Avila
Program Specialist

Dr. Cristal Cisneros
Senior Director of Evaluation and Impact

Chris Miller
Director of Quality Initiatives

Tricia Nelson
Director of Communications

Carley Noerr
Office Manager

complement the upcoming implementation of Colorado's Universal Preschool (UPK) beginning in 2023.

Internally, DPP is deepening its Equity, Diversity and Inclusion values by examining programmatic approaches, policies and procedures, and ultimately developing a sharper focus on racial equity. In addition, with its current strategic plan having ended in 2021, the organization has been working on a strategic plan refresh with an emphasis on equity to carry us through 2022. This plan will serve as a guide to ensure that the families it supports continue to be able to provide their children with the benefits associated with high-quality early childhood education.

Throughout 2022 and beyond, DPP will continue to strive to realize the vision of every Denver child entering kindergarten ready to reach their full potential.