

Prosperity Denver Fund

Financial Statements

September 30, 2021

(With Independent Auditor's Report Thereon)

Kundinger, Corder & Engle, P.C.

Certified Public Accountants

Independent Auditor's Report

Board of Directors Prosperity Denver Fund

Report on Financial Statements

We have audited the accompanying financial statements of Prosperity Denver Fund, which comprise the statement of financial position as of September 30, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 Prosperity Denver Fund as of September 30, 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.

**Board of Directors
Prosperity Denver Fund**

Report on Summarized Comparative Information

The financial statements of Prosperity Denver Fund for the year ended September 30, 2020 were audited by another auditor. Their report dated February 9, 2021 indicated an unmodified opinion. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Keundinger, Cochrane & Congle, P.C.

December 15, 2021

Prosperity Denver Fund
Statement of Financial Position
September 30, 2021
(With Summarized Comparative Information for 2020)

	<u>2021</u>	<u>2020</u>
Assets		
Cash and cash equivalents	\$ 20,184,617	14,942,699
Prepaid expenses and other assets	12,137	6,303
Computer equipment, net	<u>2,926</u>	<u>2,133</u>
Total assets	<u>\$ 20,199,680</u>	<u>14,951,135</u>
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 15,922	22,965
Sales tax funds refundable to the City	–	567,161
Grants payable (note 1(h))	<u>5,091,861</u>	<u>5,266,751</u>
Total liabilities	<u>5,107,783</u>	<u>5,856,877</u>
Net assets		
Net assets without donor restrictions	<u>15,091,897</u>	<u>9,094,258</u>
Total net assets	15,091,897	9,094,258
Commitments (notes 3 and 4)	<u> </u>	<u> </u>
Total liabilities and net assets	<u>\$ 20,199,680</u>	<u>14,951,135</u>

See the accompanying notes to the financial statements.

Prosperity Denver Fund
Statement of Activities
Year Ended September 30, 2021
(With Summarized Comparative Information for 2020)

	2021	2020
Support and revenue		
Sales tax grant revenue	\$ 11,944,168	11,081,730
Interest income	80,600	91,231
Total support and revenue	<u>12,024,768</u>	<u>11,172,961</u>
Expenses		
Program services	5,465,832	10,291,397
Management and general	561,297	600,601
Total expenses	<u>6,027,129</u>	<u>10,891,998</u>
Change in net assets	5,997,639	280,963
Net assets at beginning of year	<u>9,094,258</u>	<u>8,813,295</u>
Net assets at end of year	<u><u>\$ 15,091,897</u></u>	<u><u>9,094,258</u></u>

See the accompanying notes to the financial statements.

Prosperity Denver Fund
Statement of Functional Expenses
Year Ended September 30, 2021
(With Summarized Comparative Information for 2020)

	2021			2020 Total
	Program services	Management and general	Total expenses	
Scholarship grants	\$ 5,465,832	–	5,465,832	10,291,397
Personnel costs	–	279,119	279,119	31,868
Consulting fees	–	131,366	131,366	436,647
Legal fees	–	36,172	36,172	48,644
Other professional fees	–	43,833	43,833	61,879
Insurance	–	10,304	10,304	14,870
Depreciation	–	865	865	–
Other expenses	–	59,638	59,638	6,693
Total expenses	<u>\$ 5,465,832</u>	<u>561,297</u>	<u>6,027,129</u>	<u>10,891,998</u>

See the accompanying notes to the financial statements.

Prosperity Denver Fund
Statement of Cash Flows
Year Ended September 30, 2021
(With Summarized Comparative Information for 2020)

	2021	2020
Cash flows from operating activities		
Change in net assets	\$ 5,997,639	280,963
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	865	—
Changes in operating assets and liabilities		
Sales tax grant receivable	—	8,883,460
Prepaid expenses and other assets	(5,834)	(4,922)
Accounts payable and accrued expenses	(7,043)	(34,156)
Grant funds refundable to the City	(567,161)	567,161
Grants payable	(174,890)	5,266,751
Net cash provided by operating activities	5,243,576	14,959,257
Cash flows from investing activities		
Purchases of computer equipment	(1,658)	(2,133)
Net cash used in investing activities	(1,658)	(2,133)
Cash flows from financing activities		
Payments on line of credit	—	(16,000)
Net cash used in financing activities	—	(16,000)
Net increase in cash and cash equivalents	5,241,918	14,941,124
Cash and cash equivalents, beginning of year	14,942,699	1,575
Cash and cash equivalents, end of year	\$ 20,184,617	14,942,699

See the accompanying notes to the financial statements.

Prosperity Denver Fund

Notes to Financial Statements

(1) Summary of Significant Accounting Policies

(a) Organization

Prosperity Denver Fund (the Organization), formerly Denver College Success Corporation, was incorporated in the State of Colorado in February 2019. The sole purpose of the Organization is to administer the Denver College Affordability Fund (the Fund) in accordance with Article IV, Chapter 11, Denver Revised Municipal Code, as amended, and in accordance with the agreement for administration of the Fund entered into by and between the Organization and the City and County of Denver (the City). As a result, all revenue is reported as without donor restrictions.

The Organization is funded by a 0.08 percent sales and use tax (the tax) approved by City citizens in 2018. The tax is dedicated to partial reimbursement to eligible not-for-profit organizations for college scholarships and wrap around support services.

(b) Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

(c) Financial Statement Presentation

The Organization is required to report information regarding its financial position and activities according to the following net asset classes:

Net assets without donor restrictions: Net assets are not subject to donor restrictions when funds are received for the broad limits that result from the nature of the Organization, the environment in which it operates, and the purpose described in its articles of incorporation and bylaws.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors that are more restrictive in nature than the general purpose of the Organization. During the year ended September 30, 2021, the Organization did not have any net assets with donor restrictions.

(d) Cash and Cash Equivalents

The Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

(e) Concentrations of Credit Risk

Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents. At September 30, 2021, a significant portion of the cash funds are in excess of amounts insured by the FDIC.

During the year ended September 30, 2021, all grant revenue was received from the City. A decrease in City funding could have a significant impact on the Organization's operations.

Prosperity Denver Fund
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(f) Revenue Recognition

Sales tax grant revenue is recognized monthly as received and recorded as net assets without donor restrictions.

(g) Functional Allocation of Expenses

The costs of providing program and administrative services have been summarized on a functional basis in the accompanying statement of functional expenses. All expenses other than scholarship grants are attributable to the Organization's management and general functions, as defined by the City agreement. Scholarship grants are reported as program expenses.

(h) Scholarship Grants and Grants Payable

Scholarship grants are awarded to eligible nonprofit organizations that provide wrap-around services and post-secondary education scholarships to individuals. These grants are made on a partial-reimbursement basis.

At September 30, 2021, grants payable totaling \$5,091,861 represent reimbursement requests from partner organizations related to the previous academic year. These grants were subsequently approved for disbursement by the Board of Directors in November 2021.

(i) 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. Actual results could differ from those estimates.

(j) Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, and contributions received qualify for the charitable contribution deduction. However, income from activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. There were no unrelated business activities in 2021.

The Organization is required to determine whether a tax position (and the related tax benefit) is more likely than not to be sustained upon examination by the applicable taxing authority, based solely on the technical merits of the position. The Organization has analyzed the tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements and determined that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are significant to the financial statements. The three previous tax years remain subject to examination by the IRS.

Prosperity Denver Fund
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(k) Subsequent Events

The Organization has evaluated subsequent events through December 15, 2021, the date the financial statements were available to be issued.

(2) Liquidity and Availability of Financial Assets

At September 30, 2021, the Organization's financial assets available for general expenditures within one year consist of cash and cash equivalents totaling \$20,184,617. General expenditures include scholarship grants and all management and general expenditures. See note 3 regarding contractual limitations on spending imposed by the City. As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. The Organization manages its liquidity and reserves by operating within a prudent range of financial soundness and stability and maintaining adequate liquid assets to fund near-term operating needs.

(3) City and County of Denver Contract

Effective July 1, 2019, the Organization entered into a contract with the City to administer the Fund. The contract renews annually through July 2031. Monthly distributions by the City are based upon estimated annual tax receipts for the calendar year and paid to the Organization equally over twelve months. In May or June of the following year, an adjustment is made by the City for actual tax receipts collected during the calendar year which may result in a repayment owed by the Organization or an additional payment paid to the Organization. During the year ended September 30, 2021, the City made an additional payment totaling \$306,145 to the Organization which is included in sales tax grant revenue in the year which is it received.

The contract stipulates that 95% of the grant revenue must be used for grants to scholarship organizations, which are reported on the statement of activities as program services, and 5% may be used for administrative expenditures, which are reported on the statement of activities as management and general expenses. In the event that, due to differences between projected and actual tax revenue, the Organization exceeds its limit on administrative expenses in any given year, the Organization will reduce expenses in the following year to bring total administrative expenses over the two-year period within the limit.

At September 30, 2021, the Organization has \$1,376,093 unspent administrative funds available to be spent in future years.

(4) Retirement Plan

The Organization has a defined contribution plan (the Plan) that covers all employees who work at least twenty hours per week. Eligible employees may participate in the Plan upon date of hire. The Organization may make discretionary contributions to all employees who are twenty-one years or older and who have at least six months of service. The discretionary contribution is 25% vested after one year of service, 50% vested after two years of service, 75% vested after three years of service, and 100% vested after four years of service. During September 30, 2021, the Organization made a discretionary contribution of 6% of employee compensation, which totaled \$8,296, to the Plan.