



PROSPERITY DENVER FUND

FINANCIAL POLICIES

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INTERNAL CONTROL POLICY

PURPOSE

The Internal Controls Policy of Prosperity Denver Fund (PDF) exists to safeguard the organization's assets, ensure reliable and accurate financial data, and promote operational efficiency. It delegates authority for developing specific internal control procedures to the staff of the organization while retaining the Board's authority to engage an outside firm to perform financial audits and produce audited financial statements.

GENERAL PRINCIPLES

To ensure that financial activities are executed in compliance with this Policy:

- All Board members, staff members, and/or consultants responsible for tasks related to financial transactions will have appropriate training and/or experience that enable them to exercise the level of skill and judgement required by those tasks.
- The Board will establish a Finance Committee (Committee) for oversight of the financial policies. The Committee will consist of the Board Chair, Treasurer, and a third Board member at a minimum.
- No person will make commitments for the organization beyond his or her level of authority.
- More than one individual will be involved in the completion of every financial transaction.
- Appropriate separation of duties and rotation of responsibilities will occur.

ACCOUNTING

PDF adheres to Generally Accepted Accounting Principles (GAAP) to ensure accuracy of information and compliance with external standards. As such, it uses the accrual basis of accounting. The organization's fiscal year begins on October 1 and ends on September 30.

SEGREGATION OF DUTIES

It is the goal of PDF to prevent the occurrence of errors or fraud by establishing adequate division of responsibilities among those who perform accounting procedures or control activities and those who handle assets. Duties that require segregation include authorizations or approvals, custody of assets, recording transactions, and reconciliations/control activities. These functions must be performed such that one individual is either independent of, or serves to check on, the work of another. Additionally, care must be taken to ensure that closely related individuals are not in a position of reviewing or authorizing each other's transactions.

RECORD KEEPING

All transactions of PDF are to be recorded in the organization's ledger and/or accounting system as close as possible to the time when they occur. Transactions must be classified and recorded accurately using objective criteria and consistent treatment of similar transactions. Documentation of transactions should be clear and legible, with special care taken to identify and record accurately non-cash financial transactions. When an activity includes transactions that both increase and decrease a financial account, the increase and decrease are to be recorded separately (not on a net basis).

DISBURSEMENTS

The purpose of each expense should be documented at the time of the transaction. The extent of documentation required is based on the transaction's size, frequency of similar transactions, and reporting requirements of the City Auditor. Expense documentation should provide adequate explanation for an independent reviewer unfamiliar with the details of the transaction. Special care is to be taken with disbursements to ensure frequent reconciliation with the organization's bank account.

Disbursements may only be made via check or electronic transfer. When disbursing cash via check, the person responsible for preparing checks must be different than the authorized individuals signing the checks. Two authorized signatures are needed for all checks, one of which must be the Treasurer. Authorized signatures are limited to these board-appointed check signers:

- Board Chair
- Treasurer
- Chief Executive Officer or Interim

BANKING

PDF's bank account(s) may only be accessed by Board-authorized positions. Each Board or staff member with access to the organization's bank account must have a unique username and password. Access to PDF's bank account is limited to these Board-authorized positions:

- Board Chair
- Treasurer
- Chief Executive Officer or Interim

REPORTING

Financial statements should be prepared on a regular basis and present adequate information to serve as the basis for an informed review. The Board of Directors is responsible for closely monitoring the financial activity of the organization through

consistent and thoughtful analysis of financial reports prepared according to the following schedule:

<i>Report Type</i>	<i>Frequency</i>	<i>By When</i>
Budget-to-Actual	Monthly	Corresponding board meeting
Statement of Financial Position (Balance Sheet)	Quarterly	Within 30 days after close of period
Statement of Activities (Income Statement)	Quarterly	Within 30 days after close of period
Statement of Cash Flows	Quarterly	Within 30 days after close of period
Statement of Functional Expenses	Annually	Within 60 days after close of fiscal year

OPERATING RESERVE POLICY

PURPOSE

The purpose of the Operating Reserve Policy for Prosperity Denver Fund (PDF) is to ensure the stability of the mission, employment, and ongoing operations of the organization. The Operating Reserve is intended to provide an internal source of funds for situations such as a sudden increase in expenses, one-time unbudgeted expenses, or unanticipated decline in sales tax revenues. Operating reserves are not intended to replace a permanent decline in funds or eliminate an ongoing budget gap. It is the intention of PDF that Operating Reserves be used and replenished within a reasonably short period of time.

POLICY

The Operating Reserve Fund is defined as a designated fund set aside by action of the Board of Directors. The minimum amount to be designated as the Operating Reserve will be established in an amount sufficient to maintain ongoing operations and programs for a set period of time, measured in months. The Operating Reserve serves a dynamic role and will be reviewed and adjusted in response to internal and external changes.

The target minimum Operating Reserve Fund is equal to one year of average operating costs. The calculation of average monthly operating costs includes all recurring, predictable

expenses such as salaries and benefits, occupancy, office, travel, and ongoing professional services. Depreciation, in-kind, and other non-cash expenses are not included in the calculation.

The amount of the Operating Reserve Fund target minimum will be calculated each year after approval of the annual budget, reported to the Finance Committee of the Board of Directors, and included in the regular financial reports.

ACCOUNTING FOR RESERVES

The Operating Reserve Fund will be recorded in the financial records as the Operating Reserve Fund. The Operating Reserve Fund will be kept in a segregated account and be available in cash or cash equivalent funds.

FUNDING OF RESERVES

The Operating Reserve Fund may only be funded out of the 10% administrative costs in the first year, and 5% administrative costs in all subsequent years. The Board of Directors may from time to time direct that a specific source of revenue be set aside for Operating Reserves.

USE OF RESERVES

Use of the Operating Reserves requires three steps:

1. **Identification of appropriate use of reserve funds** The Chief Executive Officer and staff will identify the need for access to reserve funds and confirm that the use is consistent with the purpose of the reserves as described in this Policy. This requires analysis of the reason for the shortfall, the availability of any other sources of funds before using reserves, and evaluation of the time period that the funds will be required and replenished.
2. **Authority to use operating reserves** The Chief Executive Officer or acting/interim Director will submit a request to use Operating Reserves to the Finance Committee of the Board of Directors. The request will include the analysis and determination of the use of funds and plans for replenishment. The organization's goal is to replenish the funds used within twelve months to restore the Operating Reserve Fund to the target minimum amount. The Finance Committee will approve or modify the request and authorize transfer from the fund.
3. **Identification of appropriate use of reserve funds** The Chief Executive Officer, with advice and consent of the Treasurer, is responsible for ensuring that the Operating Reserve Fund is maintained and used only as described in this Policy. Upon approval for the use of Operating Reserve Funds, the Chief Executive Officer will maintain records of the use of funds and plan for replenishment. The Chief

Executive Officer will provide regular reports to the Finance Committee of the Board of Directors regarding progress to restore the Fund to the target minimum amount.

INVESTMENT POLICY

PURPOSE

This Investment Policy Statement (IPS) is the governing document for Prosperity Denver Fund's (PDF) investments. The purpose is to:

- Define the operating, sales tax, and the long-term reserves (Portfolios);
- Describe the role of the Portfolios as a financial resource of PDF;
- Set investment objectives for the Portfolios that seek to balance investment return with investment-generated risks;
- Set benchmarks appropriate for measuring the achievement of each investment objective;
- Establish a policy that is compatible with fiduciary standards, and necessary for the achievement of investment and risk objectives, including:
 - Risk measurement guidelines;
 - Portfolio construction limits;
 - Frequency and process for review of all investment activities and investment holdings;
- Define the roles and responsibilities of the parties involved;
- Set the frequency of review of the IPS and the procedure for its revision.

PDF holds fiduciary responsibility for all financial assets of PDF. In accordance with the By-Laws of the PDF Board, the Board may delegate authority to its Finance Committee ("Committee") to establish, maintain and monitor an investment process for its mid- and long-term investable assets. The Board shall approve this IPS and all revisions.

ROLES AND RESPONSIBILITIES

Board The Board retains ultimate discretion for the investment strategy and reviewing this IPS annually.

Finance Committee As an extension of fulfilling its fiduciary responsibility, the Board delegates a portion of the day-to-day responsibility for monitoring the investment strategy to the Committee. The specific responsibilities of the Committee are:

1. Monitoring the IPS and making recommendations for modification to the Board as needed for approval, at a minimum once per year.
2. Working to set asset allocation targets within the guidelines of this IPS.

3. Selecting investment vehicles considered appropriate for implementing the asset allocation target, consistent with IPS guidelines.
4. Continuing to assess the alignment between the investment strategy, the IPS, and PDF's business.

INVESTMENT OBJECTIVES AND BENCHMARKS

PDF will maintain multiple Portfolios that reflect the risk profile, time horizon, and investment objectives of the monies assigned to therein. Below is a description of the Portfolios.

Portfolio	Purpose	Objective	Time Horizon	Risk Profile
Operating Reserves	Funds for day to day operations of the organization	High liquidity and capital preservation	0 -18 months	Conservative
Sales Tax Reserves	Funds for scholarships and scholarship program support	High Liquidity and modest return potential	2 -5 years	Conservative to Moderate
Long Term Reserves	Funds for long term sustainability	Long-term growth	5 -10 years	Moderate to Aggressive

The investment objectives of the Portfolios strive to balance the fiduciary requirements for prudence imposed by the State of Colorado and the expectations to preserve and increase the real economic value of the assets. The primary investment objective in managing the Portfolios is to preserve and increase the real economic value of all invested assets. The investment results of the Portfolios and the trend of such results will be evaluated first on the basis of the longest available annualized compound rate of nominal return on the Portfolios (ideally 30 days to 12 years) relative to the Real Value Benchmark and adjusted risk profile over an identical time period for the following asset classes:

- Treasuries
- Agencies
- Brokered CDs that FDIC-insured
- Corporate bonds

- Repurchase agreements
- Global Equities
- Global Fixed Income

An important implication of this investment objective is that the adjusted risk profile that is mostly, but not exclusively, focused on FDIC and similar asset classes specifically for the operating reserves and the sales tax reserves.

The Committee will review at least annually the extent to which this objective is being met. Policy adjustments may be made after any annual review but are not generally anticipated to be more frequent than every three to five years.

RISK OBJECTIVES OF THE PORTFOLIOS

PDF recognizes that the pursuit of investment returns requires the acceptance of certain risk categories that are inherent in investment activities. The Committee seeks to establish through this IPS a thorough and prudent process for making its investment decisions and a reasonable set of portfolio constraints. Together the process and the constraints are intended to form a basis for consistently supporting PDF's operations while mitigating the potential occurrence of a "drawdown" of the portfolio value so extreme as to create a financial emergency for PDF or otherwise prevent the achievement of mid and long-term investment objectives.

The Committee shall review periodically with PDF's administration regarding any contribution to the Portfolios, and spending payout from any of Portfolios to PDF's total operating revenues. The purpose of this review shall be to monitor regularly over time any changes in PDF's ability to absorb investment-related risks. The components of the review shall include indicators such as the relative contributions of revenue sources with adherence to the City and County of Denver ordinance requirements. The conclusion of the review shall either re-affirm that current investment risks remain appropriate or shall suggest that changes to the Portfolios' investment or risk objectives may be warranted.

INVESTMENT POLICIES AND STANDARDS

The Portfolios shall be managed with the high standards of fiduciary duty and in compliance with applicable laws and regulations. Each person responsible for managing and investing PDF's Portfolios shall act "in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances." Specifically, as noted in the Internal Controls, the PDF Committee shall consist of, but not limited to, the Board Chair, Treasurer, and a third Board member. As a part of the Committee both the Board Chair and Treasurer will be designated the authority to dually direct and execute

portfolio transactions.

The Committee will review many factors for consideration in managing and investing the Portfolio, including:

1. General economic conditions;
2. The possible effect of inflation or deflation;
3. The expected consequences, if any, of investment decisions or strategies;
4. The role that each investment or course of action plays within the overall investment portfolio;
5. The expected total return from income and the appreciation of investments; 6.
6. Other resources of the institution;
7. The need of the institution and of the Portfolio to make distributions and preserve capital.

ASSET ALLOCATION GUIDELINES

Asset Allocation Bands						
Asset Class	Operating Reserves		Sales Tax Reserves		Long Term Reserves	
	<i>Min %</i>	<i>Max %</i>	<i>Min %</i>	<i>Max %</i>	<i>Min %</i>	<i>Max %</i>
Global Equities	0%	0%	0%	0%	20%	60%
Fixed Income	0%	90%	50%	100%	40%	80%
Cash & Cash Equivalents	10%	100%	0%	100%	0%	10%

Asset Allocation Guidelines for Operating and Sales Tax Reserves

Asset allocation is the strategic foundation of an effective investment program. The objective of this asset allocation policy is to help assure that the Operating Reserves and Sales Tax Reserves are invested in limited risk assets and asset classes that together support the achievement of the portfolio's investment objectives and its ability to provide payout support for PDF's mission through a range of economic growth and inflationary conditions. The target asset allocation mix for these Portfolios shall be determined by the Committee to facilitate the greatest likelihood of achieving the investment objectives within

the risk parameters and portfolio constraints described in this IPS. These limited risk asset classes include, but are not limited to the following:

- Treasuries
- Agencies
- Brokered CDs that FDIC-insured
- Corporate bonds
- Repurchase agreements

Decisions on asset allocation policy are guided by an understanding of PDF's financial risk tolerance and regulatory compliance as well as financial modeling that incorporates expected returns for permissible asset classes, expected correlations of asset returns and expected volatility of returns.

Asset Allocation Guidelines for Long Term Reserves

The objective of the long-term reserves is to provide ongoing support for PDF's long term sustainability. The target asset allocation mix for this portfolio may differ from the other Portfolios with the Portfolio targeting long term growth. This portfolio may include the risk assets outlined above as well as global equities and fixed income.

Benchmarks The purpose of benchmarks is to provide a variety of reference points for the evaluation of how well the Portfolio has performed over a range of time frames. It is necessary to employ multiple benchmarks to form a comprehensive framework for evaluating the value-added benefits of diversification, asset allocation tactical tilts, and manager/fund performance.

Risk Metrics The Committee will regularly evaluate portfolio risk metrics that impact the Portfolios' ability to attain its investment objectives. At a minimum, risk metrics should examine the components of absolute and relative returns over past time periods and provide an attribution analysis of those returns; indicate the future likelihood of the portfolio declining in market value and failing to recover over short and long time periods; compare the historical and future expected variability of market value for the actual portfolio against the policy portfolio; and identify risks incurred in the actual portfolio that are not incurred in the policy portfolio along with consideration of whether greater risks, if any, in the actual portfolio have been compensated adequately with higher returns.

Common technical measures of portfolio risk include: alpha; beta; tracking error; information ratio; likelihood of potential drawdowns; and the time duration of potential drawdowns.

The Portfolio's risk analysis may also incorporate any other measures that provide greater understanding of past returns relative to investment objectives or contribute to the likelihood of achieving investment objectives in the future.

PORTFOLIO CONSTRUCTION LIMITS

Diversification Policy and Concentration Limits

The Committee considers diversification to be a key component for building a portfolio that is efficient (i.e., constructed to earn the highest return for an identified level of volatility acceptable to PDF) and able to meet its investment goals. The portfolio construction process seeks diversified return streams from a variety of asset classes, sectors, industries, credits, maturities, countries, currencies, and other sources.

In order to reduce the risks of highly concentrated investment holdings, the Portfolio shall normally maintain a maximum of 25% of its market value in any single asset class partnership or separate account that uses an active investment strategy to purchase publicly traded securities in a liquid investment vehicle; a maximum of 25% of its market value allocated to an investment fund or manager with limited portfolio transparency and/or liquidity constraints; and a maximum of 25% of the market value of an individual asset class allocated to any single investment firm or general partner.

At least once per year, the Committee will examine the Portfolio's holdings in light of these limits and take steps to adjust holdings in an orderly way should such adjustments be required.

Liquidity The Committee shall maintain liquidity in the form of money market funds, exchange-traded funds, and/or mutual funds that provide daily liquidity in an amount sufficient to meet at least 12 months of projected capital calls, investment expenses paid by disbursement from the pool including debt service, and regular spending distributions. Under extraordinary circumstances, the Board may elect to make a special draw from any of the Portfolios based on need. In such cases, the Board will provide sufficient advance notice to allow the Committee to liquidate investments in an orderly way. Thus, the Committee may also incorporate into its liquidity projections other significant pending financial events at PDF such as schedules for maturing and puttable debt, projected budget surpluses/deficits for the current and forward years.