DENVER PRESCHOOL PROGRAM, INC.

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2014

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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, 2014, 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, 2014, 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 PC

GC2 PROFESSIONAL SERVICES PC
Certified Public Accountants

Aurora, Colorado
February 18, 2015

DENVER PRESCHOOL PROGRAM, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2014

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL ALL
ASSETS			
CASH	$ 9,200,954	$ -	$ 9,200,954
PREPAID EXPENSES	12,907	-	12,907
INVESTMENT IN JOINT VENTURE	12,503	-	12,503
FIXED ASSETS, at cost	49,184	-	49,184
ACCUMULATED DEPRECIATION	(44,828)	-	(44,828)
TOTAL ASSETS	$ 9,230,720	$ -	$ 9,230,720
LIABILITIES AND NET ASSETS			
ACCOUNTS PAYABLE	$ 1,561,320	$ -	$ 1,561,320
ACCRUED EXPENSES	5,861,288	-	5,861,288
	7,422,608	-	7,422,608
NET ASSETS	1,808,112	-	1,808,112
TOTAL LIABILITIES & NET ASSETS	$ 9,230,720	$ -	$ 9,230,720

DENVER PRESCHOOL PROGRAM, INC.
STATEMENT OF ACTIVITES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2014

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL ALL
SUPPORT AND REVENUE:			
Government contract revenue	$ -	$ 14,004,383	$ 14,004,383
Public support	32,595	-	32,595
Investment income	3,227	-	3,227
Conference income (joint venture)	51,092	-	51,092
Net assets released from restrictions	14,004,383	(14,004,383)	-
Total support and revenue	14,091,297	-	14,091,297
EXPENSES:			
Program	12,702,483	-	12,702,483
Management and general	534,272	-	534,272
Total expenses	13,236,755	-	13,236,755
CHANGE IN NET ASSETS	854,542	-	854,542
NET ASSETS, beginning	953,570	-	953,570
NET ASSETS, ending	$ 1,808,112	$ -	$ 1,808,112

DENVER PRESCHOOL PROGRAM, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL ALL
CASH FLOWS FROM OPERATING ACTIVITIES:			
Change in net assets	$ 854,542	$ -	$ 854,542
Adjustments to reconcile net cash provided by operating activities:			
Depreciation	5,884	-	5,884
Net (income) from joint venture	(51,092)		(51,092)
Change in certain assets and liabilities	1,236,616	-	1,236,616
Cash flows from operating activities	2,045,950	-	2,045,950
CASH FLOWS FROM INVESTING ACTIVITIES:			
Distribution from joint venture	46,885	-	46,885
	46,885	-	46,885
CASH FLOWS FROM FINANCING ACTIVITIES:			
None	-	-	-
	-	-	-
NET CHANGE IN CASH	2,092,835	-	2,092,835
CASH, beginning	7,108,119	-	7,108,119
CASH, ending	$ 9,200,954	$ -	$ 9,200,954

Ending cash will be applied to future tuition credit and quality improvement liabilities for the current year

DENVER PRESCHOOL PROGRAM, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2014

	MANAGEMENT & GENERAL	PROGRAM	TOTAL
Parent tuition credit	$ -	$ 9,753,191	$ 9,753,191
Quality improvement*	-	1,235,636	1,235,636
Community outreach	-	759,699	759,699
Parent eligibility	-	471,926	471,926
Evaluation	-	462,306	462,306
Salaries	308,803	-	308,803
Employee benefits	55,794	-	55,794
Professional fees	34,563	10,375	44,938
Rent and utilities	27,456	-	27,456
Taxes, payroll	22,732	-	22,732
Outside services	17,770	-	17,770
Insurance	13,444	-	13,444
Information technology	-	9,350	9,350
Equipment expense	9,211	-	9,211
Meetings	8,691	-	8,691
Supplies	8,314	-	8,314
Postage, mailing service	6,332	-	6,332
Depreciation	5,884	-	5,884
Payroll processing	4,257	-	4,257
Telephone, telecommunications	3,756	-	3,756
Training, books & subscriptions	3,750	-	3,750
Automobile expenses	1,639	-	1,639
Printing and copying	1,402	-	1,402
Bank charges	474	-	474
	$ 534,272	$ 12,702,483	$ 13,236,755

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

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

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 are recorded as unrestricted, temporarily restricted or permanently restricted net assets depending on the existence or nature of any donor restrictions.

DONATED SERVICES AND PROPERTY – 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. Contributions of property are recorded at their fair value on the date of contribution.

FINANCIAL STATEMENT 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 three classes of net assets:

1. Unrestricted - net assets available for current activities.
2. Temporarily Restricted - net assets restricted by the donor for future use.
3. Permanently Restricted - net assets restricted by the donor with stipulations that they be invested to provide a permanent source of income.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

TEMPORARILY RESTRICTED RESOURCES – DPP reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. 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.

DPP also reports funds received from government contracts as temporarily restricted. As DPP incurs expenditures under the contract, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

DPP reports gifts of land, buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are place in service. To date, DPP has not received gifts of long-lived assets.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 - 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.

NOTE 3 – RELATED PARTY TRANSACTIONS

Members of DPP's Board of Directors are selected by the City and County of Denver. Six members are appointed by the Mayor and one member is appointed by the City Council. All seven members of 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.

NOTE 4 – FIXED ASSETS

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

Description	Cost Basis	Accumulated Depreciation
Furniture and equipment	$ 29,184	$ 27,161
Leasehold improvements	20,000	17,667
Totals	$ 49,184	$ 44,828

NOTE 5 – JOINT VENTURE

DPP entered into an agreement with two other entities (Colorado Association for the Education of Young Children ("CAEYC") and Early Childhood Education Association of Colorado ("ECEA")) to organize and host a conference for early childhood education professionals in 2015.

All three entities each will have equal responsibility for organizing and hosting the conference. DPP also agreed to sign certain contracts on behalf of the Joint Venture and solicit sponsorships from various entities.

Upon the conclusion of the conference, the parties will distribute equally the net proceeds from the conference less an agreed upon reserve fund for any future conferences.

At December 31, 2014, the Joint Venture had net equity of $12,503 which is planned to be used towards the 2015 conference. DPP's share of that amount is reported as "Investment in Joint Venture" on the statement of financial position in the amount of $12,503.

A summary of DPP's share of income and expenses for calendar year 2014 is as follows:

Revenues:	
Conference revenues	$ 147,181
Other revenues	385
Total revenues	147,566
Expenses	96,474
Net income from conference	$ 51,092

The net income from the conference has been reported in the Statement of Activities as "Conference income (joint venture)".

Also during 2014, the Joint Venture made distributions to the members. The amount paid to DPP was $46,500.

NOTE 6 – 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, 2014.

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, 2014, DPP incurred approximately $5,045,000 in tuition credits to Denver Public Schools. This represents approximately 52% of total tuition credits incurred. Also as of December 31, 2014, included in accounts payable is approximately $789,449 of tuition credits payable to DPS and estimated in accrued expenses is $3,314,000 attributable to DPS.

As of December 31, 2014, DPP has received $151,908 in quality improvement grants to various DPS ECE programs. This represents approximately 12% of total quality improvement expenditures incurred. Also included in the accrued expenses is $129,375 as part of the accrued quality improvement grants.

NOTE 7 – TUITION CREDITS PAYABLE

DPP qualifies applicants for up to 9 months of tuition credits. As of December 31, 2014, DPP has recorded in accrued expenses future commitments for tuition credits in the amount of $5,443,626. ASC 450 Accounting for Contingencies requires that if information is available and it indicates that it is probable that a liability had been incurred at the date of the financial statements, then the amount of the contingency be recorded based upon a reasonable estimate, if one can be determined.

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. Accordingly, included in the accrued expenses on the statement of financial position is an estimated amount of future commitments.

NOTE 8 - DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through February 18, 2015, the date that the financial statements were available to be issued.

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 initial term of the agreement was effective May 1, 2007 to December 31, 2007, and subject to unilateral options by the City and County of Denver for nine (9) additional one (1) year renewal options. The current incremental option expires December 31, 2015. 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 Education and Children 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 5% of the distributions can be expended on administration expenses. For the year ended December 31, 2014, DPP used 4.0% 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 funds as of December 31, 2014:

Unexpended funds from 2013	$ 1,043,622
Amount released for program expenditure	(450,000)
G&A amount allowed for 2014	700,219
G&A expenses for 2014	(534,272)
Unexpended funds to 2015	$ 759,569

NOTE 10 – LONG TERM LEASE

DPP entered into a long term lease agreement for its office facilities. DPP is subleasing space under a Master Tenant agreement with the Denver Housing Authority ("Master Tenant"). The lease term is 5 years upon the Master Tenant's completion of the improvements as evidenced by the issuance of certificates of occupancy for the Premises and Tenant's acceptance thereof. Although the office space had only received a temporary certificate of occupancy, DPP occupied the space starting in September, 2010. The lease requires a base monthly rent starting at $1,925 and will increase by 1.5% per year on the anniversary of the occupancy of the Premises.

Minimum future lease payments required under the lease for the year ended December 31, 2015 is $16,345.

In addition to the lease agreement, DPP has also entered into a joint operating agreement with the Urban Land Conservancy ("ULC"), a co-tenant in the office space. This agreement provides that DPP and ULC will pay their Pro Rata share of various joint expenses during their tenancy of the office space. These expenses include insurance premiums, utilities and janitorial services. Also, ULC will be reimbursed for the cost of sharing an office manager, who is an employee of ULC based upon a ratio of employees of each organization.

NOTE 11 – CASH FLOWS

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

	UN-RESTRICTED	TEMPORARILY RESTRICTED
ASSETS (increase) decrease		
Prepaid expenses	$ (2,992)	$ -
LIABILITIES increase (decrease)		
Accounts payable	(9,516)	-
Accrued expenses	1,249,124	-
	$ 1,23,616	$ -

NOTE 12 – QUALITY IMPROVEMENT GRANTS PAYABLE

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, 2014, DPP has recorded in accrued expenses future commitments for quality improvement grants in the amount of $403,992. ASC 450 Accounting for Contingencies requires that if information is available and it indicates that it is probable that a liability had been incurred at the date of the financial statements, then the amount of the contingency be recorded based upon a reasonable estimate, if one can be determined.

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 June 15th in order to access quality improvement resources.

NOTE 13 – LONG TERM CONTRACTS

DPP has entered into various contracts with vendors to provide services on behalf of DPP. These contracts terminate from June, 2015 through September, 2016. A Summary of the estimated future payments under these agreements are as follows:

	AMOUNT
Payments due for the year ended December 31,	
2015	$ 1,357,094
2016	334,500
Total	$ 1,691,594

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

NOTE 14 - FAIR VALUE MEASUREMENTS

	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobserv-able Inputs (Level 3)
Financial Assets:				
Cash	$ 9,200,954	$ 9,200,954	$ 0	$ 0
Investment in Joint Venture	12,503	0	0	12,503
Property & Equipment	4,900	0	0	4,900
Financial Liabilities:				
Accounts payable	1,561,320	0	0	1,561,320
Accrued expenses	5,861,288	0	0	5,861,288

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
Management Discussion and Analysis

The year 2014 was unprecedented for the Denver Preschool Program (DPP). On June, 11 we stood alongside Mayor Michael B. Hancock to announce plans to ask Denver voters to approve the renewal and expansion of the preschool tax that funds the organization. While the sales tax expiration date wasn't until December 31, 2016, the DPP Board of Directors and the Office of Mayor Michael B. Hancock made the decision that 2014 was the best year to go back to the voters in order to avoid any interruption in service to Denver's 4-year-olds. From June 11 through November 4, much of the focus of the Board of Directors was on working with the City of Denver on needed changes to the governing ordinance for the program and developing the Preschool Matters campaign committee and supporting its efforts.

Key changes made to the governing ordinance included the merging of the DPP Board of Directors and Board of Advisors, adding language to allow DPP to serve children younger than 4 should revenues allow, increasing in the administrative cap from 5 percent to 7 percent, and increasing the dedicated sales tax from .12 percent to .15 percent. Some of the highlights of the campaign included two editorials in support of the initiative by the *Denver Post*, a guest editorial written by Gail Klapper and Donna Lynne in the *Denver Business Journal*, an endorsement by the Denver Metro Chamber, and a guest editorial in support of preschool written by Mayor Michael B. Hancock and U.S. Department of Education Secretary Arne Duncan published in the *Denver Post*. On November 4, 55.28 percent of Denver voters said "yes" and the Denver Preschool Program was renewed and expanded through December 31, 2026.

Even though DPP had the added focus of a campaign, the business of ensuring every Denver 4-year-old has access to high quality preschool did not stop. This audit reflects effective financial management and operations of the Denver Preschool Program and our intention is to maintain the high degree of fiscal integrity Denver has come to rely on from the organization. DPP served 4,996 students during the 2013-2014 school year bringing the total number of students served since 2007 to 36,812. Another $9.7 million went directly to families in tuition support bringing the program's lifetime total to $64 million. The 2013-2014 evaluation results by Augenblick, Palaich and Associates (APA) continued to show that not only is DPP fulfilling its mission to ensure the vast majority of students participating in Denver Preschool Program classrooms arrive at the kindergarten door ready to learn, but also that those who participate in DPP perform better on third-grade reading, writing and math standardized assessments.

Denver Preschool Program's commitment to efficiently and effectively promoting access to high quality preschool for all of Denver's 4-year-olds is unwavering and we look forward to continuing to fulfill our fiduciary responsibilities to the City and County of Denver and its residents.

DENVER PRESCHOOL PROGRAM

FUNDING QUALITY PRESCHOOL FOR DENVER

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