

DENVER PUBLIC SCHOOLS FOUNDATION

INDEPENDENT AUDITOR'S REPORT
ON
FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

Kundinger, Corder & Engle, P.C.

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Denver Public Schools Foundation

We have audited the accompanying financial statements of Denver Public Schools Foundation, which comprise the statement of financial position as of June 30, 2017, the related statements of activities and changes in net assets, 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 Denver Public Schools Foundation as of June 30, 2017, 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
Denver Public Schools Foundation

Report on Summarized Comparative Information

We have previously audited the Denver Public Schools Foundation 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 20, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Kundinger, Cordor & Engle, P.C.

September 19, 2017

DENVER PUBLIC SCHOOLS FOUNDATION

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2017

(With Comparative Totals for the Year Ended June 30, 2016)

ASSETS

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents (Note G)	\$ 10,450,129	\$ 8,818,488
Cash held for others (Note A)	544,660	-
Certificate of deposit (Notes B & D)	500,000	500,000
Contributions receivable, net (Note E)	455,017	1,123,480
Beneficial interest in assets held in endowment (Notes C, D & H)	1,853,287	1,717,686
Equipment and software, net of accumulated depreciation and amortization of \$29,723 and \$29,058, respectively	<u>3,750</u>	<u>6,897</u>
TOTAL ASSETS	<u>\$ 13,806,843</u>	<u>\$ 12,166,551</u>

LIABILITIES AND NET ASSETS

LIABILITIES:

Accounts payable and accrued expenses	\$ 32,862	\$ 31,105
Grants payable (Note F)	926,408	899,908
Cash held for others (Note A)	544,660	-
Refundable advances (Note G)	<u>4,557,676</u>	<u>3,756,094</u>
TOTAL LIABILITIES	<u>6,061,606</u>	<u>4,687,107</u>
Commitment (Note L)	<u>-</u>	<u>-</u>

NET ASSETS: (Note H)

Unrestricted, undesignated	2,649,252	2,016,402
Unrestricted, designated	<u>273,700</u>	<u>347,000</u>
	2,922,952	2,363,402
Temporarily restricted	3,257,682	3,570,289
Permanently restricted	<u>1,564,603</u>	<u>1,545,753</u>
TOTAL NET ASSETS	<u>7,745,237</u>	<u>7,479,444</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 13,806,843</u>	<u>\$ 12,166,551</u>

The accompanying notes are an integral part of these financial statements.

DENVER PUBLIC SCHOOLS FOUNDATION
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2017
(With Comparative Totals for the Year Ended June 30, 2016)

	2017			2016	
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	TOTAL
REVENUE, GAINS AND OTHER SUPPORT:					
Special events	\$ 1,383,898	\$ -	\$ -	\$ 1,383,898	\$ 1,095,482
In-kind contributions (Note I)	12,203	-	-	12,203	8,111
Less: direct costs of benefits to donors	(212,159)	-	-	(212,159)	(147,219)
Net special events revenue	1,183,942	-	-	1,183,942	956,374
Transfer from Denver Public Schools	108,000	-	-	108,000	80,000
Contributions and grants	322,214	7,748,643	18,850	8,089,707	13,425,345
In-kind contributions (Note I)	25,746	-	-	25,746	40,038
Investment income	14,236	6,202	-	20,438	22,551
Investment return on beneficial interest in assets held in endowment, net	-	201,711	-	201,711	(64,388)
Net assets released from restrictions	8,269,163	(8,269,163)	-	-	-
TOTAL REVENUE, GAINS AND OTHER SUPPORT	9,923,301	(312,607)	18,850	9,629,544	14,459,920
EXPENSES:					
Program services	8,092,638	-	-	8,092,638	12,567,251
Management and general	558,980	-	-	558,980	584,222
Fundraising	712,133	-	-	712,133	609,112
TOTAL EXPENSES	9,363,751	-	-	9,363,751	13,760,585
CHANGE IN NET ASSETS	559,550	(312,607)	18,850	265,793	699,335
NET ASSETS, beginning of year	2,363,402	3,570,289	1,545,753	7,479,444	6,780,109
NET ASSETS, end of year	\$ 2,922,952	\$ 3,257,682	\$ 1,564,603	\$ 7,745,237	\$ 7,479,444

The accompanying notes are an integral part of these financial statements.

DENVER PUBLIC SCHOOLS FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2017

(With Comparative Totals for the Year Ended June 30, 2016)

	2017				2016
	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL	TOTAL
Grants funded	\$ 7,992,945	\$ -	\$ -	\$ 7,992,945	\$ 12,438,827
Salaries, benefits, payroll taxes and fees	73,043	469,329	529,565	1,071,937	1,071,399
Marketing, donor stewardship and fundraising	25,000	15,198	61,179	101,377	99,442
Special events	-	-	231,112	231,112	176,685
Office operations	881	18,644	34,127	53,652	54,473
Professional fees	-	50,000	58,417	108,417	55,427
Investment management fees	-	14,670	-	14,670	15,416
Office supplies	769	5,494	7,060	13,323	8,948
Depreciation	-	315	2,832	3,147	2,603
Total expenses	8,092,638	573,650	924,292	9,590,580	13,923,220
Less: expenses included with revenues on the statement of activities					
Special events	-	-	(212,159)	(212,159)	(147,219)
Investment management fees	-	(14,670)	-	(14,670)	(15,416)
TOTAL EXPENSES on the statement of activities	<u>\$ 8,092,638</u>	<u>\$ 558,980</u>	<u>\$ 712,133</u>	<u>\$ 9,363,751</u>	<u>\$ 13,760,585</u>

The accompanying notes are an integral part of these financial statements.

DENVER PUBLIC SCHOOLS FOUNDATION

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2017

(With Comparative Totals for the Year Ended June 30, 2016)

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 265,793	\$ 699,335
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	3,147	2,603
Receipt of contributions for endowment fund	(15,500)	(7,650)
Investment return on beneficial interest in assets held in endowment, net	(201,711)	64,388
(Increase) decrease in contributions receivable	668,463	(252,397)
Increase (decrease) in accounts payable and accrued expenses	1,757	(5,293)
Increase (decrease) in grants payable	26,500	(849,476)
Increase (decrease) in refundable advances	801,582	(2,498,438)
Total adjustments	<u>1,284,238</u>	<u>(3,546,263)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>1,550,031</u>	<u>(2,846,928)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of certificate of deposit	-	(500,000)
Proceeds from maturity of certificate of deposit	-	500,000
Purchase of equipment and software	-	(4,500)
Decrease in beneficial interest in assets held in endowment	66,110	92,925
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>66,110</u>	<u>88,425</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Receipt of contributions for endowment fund	15,500	7,650
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>15,500</u>	<u>7,650</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,631,641	(2,750,853)
CASH AND CASH EQUIVALENTS, beginning of year	<u>8,818,488</u>	<u>11,569,341</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 10,450,129</u>	<u>\$ 8,818,488</u>
NON-CASH INVESTING ACTIVITIES:		
Disposal of fully depreciated equipment	<u>\$ 2,482</u>	<u>\$ -</u>
NON-CASH FINANCING ACTIVITIES:		
Receipt of contribution for endowment fund	<u>\$ 10,000</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

DENVER PUBLIC SCHOOLS FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

A. Organization and Summary of Significant Accounting Policies:

Organization and Nature of Operations

Denver Public Schools Foundation (the "Foundation") is a Colorado widely based not-for-profit charitable organization established on February 28, 1992, whose purpose is to support the mission, goals and objectives of the Denver Public Schools.

Method of Accounting

The financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and, accordingly, reflect all significant receivables, payables and other liabilities.

Basis of Presentation

Information regarding the financial position and activities of the Foundation is reported according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. Unrestricted net assets come primarily from donations, grants, contributions and earnings on investments and are used for program or supporting services. Temporarily restricted net assets are those net assets whose use has been limited by donors to later periods of time, after specified dates or to specified purposes. Permanently restricted net assets must be maintained in perpetuity.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Restricted and Unrestricted Revenue

The Foundation receives support and revenue from various sources through contributions and earnings on investments. Contributions are recognized at the date of the donation as unrestricted, temporarily restricted or permanently restricted support depending on the nature and/or existence of any donor restrictions. Support restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When the restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributions conditional upon achieving specific milestones or the occurrence of future events are recognized as revenue in the period the conditions are met. If funds are received before the conditions are met they are recorded as a refundable advance until such time as the conditions are met and revenue is recognized.

DENVER PUBLIC SCHOOLS FOUNDATION

NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 2017

A. Organization and Summary of Significant Accounting Policies (Continued):

Contributed Services and Gifts in Kind

Contributed goods and services are recorded as contributions and corresponding expenses at their fair value at the date of donation. Volunteers from the community have donated a significant number of hours in assisting the Foundation. In accordance with the Financial Accounting Standards Board's Accounting Standards Codification (FASB ASC) *Revenue Recognition* Topic, the value of this contributed time is not reflected in the accompanying financial statements because it did not meet the criteria for recognition.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all unrestricted highly liquid investments with an initial maturity of three months or less, and that are not part of the investment portfolio, to be cash equivalents.

Cash Held for Others

The Foundation is the fiscal agent for funds granted to CareerWise Colorado through a single grant awarded to Denver Public Schools and CareerWise Colorado. At June 30, 2017, the Foundation is holding \$544,660, which is reflected as an asset and a liability on the accompanying statement of financial position.

Investments

The Foundation reports investments at fair value. Fair value is determined as more fully described under the fair value measurements footnote (Note D). The Foundation's management is responsible for the fair value measurement of investments reported in the financial statements and believes the reported values are reasonable. Unrealized gains and losses are included in the change in net assets in the statements of activities.

Concentration of Credit Risk

Financial instruments that potentially subject the Foundation to concentration of credit risk include cash and cash equivalents and contributions receivable. The Foundation places its cash and cash equivalents with four financial institutions located in Denver, Colorado that management has determined both to be creditworthy and high quality institutions. Funds are regularly maintained on deposit with financial institutions in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC), National Credit Union Administration (NCUA) or similar entities.

There is significant concentration of credit risk associated with contributions receivable as approximately 76% of the Foundation's contributions receivable balance at June 30, 2017 are from two foundations. Credit risk with respect to contributions receivable is considered low because a substantial portion of the contributions are from financially strong foundations.

DENVER PUBLIC SCHOOLS FOUNDATION

NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 2017

A. Organization and Summary of Significant Accounting Policies (Continued):

Contributions Receivable

Unconditional contributions receivable are recognized as revenues in the period the pledge is received. Conditional contributions receivable are recognized only when the conditions on which they depend are substantially met and the contributions receivable become unconditional.

The Foundation uses the allowance method to determine uncollectible unconditional contributions receivable. The allowance is based on prior years' experiences and management's analysis of specific pledges made. Changes in the valuation allowance have not been material to the financial statements. No allowance is considered necessary at June 30, 2017 and 2016.

Equipment and Software

Equipment and software are recorded at cost or, if donated, at the estimated fair value of the asset at the date of donation. Equipment is depreciated using the straight-line method over their estimated useful lives of three years. Software is amortized using the straight-line method over its estimated useful life of three years. The Foundation capitalizes equipment and software with a cost of \$1,000 or more. Expenditures for maintenance, repairs and renewals are charged to expense as incurred, whereas major improvements are capitalized and subsequently depreciated.

Income Taxes

The Foundation is exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code. In addition, contributions to the Foundation qualify as a charitable contribution deduction. However, income from activities not directly related to the Foundation's tax-exempt purpose is subject to taxation as unrelated business income. There was no unrelated business income subject to tax for the years ended June 30, 2017 and 2016.

Management is required to evaluate tax positions taken by the Foundation and recognize a tax liability (or asset) if the organization has taken an uncertain position that more likely than not would not be sustained upon examination by taxing authorities. Management 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 there are none. The Foundation is subject to routine audits by taxing jurisdictions, however, there are currently no audits for any tax periods in progress. The Foundation's federal Return of Organization Exempt from Income Tax (Form 990) for the previous three years are subject to examination by the IRS, generally for three years after they were filed.

DENVER PUBLIC SCHOOLS FOUNDATION

NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 2017

A. Organization and Summary of Significant Accounting Policies (Continued):

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Program activities are those that are conducted in accordance with the Foundation's nature of operations and certain necessary costs. Management and general activities are those that are not identifiable with a single program or fundraising activity but are indispensable to the conduct of those activities and to an organization's existence. Fundraising activities involve inducing potential donors to contribute money, securities, services, materials, facilities, other assets or time. Accordingly, certain costs have been allocated among the programs and supporting programs and supporting services benefitted. Expenses by function have been allocated based upon management's estimates of time each employee spends working in each category or the percentage of office space devoted to each category.

Subsequent Events

Management is required to evaluate, through the date the financial statements are issued or available to be issued, events or transactions that may require recognition or disclosure in the financial statements and to disclose the date through which subsequent events were evaluated. The Foundation's financial statements were available to be issued on September 19, 2017 and this is the date through which subsequent events were evaluated.

Prior Period Information

The accompanying financial statements include certain prior-year summarized comparative information in total but not by net asset group. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the financial statements for the year ended June 30, 2016, from which the summarized information was derived.

B. Certificate of Deposit:

The Foundation holds one certificate of deposit totaling \$500,000 at June 30, 2017. The certificate bears an interest rate of 0.65% and matures in November 2017. At June 30, 2016, the Foundation held one certificate of deposit totaling \$500,000.

DENVER PUBLIC SCHOOLS FOUNDATION

NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 2017

C. Beneficial Interest in Assets Held in Endowment:

The Foundation established permanent endowment funds (“Funds”) with Rose Community Foundation (“Endowment Fund”) on April 20, 2006 and (“Every Child Succeeds Fund”) on June 28, 2016 and with The Denver Foundation (“Jerry’s Fund”) on May 1, 2006 and named itself as the beneficiary. The Foundation granted variance power to the Funds which allows the Funds to modify any condition or restriction on its distributions for any specified charitable purpose or to any specified organization if, in the sole judgment of the Funds’ Board of Directors, such restriction or condition becomes unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the Denver Public Schools. In accordance with *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others* accounting standard, the transfer was not considered to be a contribution from the Foundation to the Funds but rather was accounted for as a reciprocal transfer from the Foundation to the Funds. Therefore, the transfers are reflected collectively in the statement of financial position as “beneficial interest in assets held in endowment.” During the years ended June 30, 2017 and 2016, \$15,500 and \$0, respectively, was transferred to Rose Community Foundation. During the years ended June 30, 2017 and 2016, \$0 and \$1,000, respectively, was transferred to The Denver Foundation.

Distributions are based on the terms of each fund and are discussed in Note H. Earnings in excess of distributions, if any, are reinvested in the Funds. The balance in each of the accounts at The Denver Foundation and Rose Community Foundation can be returned to the Foundation with a vote of both the Foundation’s board and the Funds’ board.

Distributions of earnings from the Endowment Fund are unrestricted to the Foundation and can be used for any needs of the Foundation including general operating support. Distributions of earnings from Every Child Succeeds Fund are restricted by donors to support education programs in Denver Public Schools. Distributions of earnings from Jerry’s Fund are restricted by donors for the A to Z Fund. There were distributions of earnings of \$60,286 from the Endowment Fund, nothing from the Every Child Succeeds Fund and \$31,324 from Jerry’s Fund during the year ended June 30, 2017 and \$62,311 from the Endowment Fund and \$31,614 from Jerry’s Fund during the year ended June 30, 2016.

At June 30, 2017 and 2016, the fair values of the Funds were \$1,195,393 and \$1,133,530 (Endowment Fund), respectively, \$27,453 and \$0 (Every Child Succeeds Fund), respectively and \$630,441 and \$584,156 (Jerry’s Fund), respectively.

DENVER PUBLIC SCHOOLS FOUNDATION

NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 2017

D. Fair Value Measurements:

The Foundation reports its required types of financial instruments in accordance with fair value standards. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. Fair value measurement standards also require the Foundation to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique or in accordance with net asset value practical expedient rules, which allow for either Level 2 or Level 3 reporting depending on lock-up and notice periods associated with the underlying funds. Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date. Instruments which are generally included in this category include listed equity and debt securities publicly traded on an exchange, listed derivatives, cash and cash equivalents.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Instruments which are generally included in this category include corporate and government bonds, less liquid and restricted equity securities and certain over-the-counter derivatives. Level 2 also includes practical expedient instruments with notice periods for redemption of 90 days or less.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation. Instruments which are generally included in this category include limited partnership interests in corporate private equity and real estate funds, funds of hedge funds and distressed debt. Level 3 also includes practical expedient instruments with notice periods for redemption of more than 90 days.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. These classifications (Levels 1, 2 and 3) are intended to reflect the observability of the inputs used in the valuation of investments and are not necessarily an indication of risk or liquidity.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument, as well as the effects of market, interest and credit risk. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and such changes could materially affect amounts reported in the Foundation's financial statements.

DENVER PUBLIC SCHOOLS FOUNDATION

NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 2017

D. Fair Value Measurements (Continued):

The following tables summarize the Foundation's investments by the defined fair value hierarchy levels at June 30:

	<u>2017</u>			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Certificate of deposit	\$ 500,000	\$ -	\$ 500,000	\$ -
Beneficial interest in assets held in endowment by:				
Rose Community Foundation	\$ 1,222,846	\$ -	\$ 1,222,846	\$ -
The Denver Foundation	<u>630,441</u>	<u>-</u>	<u>-</u>	<u>630,441</u>
	<u>\$ 1,853,287</u>	<u>\$ -</u>	<u>\$ 1,222,846</u>	<u>\$ 630,441</u>
	<u>2016</u>			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Certificate of deposit	\$ 500,000	\$ -	\$ 500,000	\$ -
Beneficial interest in assets held in endowment by:				
Rose Community Foundation	\$ 1,133,530	\$ -	\$ 1,133,530	\$ -
The Denver Foundation	<u>584,156</u>	<u>-</u>	<u>-</u>	<u>584,156</u>
	<u>\$ 1,717,686</u>	<u>\$ -</u>	<u>\$ 1,133,530</u>	<u>\$ 584,156</u>

All assets have been valued using a market approach, except for Level 3 assets. Fair values for the Level 3 investments are determined by using one or more of the following methods: quoted market prices, appraisals and other relevant information generated by market transactions, net asset value per share as determined by investment managers under the so called "practical expedient" and by calculating the present value of future distributions expected to be received.

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs) are as follows:

Balance, July 1, 2015	\$ 640,220
Investment return, net	(25,450)
Additions	1,000
Distributions	<u>(31,614)</u>
Balance, June 30, 2016	584,156
Investment return, net	77,609
Additions	-
Distributions	<u>(31,324)</u>
Balance, June 30, 2017	<u>\$ 630,441</u>

DENVER PUBLIC SCHOOLS FOUNDATION

NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 2017

D. Fair Value Measurements (Continued):

The standard also requires disclosure for Level 3 investments of the change in unrealized gain (loss) included in the change in net assets related to investments still held at the reporting date. At June 30, 2017, unrealized gain totaled \$66,110.

The Foundation's Level 2 investments include a pro-rata share of an investment pool held by Rose Community Foundation whose underlying investments include publicly traded equities and cash equivalents. The Foundation has the ability to redeem its investment at net asset value per share at the Foundation's reporting date. The Foundation may request redemption of their investment at any time.

The Foundation's Level 3 investments include a pro-rata share of The Denver Foundation's investment pool whose underlying investments include publicly traded securities as well as numerous alternative investments. The Foundation may request a redemption at any time, however, The Denver Foundation will hold back a certain amount if the Foundation requests a full redemption of its investment.

E. Contributions Receivable:

Unconditional contributions receivable at June 30 consist of the following:

	<u>2017</u>	<u>2016</u>
Contributions receivable within one year	\$ 390,017	\$ 897,463
Contributions receivable from one to five years	<u>65,000</u>	<u>226,017</u>
Total contributions receivable	<u>\$ 455,017</u>	<u>\$ 1,123,480</u>

No allowance for uncollectible contributions receivable is considered necessary at June 30, 2017 and 2016 due to the nature and credit worthiness of the contributors. Amounts due in the future have not been discounted to present value because the effect on the financial statements is not significant.

At June 30, 2017, the Foundation has nine conditional promises to give subject to donor-imposed conditions. These conditional promises to give are similar to cost reimbursement grants in which qualifying expenses must be incurred or other donor conditions met before the promises become unconditional. The promises are recognized and recorded as contribution revenue to the extent qualifying expenses are incurred and any other donor conditions are met. At June 30, 2017 and 2016, conditional promises to give totaled \$4,040,643 and \$4,164,499, respectively.

DENVER PUBLIC SCHOOLS FOUNDATION

NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 2017

F. Grants Payable:

Program grants awarded by the Foundation are recorded as an expense and a liability when they are approved in accordance with the Foundation's approval process.

Grants payable at June 30 consist of the following:

	<u>2017</u>	<u>2016</u>
Grants payable within one year	\$ 926,408	\$ 889,908
Grants payable from one to five years	<u>-</u>	<u>10,000</u>
Total grants payable	<u>\$ 926,408</u>	<u>\$ 899,908</u>

Amounts due in the future have not been discounted to present value because the effect on the financial statements is not significant.

G. Refundable Advances:

At June 30, 2017, the Foundation has received funds related to conditional promises to give in advance of the conditions being met. These amounts are included in cash and cash equivalents and are also recorded as a refundable advance, a liability account, and totaled \$4,557,676 and \$3,756,094 at June 30, 2017 and 2016, respectively. When the conditions are met, that is when the qualifying expenses are incurred and other conditions are met, the refundable advance is then recognized as contribution revenue.

Activity was as follows:

Refundable advances, July 1, 2015	\$ 6,254,532
Grant receipts	7,014,844
Investment income	7,105
Grant expenditures	<u>(9,520,387)</u>
Refundable advances, June 30, 2016	3,756,094
Grant receipts	6,103,596
Investment income	6,202
Grant expenditures	<u>(5,308,216)</u>
Refundable advances, June 30, 2017	<u>\$ 4,557,676</u>

DENVER PUBLIC SCHOOLS FOUNDATION

NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 2017

H. Net Assets:

Unrestricted, Designated Net Assets

On June 24, 2014, the Foundation’s board of directors voted to designate \$39,000 for the A to Z Fund and on June 27, 2017 they voted to reduce the previously approved funds designated to Foundation priorities from \$308,000 to \$234,700. All of these funds remain unspent at June 30, 2017.

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
Contributions receivable, net	\$ 411,017	\$ 1,061,313
Unexpended cash restricted for program purposes	2,557,982	2,330,393
Unexpended earnings on endowment fund	<u>288,683</u>	<u>178,583</u>
Total temporarily restricted net assets	<u>\$ 3,257,682</u>	<u>\$ 3,570,289</u>

For the years ended June 30, 2017 and 2016, net assets of \$8,269,163 and \$12,752,882, respectively, were released from restrictions due to the purpose restrictions being met or the passage of time.

Permanently Restricted Net Assets

The State of Colorado adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Accordingly, the Foundation follows *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*.

The Foundation has interpreted UPMIFA as requiring the preservation of fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The Foundation’s permanently restricted net assets consist of three donor restricted endowment funds: “Endowment Fund,” “Jerry’s Fund” and “Every Child Succeeds Fund.”

The “Endowment Fund” was established in 1999 through an agreement with Denver Public Schools under which the Foundation received \$1,000,000. The principal cannot be spent by the Foundation for any purpose. Earnings on the Endowment Fund are available for use in accordance with the purpose of the Foundation.

“Jerry’s Fund” was established during the year ended June 30, 2005 in honor of former Superintendent Dr. Jerry Wartgow. The principal amount cannot be spent by the Foundation for any purpose. Earnings on Jerry’s Fund are restricted to support the A to Z Fund – providing grants to DPS schools for programs and activities that go beyond schools’ limited budgets.

DENVER PUBLIC SCHOOLS FOUNDATION

NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 2017

H. Net Assets (Continued):

The “Every Child Succeeds Fund” was established during the year ended June 30, 2016. The principal cannot be spent by the Foundation for any purpose. Earnings on the Every Child Succeeds Fund are restricted to support education programs in Denver Public Schools.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the funds
- The purposes of the Foundation and the donor-restricted endowment funds
- General economic conditions including the possible effect of inflation and deflation
- The expected total return from income
- The appreciation of investments
- The Foundation’s investment policies
- Other Foundation resources

Endowment net assets consist of the following at June 30:

	<u>2017</u>			
	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment Fund	\$ -	\$ 195,393	\$ 1,000,000	\$ 1,195,393
Every Child Succeeds Fund	-	1,953	25,500	27,453
Jerry’s Fund	-	91,338	539,103	630,441
	<u>\$ -</u>	<u>\$ 288,684</u>	<u>\$ 1,564,603</u>	<u>\$ 1,853,287</u>

	<u>2016</u>			
	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment Fund	\$ -	\$ 133,530	\$ 1,000,000	\$ 1,133,530
Every Child Succeeds Fund	-	-	6,650	6,650
Jerry’s Fund	-	45,053	539,103	584,156
	<u>\$ -</u>	<u>\$ 178,583</u>	<u>\$ 1,545,753</u>	<u>\$ 1,724,336</u>

DENVER PUBLIC SCHOOLS FOUNDATION

NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 2017

H. Net Assets (Continued):

Changes in endowment net assets are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2015	\$ -	\$ 336,896	\$ 1,538,103	\$ 1,874,999
Investment return, net	-	(64,388)	-	(64,388)
Additions	-	-	7,650	7,650
Appropriated for expenditure	<u>-</u>	<u>(93,925)</u>	<u>-</u>	<u>(93,925)</u>
Endowment net assets, June 30, 2016	-	178,583	1,545,753	1,724,336
Investment return, net	-	201,711	-	201,711
Additions	-	-	18,850	18,850
Appropriated for expenditure	<u>-</u>	<u>(91,610)</u>	<u>-</u>	<u>(91,610)</u>
 Endowment net assets, June 30, 2017	 <u>\$ -</u>	 <u>\$ 288,684</u>	 <u>\$ 1,564,603</u>	 <u>\$ 1,853,287</u>

Return Objectives and Strategies for Achieving Objectives

The Funds are held and invested by Rose Community Foundation and The Denver Foundation for the benefit of the Foundation. Both Rose Community Foundation and The Denver Foundation set the investment policies for the Funds, investing the endowment assets in a manner intended to produce a long-term rate of return that exceeds the return from the S&P 500. Both organizations have active investment committees that consistently review allocations and returns.

Distribution Policy and How the Investment Objectives Relate to the Distribution Policy

Pursuant to the terms created for the Endowment Fund and Every Child Succeeds Fund, the Foundation may receive distributions of up to five percent of the market value less administrative fees and expenses not more often than quarterly, providing the distribution does not invade the original principal. Pursuant to the terms created for Jerry's Fund, the Foundation may receive an annual distribution of up to six percent of the market value less administrative fees and expenses, providing the distribution does not invade the original principal.

DENVER PUBLIC SCHOOLS FOUNDATION

NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 2017

I. Contributed Services and Materials:

The Foundation receives contributed services and materials which are recorded at their estimated fair value at the date of donation. Contributed services and materials received are as follows for years ended June 30:

	<u>2017</u>	<u>2016</u>
Donated advertising & marketing materials	\$ 2,760	\$ 3,538
Donated operational materials	372	838
Donated fundraising materials	9,817	4,573
Donated goods & services for school programs	<u>25,000</u>	<u>39,200</u>
	<u>\$ 37,949</u>	<u>\$ 48,149</u>
	<u>2017</u>	<u>2016</u>
The corresponding expenses are included in:		
Direct costs of benefits to donors	\$ 5,124	\$ 2,700
Marketing, donor stewardship and fundraising expense	<u>32,825</u>	<u>45,449</u>
	<u>\$ 37,949</u>	<u>\$ 48,149</u>

J. Significant Support:

The Foundation recognized contributions from two foundations during the year ended June 30, 2017 that comprised approximately 38% of the contributions and special events income of \$9,473,605 on the statement of activities and changes in net assets. During the year ended June 30, 2016, the Foundation recognized contributions from two foundations that comprised approximately 51% of the contributions and special events income of \$14,520,827 on the statement of activities and changes in net assets. A decrease in support from any one of these donors could have a significant impact on the Foundation's support of DPS.

K. Related Parties:

During the years ended June 30, 2017 and 2016, the Foundation received a transfer from Denver Public Schools (DPS) totaling \$108,000 and \$80,000, respectively. Included in contributions receivable at June 30, 2016 was a receivable from Denver Public Schools of \$6,667. These funds have been restricted for use to support operating costs related to the organization and the School Partners Program—a program that cultivates, nurtures and sustains partnerships between DPS schools and the Denver community.

DENVER PUBLIC SCHOOLS FOUNDATION

NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 2017

K. Related Parties (Continued):

Grants funded during the years ended June 30, 2017 and 2016, include distributions to Denver Public Schools totaling \$7,992,945 and \$12,424,588, respectively, as well as payments made on behalf of Denver Public Schools of \$0 and \$14,239, respectively. Included in distributions at June 30, 2017 and 2016 were grants payable to Denver Public Schools of \$926,408 and \$899,908, respectively.

Effective June 2014 the Foundation leases office space for its operations from Denver Public Schools under a cancelable agreement at a rate of \$10 per month. The monthly office space payment includes office space, utilities, phones and furniture. In addition, the Foundation leases month-to-month parking for its employees from Denver Public Schools. For the years ended June 30, 2017 and 2016, office space rent totaled \$120 per year and parking rent totaled \$15,927 and \$16,695, respectively.

At June 30, 2017, the Foundation maintained accounts totaling \$7,144,869 with FirstBank. A member of the board of directors was the President of FirstBank during part of the year ended June 30, 2017. The Foundation did not pay any fees to FirstBank during the years ended June 30, 2017 and 2016.

At June 30, 2017, the Foundation maintained accounts totaling \$589,109 with US Bank. A member of the board of directors was a Senior Vice President at US Bank at June 30, 2017. The Foundation did not pay any fees to US Bank during the years ended June 30, 2017 and 2016.

At June 30, 2017, the Foundation maintained accounts totaling \$3,260,811 with Westerra Credit Union. The Vice President of Finance & Operations of the Foundation serves as the non-compensated Chair of the Supervisory/Audit Committee for Westerra Credit Union. The Foundation did not pay any fees to Westerra Credit Union during the years ended June 30, 2017 and 2016.

L. Retirement Plan:

Effective January 1, 2005, the Foundation established a profit sharing 401(k) plan for eligible employees of the Foundation. Employees of the Foundation who complete service requirements are eligible to participate in the DPS Foundation 401(k) Plan (the "Plan"). The Plan is a "safe harbor" defined contribution plan in which eligible employees may elect to defer a portion of their salary, subject to certain Internal Revenue Service limitations. Contributions to the Plan by the Foundation were 100% of an eligible employee's elective deferral up to a maximum of 3% of the participant's compensation and 50% of an eligible employee's elective deferral that exceed 3% of the participant's compensation but that do not exceed 5% of the participant's compensation. In addition, the Foundation can make a discretionary profit sharing contribution for eligible employees. Contributions to the Plan charged to expense were \$21,614 and \$20,886 for the years ended June 30, 2017 and 2016, respectively.