

**Arizona Western College Foundation**

**Financial Statements**

**Years ended June 30, 2017 and 2016**

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## **Independent Auditor's Report**

Board of Directors  
Arizona Western College Foundation  
Yuma, Arizona

We have audited the accompanying financial statements of Arizona Western College Foundation (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the years 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 audits. We conducted our audits 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 Arizona Western College Foundation as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Walker & Armstrong, LLP*

Phoenix, Arizona  
October 23, 2017

**Arizona Western College Foundation**  
**Statements of Financial Position**  
**June 30, 2017 and 2016**

|   | <u>2017</u>         | <u>2016</u>         |
|---|---------------------|---------------------|
| <b>Assets</b>                                 |                     |                     |
| <b>Current assets</b>                         |                     |                     |
| Cash and cash equivalents                     | \$ 248,504          | \$ 532,122          |
| Accounts receivable                           | 4,097               | 16,979              |
| Other assets                                  | 3,296               | 2,500               |
| Current portion of notes receivable           | 39,580              | 1,446               |
| Total current assets                          | 295,477             | 553,047             |
| <b>Investments</b>                            | 5,689,755           | 5,004,232           |
| <b>Property and equipment, net</b>            | 694,371             | 730,820             |
| <b>Notes receivable, less current portion</b> | 43,960              | 89,292              |
| Total assets                                  | <u>\$ 6,723,563</u> | <u>\$ 6,377,391</u> |
| <b>Liabilities and Net Assets</b>             |                     |                     |
| <b>Current liabilities</b>                    |                     |                     |
| Accounts payable                              | \$ 1,178            | 5,945               |
| Accrued payroll and related liabilities       | 5,112               | 5,866               |
| Current portion of capital leases             | 1,284               | 1,198               |
| Rental deposits                               | 11,812              | 9,496               |
| Unearned rents                                | 5,883               | -                   |
| Total current liabilities                     | 25,269              | 22,505              |
| <b>Long-term liabilities</b>                  |                     |                     |
| Capital leases, net of current portion        | 573                 | 1,864               |
| Compensated absences payable                  | 15,493              | 4,925               |
| Total liabilities                             | 41,335              | 29,294              |
| <b>Net Assets</b>                             |                     |                     |
| Unrestricted:                                 |                     |                     |
| Undesignated                                  | 1,089,797           | 1,173,779           |
| Designated                                    | 472,046             | 383,866             |
| Temporarily restricted                        | 3,349,799           | 3,041,954           |
| Permanently restricted                        | 1,770,586           | 1,748,498           |
| Total net assets                              | 6,682,228           | 6,348,097           |
| Total liabilities and net assets              | <u>\$ 6,723,563</u> | <u>\$ 6,377,391</u> |

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

**Arizona Western College Foundation**  
**Statements of Activities**  
**Years Ended June 30, 2017 and 2016**

|  | 2017                |                           |                           |                     | 2016                |                           |                           |                     |
|--|---------------------|---------------------------|---------------------------|---------------------|---------------------|---------------------------|---------------------------|---------------------|
|  | Unrestricted        | Temporarily<br>Restricted | Permanently<br>Restricted | Total               | Unrestricted        | Temporarily<br>Restricted | Permanently<br>Restricted | Total               |
| <b>Revenues and Support</b>  |                     |                           |                           |                     |                     |                           |                           |                     |
| Donations  | \$ 2,528            | \$ 139,908                | \$ 22,088                 | \$ 164,524          | 6,859               | \$ 944,187                | \$ 80,692                 | \$ 1,031,738        |
| In-kind contributions  | 163,102             | -                         | -                         | 163,102             | 150,012             | -                         | -                         | 150,012             |
| Rental income  | 140,912             | -                         | -                         | 140,912             | 198,377             | -                         | -                         | 198,377             |
| Investment income (loss), net of<br>expenses of \$61,848 and<br>\$51,916, respectively | 59,996              | 51,663                    | -                         | 111,659             | 154,755             | (44,129)                  | -                         | 110,626             |
| Unrealized gains (losses)  | 246,497             | 222,735                   | -                         | 469,232             | (16,849)            | (50,728)                  | -                         | (67,577)            |
| Realized losses  | (8,009)             | (7,237)                   | -                         | (15,246)            | (114,173)           | (2,605)                   | -                         | (116,778)           |
| Other income   | 29,750              | -                         | -                         | 29,750              | 11,588              | -                         | -                         | 11,588              |
| Net assets released from restrictions  | 99,224              | (99,224)                  | -                         | -                   | 267,643             | (267,643)                 | -                         | -                   |
| Total revenues and support   | 734,000             | 307,845                   | 22,088                    | 1,063,933           | 658,212             | 579,082                   | 80,692                    | 1,317,986           |
| <b>Expenses</b>  |                     |                           |                           |                     |                     |                           |                           |                     |
| <i>Program services:</i>   |                     |                           |                           |                     |                     |                           |                           |                     |
| Salaries   | 140,162             | -                         | -                         | 140,162             | 124,860             | -                         | -                         | 124,860             |
| Scholarships   | 272,899             | -                         | -                         | 272,899             | 221,046             | -                         | -                         | 221,046             |
| Rental operations  | 171,941             | -                         | -                         | 171,941             | 159,568             | -                         | -                         | 159,568             |
| <i>Supporting services:</i>  |                     |                           |                           |                     |                     |                           |                           |                     |
| Management and general   | 144,800             | -                         | -                         | 144,800             | 162,152             | -                         | -                         | 162,152             |
| Fundraising  | -                   | -                         | -                         | -                   | 299                 | -                         | -                         | 299                 |
| Total expenses   | 729,802             | -                         | -                         | 729,802             | 667,925             | -                         | -                         | 667,925             |
| Change in net assets   | 4,198               | 307,845                   | 22,088                    | 334,131             | (9,713)             | 579,082                   | 80,692                    | 650,061             |
| Net assets, beginning of year as restated  | 1,557,645           | 3,041,954                 | 1,748,498                 | 6,348,097           | 1,567,358           | 2,462,872                 | 1,667,806                 | 5,698,036           |
| <b>Net assets, end of year</b>   | <b>\$ 1,561,843</b> | <b>\$ 3,349,799</b>       | <b>\$ 1,770,586</b>       | <b>\$ 6,682,228</b> | <b>\$ 1,557,645</b> | <b>\$ 3,041,954</b>       | <b>\$ 1,748,498</b>       | <b>\$ 6,348,097</b> |

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

**Arizona Western College Foundation**  
**Statements of Cash Flows**  
**Years Ended June 30, 2017 and 2016**

|  | <u>2017</u>              | <u>2016</u>              |
|--|--------------------------|--------------------------|
| <b>Cash flows from operating activities:</b>         |                          |                          |
| Cash received from donations and other revenues      | \$ 356,266               | \$ 1,198,063             |
| Cash payments to employees                           | (50,857)                 | (9,481)                  |
| Cash payments for scholarships and to suppliers      | (462,627)                | (461,658)                |
| Cash received from investment income                 | 111,659                  | 110,626                  |
| Net cash (used for) provided by operating activities | <u>(45,559)</u>          | <u>837,550</u>           |
| <b>Cash flows from investing activities:</b>         |                          |                          |
| Purchases of property and equipment                  | (12,516)                 | -                        |
| Purchase of investments                              | (231,536)                | (1,035,563)              |
| Proceeds from sale of investments                    | -                        | 173,081                  |
| Principal payments on notes receivable               | 7,198                    | 1,748                    |
| Net cash used for investing activities               | <u>(236,854)</u>         | <u>(860,734)</u>         |
| <b>Cash flows from financing activities:</b>         |                          |                          |
| Principal payments on capital leases                 | (1,205)                  | (1,214)                  |
| Net cash used for financing activities               | <u>(1,205)</u>           | <u>(1,214)</u>           |
| Net decrease in cash and cash equivalents            | (283,618)                | (24,398)                 |
| Cash and cash equivalents beginning of year          | <u>532,122</u>           | <u>556,520</u>           |
| <b>Cash and cash equivalents, end of year</b>        | <u><u>\$ 248,504</u></u> | <u><u>\$ 532,122</u></u> |

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

**Arizona Western College Foundation**  
**Statements of Cash Flows - Continued**  
**Years Ended June 30, 2017 and 2016**

|  | <u>2017</u>        | <u>2016</u>       |
|--|--------------------|-------------------|
| <b>Reconciliation of changes in net assets to net cash (used for) provided by operating activities:</b>        |                    |                   |
| Changes in net assets  | \$ 334,131         | \$ 650,061        |
| <b>Adjustments to reconcile changes in net assets to net cash (used for) provided by operating activities:</b> |                    |                   |
| In-kind contributions  | 163,102            | 150,012           |
| In-kind expenses   | (163,102)          | (150,012)         |
| Depreciation   | 45,084             | 45,028            |
| Unrealized (gains) losses on investments   | (469,232)          | 67,577            |
| Realized losses on investments   | 15,245             | 116,778           |
| Sale of land on note   | -                  | (45,000)          |
| Loss on sale of assets   | 3,881              | -                 |
| Decrease / (increase) in operating assets:   |                    |                   |
| Accounts receivable  | 12,882             | 1,360             |
| Other assets   | (796)              | (2,500)           |
| (Decrease) / increase in operating liabilities:  |                    |                   |
| Accounts payable   | (4,767)            | (4,683)           |
| Accrued payroll and related liabilities  | (754)              | 5,866             |
| Rental deposits  | 2,316              | (1,032)           |
| Unearned rents   | 5,883              | -                 |
| Compensated absences payable   | 10,568             | 4,095             |
| Net cash (used for) provided by operating activities   | <u>\$ (45,559)</u> | <u>\$ 837,550</u> |

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

**Arizona Western College Foundation**  
**Notes to Financial Statements**  
**Years ended June 30, 2017 and 2016**

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**Note 1 – Summary of Significant Accounting Policies**

**Nature of Activities**

Arizona Western College Foundation (the Foundation) provides funding for educational needs and individual scholarships through Arizona Western College and other special projects. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader. The Foundation's offices are located on the campus of Arizona Western College in Yuma, Arizona. The Foundation provides services to residents of Yuma and La Paz counties.

**Basis of Accounting**

The financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recognized when earned, and expenses are recognized and recorded when incurred.

**Basis of Presentation**

The financial statements are presented in accordance with accounting principles generally accepted in the United States of America. Under such principles, the Foundation reports information regarding the financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

**Unrestricted Net Assets**

Unrestricted net assets are those currently available at the discretion of the board of directors for use in the Foundation's operations, in accordance with its bylaws. The Foundation reports its revenue and other support as unrestricted if there are no donor-imposed restrictions limiting its use. Designated net assets are assets that the board of directors have designated for the purpose of matching donated contributions for the Dream to Reality Program. These assets are held in investments in an endowment fund.

**Temporarily Restricted Net Assets**

Temporarily restricted net assets are those contributions subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation and/or the passage of time. When a 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. Temporarily restricted net assets are held for scholarships and other program operations.

**Permanently Restricted Net Assets**

Permanently restricted net assets are those resources subject to a donor imposed restriction that they be maintained permanently by the Foundation. Generally, the donors of these resources permit the Foundation to use all or part of the income earned on any related investments for general or specific purposes.

## Notes to Financial Statements - Continued

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### **Note 1 – Summary of Significant Accounting Policies - Continued**

#### **Use of Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America 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.

#### **Cash and Cash Equivalents**

The Foundation considers all investment instruments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents held for long-term investment purposes are included as investments. At times, cash and cash equivalent balances may exceed federally insured amounts.

#### **Investments**

Investments in debt and equity securities are carried at fair value based on quoted market prices. Interest and dividend income is recognized when earned. Realized gains and losses are recognized upon the sales of investments. Unrealized gains and losses are recognized based on changes in the fair values of investments.

#### **Property and Equipment**

Assets with a unit cost greater than \$5,000 are capitalized at historical cost, or estimated historical cost if actual historical cost is not available. Assets donated to the Foundation are recorded at their estimated fair value at the time received. Depreciation on building improvements and furniture and equipment is computed using the straight-line method over the estimated useful lives of the assets. Expenses associated with the repair or maintenance of buildings and improvements, furniture and equipment are not capitalized. Estimated useful lives of property and equipment range from 3 years to 31 years.

#### **In-Kind Contributions**

In-kind contributions are reflected as contributions in the accompanying financial statements at their estimated values at date of receipt.

#### **Tax Exempt Status**

The Foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is not subject to income taxes. The Foundation is not a private foundation and contributions to the Foundation qualify as charitable deductions by the contributor. As of June 30, 2017, no uncertain tax positions have been identified and accordingly, no provision has been made.

## Notes to Financial Statements - Continued

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### **Note 1 – Summary of Significant Accounting Policies - Continued**

#### **Rental Operations**

The Foundation owns a plaza and rents the units to various businesses. Rental income is recognized when earned and expenses are recognized when incurred. The Foundation has a building with improvements and land associated with rental operations which are recorded as part of property and equipment, net of accumulated depreciation on the statements of financial position and in note 4 to the financial statements.

### **Note 2 – Fair Value Measurements**

Financial accounting standards define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy which prioritizes valuation techniques. 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. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

The fair value hierarchy prioritizes valuation techniques used to measure fair value into three broad levels:

- **Level 1** assets use quoted prices in active markets for identical assets that the Foundation has the ability to access (e.g., prices derived from New York Stock Exchange, NASDAQ or Chicago Board of Trade).
- **Level 2** assets are valued based on quoted market prices for similar assets within active or inactive markets or information other than quoted market prices observable through market data for substantially the full term of the asset.
- **Level 3** assets are valued based on inputs other than quoted market prices that reflect assumptions about the asset that market participants would use when performing the valuation based on the best information available in the circumstances.

As a general matter, the fair value of the hedge funds' investments represents the amount that the hedge funds can reasonably expect to receive if the investment was sold at its reported net asset value (NAV). The determination of fair value involves subjective judgment and amounts ultimately realized may vary from the estimated values. In evaluating the level at which the fair value measurement of the hedge funds' investments are classified, certain factors are considered such as price transparency, the ability to redeem shares at NAV at the measurement date and the existence or absence of certain redemption restrictions at the measurement date. While the sale of shares is restricted, other than a time delay, there are no significant restrictions on The Foundation's ability to redeem its shares.

## Notes to Financial Statements - Continued

### **Note 2 – Fair Value Measurements - Continued**

Each hedge fund has its own investment strategies depending on the underlying nature of its investments. Such strategies typically strive to maximize return using a diversified portfolio and are further discussed in their separately issued audited financial statements.

The following tables sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of June 30, 2017 and 2016:

|  | <u>Level 1</u>      | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u>        |
|--|---------------------|----------------|----------------|---------------------|
| <b>June 30, 2017</b>                       |                     |                |                |                     |
| Equities                                   | \$ 2,433,166        | \$ -           | \$ -           | \$ 2,433,166        |
| Corporate bonds                            | 1,107,029           | -              | -              | 1,107,029           |
| Mutual funds                               | 548,135             | -              | -              | 548,135             |
| Mutual funds – equity securities           | 849,443             | -              | -              | 849,443             |
| Real estate (REIT and other)               | 315,315             | -              | -              | 315,315             |
|  | <u>\$ 5,253,088</u> | <u>\$ -</u>    | <u>\$ -</u>    | 5,253,088           |
| Hedge funds measured<br>at net asset value |                     |                |                | <u>436,666</u>      |
| Total as of June 30, 2017                  |                     |                |                | <u>\$ 5,689,754</u> |
| <br>                                       |                     |                |                |                     |
|  | <u>Level 1</u>      | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u>        |
| <b>June 30, 2016</b>                       |                     |                |                |                     |
| Equities                                   | \$ 2,065,552        | \$ -           | \$ -           | \$ 2,065,552        |
| Corporate bonds                            | 1,059,818           | -              | -              | 1,059,818           |
| Mutual funds                               | 469,404             | -              | -              | 469,404             |
| Mutual funds – equity securities           | 753,538             | -              | -              | 753,538             |
| Real estate (REIT and other)               | 275,177             | -              | -              | 275,177             |
|  | <u>\$ 4,623,489</u> | <u>\$ -</u>    | <u>\$ -</u>    | 4,623,489           |
| Hedge funds measured<br>at net asset value |                     |                |                | <u>380,743</u>      |
| Total as of June 30, 2016                  |                     |                |                | <u>\$ 5,004,232</u> |

In May 2015, the Financial Accounting Standards Board (FASB) issued a new accounting standards update which removed the previous requirement to categorize all investments for which fair value is measured using the NAV per share practical expedient. As permitted, the Foundation elected to early adopt this standard update for its June 30, 2016 financial statements. Accordingly, the Foundation's hedge fund investments carried at fair value have not been categorized in the above fair value hierarchy.

## Notes to Financial Statements - Continued

### Note 3 - Note Receivable

During the year ended June 30, 2014, the Foundation sold land originally held as a permanently restricted investment. The Foundation entered into an agreement with the buyer to finance a portion of the purchase price. The loan is collectible in monthly installments of \$299 including interest at 6% per annum through June, 2020 with a remaining balance due at maturity of \$43,092.

Also, on December 29, 2015, the Foundation sold real property that was donated through the Barbara Joan Cook Trust and entered into an agreement to finance the purchase. The loan is collectible in monthly installments of \$270 including interest at 6% per annum through April 2018 with a remaining balance of \$43,756 due at maturity. The loan is collateralized by the property being financed.

The outstanding note balances at June 30, 2017 and 2016 are as follows:

|                       | <u>2017</u>      | <u>2016</u>      |
|-----------------------|------------------|------------------|
| Schewe Idaho property | \$ 44,941        | \$ 46,210        |
| Barbara Cook Trust    | 38,599           | 44,528           |
| Total outstanding     | <u>\$ 83,540</u> | <u>\$ 90,738</u> |

### Note 4 – Property and Equipment

Property and equipment as of June 30, 2017 and 2016, consists of the following:

|                                | <u>2017</u>       | <u>2016</u>       |
|--------------------------------|-------------------|-------------------|
| Building and improvements      | \$ 1,176,826      | \$ 1,175,410      |
| Furniture and equipment        | 9,491             | 9,491             |
|                                | <u>1,186,317</u>  | <u>1,184,901</u>  |
| Less: accumulated depreciation | <u>( 746,686)</u> | <u>( 708,821)</u> |
|                                | 439,631           | 476,080           |
| Land                           | <u>254,740</u>    | <u>254,740</u>    |
| Net property and equipment     | <u>\$ 694,371</u> | <u>\$ 730,820</u> |

## Notes to Financial Statements - Continued

### **Note 5 – Capital Lease Obligation**

On September 30, 2013, the Foundation entered into a capital lease agreement for the acquisition of a copier. The obligation has an interest rate of 7% payable in monthly installments of \$115 through December 2018. Future minimum lease payments under this lease are as follows:

| <u>June 30</u>                     | <u>Amount</u> |
|------------------------------------|---------------|
| 2018                               | \$ 1,381      |
| 2019                               | 690           |
| Total payments                     | 2,071         |
| Less: amount representing interest | ( 214)        |
| Total principal                    | 1,857         |
| Less: current portion              | ( 1,284)      |
| Long-term portion                  | <u>\$ 573</u> |

The copier is recorded at \$6,052 and the accumulated depreciation as of June 30, 2017 was \$4,568.

### **Note 6 – Concentrations**

The Foundation relies on support from Arizona Western College for a significant portion of its operating expenses for services performed by the Foundation. The loss of such support could have a material impact on the operations of the Foundation.

### **Note 7 – Board Designated Net Assets and Endowments**

#### **Designated Net Assets**

During the year ended June 30, 2017, Arizona Western College Foundation designated \$423,092 to meet matching and reinvestment requirements on an irrevocable endowment established by Arizona Western College in compliance with Title V Federal guidelines for the Dreams to Reality Program. Terms of the endowment require the Foundation to permanently designate contributions as restricted for the purpose of faculty and staff development programs and student scholarships.

Of the allowable amount that may be expended annually in compliance with Title V Federal guidelines, 50% shall be returned to principal and reinvested, 45% shall be distributed for the purposes designated by the Foundation, and 5% shall be transferred to the Foundation for administrative costs. No endowment earnings may be expended until October 1, 2016, and only endowment earnings on the donor's portion may be expended until October 1, 2031. Beginning in 2036, the Foundation may use the corpus for any educational purposes.

## Notes to Financial Statements - Continued

### Note 7 – Board Designated Net Assets and Endowments - Continued

The composition of and changes in the board designated endowment assets for the year ended June 30, 2017 and 2016 were as follows:

|                                    | <u>2017</u>       | <u>2016</u>       |
|------------------------------------|-------------------|-------------------|
| Title V balance, beginning of year | \$ 383,866        | \$ 222,473        |
| Increase in Title V designation    | <u>39,226</u>     | <u>161,393</u>    |
| Title V balance, end of year       | 423,092           | 383,866           |
| Other board designations           | <u>48,954</u>     | <u>-</u>          |
| Total board designated net assets  | <u>\$ 472,046</u> | <u>\$ 383,866</u> |

### **Donor Restricted Endowments**

The Arizona Western College Foundation stewards donor restricted endowment funds established by donor request for the purpose of student scholarships. Net assets of the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Directors of the Foundation has interpreted the state's Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets the original value of the gifts to the permanent endowments, and accumulated earnings that are required to be classified as permanently restricted based on donor stipulations. The remaining portion of a donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

### **Return Objectives and Risk Parameters, Investment, and Spending Policies**

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to scholarships supported by the endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of the donor-restricted scholarship funds that the Foundation must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that meet or exceed the price and yield results of a moderate allocation model.

The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 6% annually. Actual returns in any given year may vary from this amount.

## Notes to Financial Statements - Continued

### Note 7 – Board Designated Net Assets and Endowments - Continued

#### **Return Objectives and Risk Parameters, Investment, and Spending Policies - Continued**

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through equity-based investments (realized and unrealized capital appreciation and dividends) and bonds (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent constraints. Distribution of endowment funds is consistent with donor instructions for scholarship disbursement.

The Foundation’s policy for appropriation on donor-restricted endowments is to approve spending as part of the annual budget process approved by the Board of Directors. Individual scholarship decisions are made by the board appointed Scholarship Committee.

The summary of changes in endowment fund balances for the years ended June 30, 2017 and 2016 follows:

|   | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>        |
|---|-----------------------------------|-----------------------------------|---------------------|
| <b>Balance as of June 30, 2015, as restated</b> | \$ 945,364                        | \$ 1,667,806                      | \$ 2,613,170        |
| Contributions                                   | 790,041                           | 80,692                            | 870,733             |
| Investment return:                              |                                   |                                   |                     |
| Investment losses                               | ( 43,351)                         | -                                 | ( 43,351)           |
| Realized losses                                 | ( 2,559)                          | -                                 | ( 2,559)            |
| Unrealized losses                               | ( 49,834)                         | -                                 | ( 49,834)           |
| Total investment losses                         | ( 95,744)                         | -                                 | ( 95,744)           |
| Appropriations                                  | ( 249,821)                        | -                                 | ( 249,821)          |
| <b>Balance as of June 30, 2016</b>              | <b>\$ 1,389,840</b>               | <b>\$ 1,748,498</b>               | <b>\$ 3,138,338</b> |
| Contributions                                   | 308,228                           | 22,088                            | 330,316             |
| Investment return:                              |                                   |                                   |                     |
| Investment income                               | 44,023                            | -                                 | 44,023              |
| Investment expenses                             | ( 16,177)                         | -                                 | ( 16,177)           |
| Realized losses                                 | ( 3,901)                          | -                                 | ( 3,901)            |
| Unrealized gains                                | 120,053                           | -                                 | 120,053             |
| Total investment return                         | 143,998                           | -                                 | 143,998             |
| Appropriations                                  | ( 192,786)                        | -                                 | ( 192,786)          |
| <b>Balance as of June 30, 2017</b>              | <b>\$ 1,649,280</b>               | <b>\$ 1,770,586</b>               | <b>\$ 3,419,866</b> |

## Notes to Financial Statements - Continued

### **Note 8 - Temporarily Restricted Net Assets**

The components of temporarily restricted net assets at June 30, 2017 and 2016, are as follows:

|   | <b>2017</b>  | <b>2016, as restated</b> |
|---|--------------|--------------------------|
| Endowments                              | \$ 1,649,280 | \$ 1,389,840             |
| Title V Dreams to Reality               | 417,007      | 383,866                  |
| Other investments                       | 1,283,512    | 1,268,248                |
| Total temporarily restricted net assets | \$ 3,349,799 | \$ 3,041,954             |

### **Note 9 – In-Kind Contributions**

In-kind contributions are comprised of personnel and facility related costs provided by Arizona Western College. The fair value of these contributions was \$163,102 and \$150,012 for the years ended June 30, 2017 and 2016, respectively.

### **Note 10 – Prior Period Adjustment**

In-kind contributions and management and general expenses for 2016 have been adjusted to reflect the fair value of donated facilities of \$33,600 not previously reported. This adjustment had no net effect on the change in net assets for the year ended June 30, 2016.

Corrections were made to the statements of cash flows to remove contributed personnel costs from cash received from donations and cash payments to employees. This adjustment had no net effect on the change in net assets for the year ended June 30, 2016.

### **Note 11 – Restatement of Beginning Net Assets**

Temporarily and permanently restricted net assets at the beginning of the year have been adjusted to correct errors made in prior years for the classification of certain donor contributions. These errors had no net effect on the change in net assets for the year ended June 30, 2016.

|  | Unrestricted |            | Temporarily Restricted | Permanently Restricted | Total        |
|--|--------------|------------|------------------------|------------------------|--------------|
|  | Undesignated | Designated |                        |                        |              |
| Net assets as of June 30, 2015, as originally reported | \$ 1,351,799 | \$ 222,473 | \$ 2,473,372           | \$ 1,650,392           | \$ 5,698,036 |
| Reclassification of net assets                         | ( 6,914)     | -          | ( 10,500)              | 17,414                 | -            |
| Net assets as of July 1, 2015, as restated             | \$ 1,344,885 | \$ 222,473 | \$ 2,462,872           | \$ 1,667,806           | \$ 5,698,036 |

## Notes to Financial Statements - Continued

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### **Note 12 – Subsequent Events**

Management evaluated subsequent events through October 23, 2017, the date the financial statements were available to be issued. Subsequent to the year-end, the Foundation's board of directors formally approved a motion to sell Century Plaza. Century Plaza is rental property reported in property and equipment and has a net book value of \$692,673 as of June 30, 2017. The Foundation is in the preliminary stages of securing a realtor for that purpose. No other events of transactions occurred after year-end that require additional disclosure or adjustments to the financial statements.