

Arizona Western College Foundation

Financial Statements

Years ended June 30, 2016 and 2015

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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, 2016 and 2015, 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, 2016 and 2015, 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 12, 2016

Arizona Western College Foundation
Statements of Financial Position
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 532,122	\$ 556,520
Accounts receivable	16,979	18,339
Other assets	2,500	-
Current portion of notes receivable	1,446	828
Total current assets	553,047	575,687
Investments	5,004,232	4,326,105
Property and equipment, net	730,820	775,848
Notes receivable, less current portion	89,292	46,658
Total assets	<u>\$ 6,377,391</u>	<u>\$ 5,724,298</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 5,945	\$ 10,628
Accrued payroll and related liabilities	5,866	-
Current portion of capital leases	1,198	1,117
Rental deposits	9,496	10,528
Total current liabilities	22,505	22,273
Long-term liabilities		
Capital leases, net of current portion	1,864	3,159
Compensated absences payable	4,925	830
Total liabilities	29,294	26,262
Net Assets		
Unrestricted:		
Undesignated	1,180,693	1,351,799
Designated	383,866	222,473
Temporarily restricted	3,052,454	2,473,372
Permanently restricted	1,731,084	1,650,392
Total net assets	6,348,097	5,698,036
Total liabilities and net assets	<u>\$ 6,377,391</u>	<u>\$ 5,724,298</u>

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

Arizona Western College Foundation
Statements of Activities
Years Ended June 30, 2016 and 2015

	<u>2016</u>				<u>2015</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and Support								
Donations	\$ 6,859	\$ 944,187	\$ 80,692	\$ 1,031,738	\$ 35,805	\$ 174,601	\$ 90,919	\$ 301,325
Arizona Western College support	116,412	-	-	116,412	118,183	-	-	118,183
Rental income	198,377	-	-	198,377	209,426	-	-	209,426
Investment income (loss), net of expenses of \$76,286 and \$49,743, respectively	154,755	(44,129)	-	110,626	20,576	100,493	-	121,069
Unrealized (losses) gains	(16,849)	(50,728)	-	(67,577)	75,464	75,734	-	151,198
Realized (losses) gains	(114,173)	(2,605)	-	(116,778)	1,343	9,177	-	10,520
Other income	11,588	-	-	11,588	11,568	-	-	11,568
Net assets released from restrictions	267,643	(267,643)	-	-	174,827	(174,827)	-	-
Total revenues and support	624,612	579,082	80,692	1,284,386	647,192	185,178	90,919	923,289
Expenses								
<i>Program services:</i>								
Arizona Western College contributed salaries	124,860	-	-	124,860	103,503	-	-	103,503
Scholarships	221,046	-	-	221,046	169,262	-	-	169,262
Noncash donations	-	-	-	-	5,588	-	-	5,588
Rental operations	159,568	-	-	159,568	156,465	-	-	156,465
<i>Supporting services:</i>								
Management and general	128,552	-	-	128,552	97,293	-	-	97,293
Fundraising	299	-	-	299	12,583	-	-	12,583
Total expenses	634,325	-	-	634,325	544,694	-	-	544,694
Change in net assets	(9,713)	579,082	80,692	650,061	102,498	185,178	90,919	378,595
Net assets, beginning of year as restated	1,574,272	2,473,372	1,650,392	5,698,036	1,471,774	2,288,194	1,559,473	5,319,441
Net assets, end of year	<u>\$ 1,564,559</u>	<u>\$ 3,052,454</u>	<u>\$ 1,731,084</u>	<u>\$ 6,348,097</u>	<u>\$ 1,574,272</u>	<u>\$ 2,473,372</u>	<u>\$ 1,650,392</u>	<u>\$ 5,698,036</u>

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

Arizona Western College Foundation
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Cash received from donations and other revenues	\$ 1,314,475	\$ 626,600
Cash payments to employees	(114,899)	(105,893)
Cash payments for scholarships and to suppliers	(472,652)	(385,399)
Cash received from investment income	110,626	121,069
Net cash provided by operating activities	<u>837,550</u>	<u>256,377</u>
Cash flows from investing activities:		
Purchase of investments	(1,035,563)	(1,690,639)
Proceeds from sale of investments	173,081	728,965
Principal payments on note receivable	1,748	1,232
Net cash used for investing activities	<u>(860,734)</u>	<u>(960,442)</u>
Cash flows from financing activities:		
Principal payments on capital leases	(1,214)	(1,042)
Net cash used for financing activities	<u>(1,214)</u>	<u>(1,042)</u>
Net decrease in cash and cash equivalents	(24,398)	(705,107)
Cash and cash equivalents beginning of year	<u>556,520</u>	<u>1,261,627</u>
Cash and cash equivalents end of year	<u><u>\$ 532,122</u></u>	<u><u>\$ 556,520</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, 2016 and 2015

	2016	2015
Reconciliation of changes in net assets		
to net cash provided by operating activities:		
Changes in net assets	\$ 650,061	\$ 378,595
Adjustments to reconcile changes in net assets		
to net cash provided by operating activities:		
Depreciation	45,028	46,795
Unrealized losses (gains) on investments	67,577	(151,198)
Realized losses (gains) on investments	116,778	(10,520)
Sale of land on note	(45,000)	-
Land donation	-	15,473
Decrease / (increase) in operating assets:		
Accounts receivable	1,360	(17,275)
Other assets	(2,500)	-
(Decrease) / increase in operating liabilities:		
Accounts payable	(4,683)	8,997
Accrued payroll and related liabilities	5,866	(2,390)
Rental deposits	(1,032)	192
Compensated absences payable	4,095	(12,292)
Net cash provided by operating activities	\$ 837,550	\$ 256,377

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

Arizona Western College Foundation

Notes to Financial Statements

Years ended June 30, 2016 and 2015

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 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 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 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.

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. Estimates also affect the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

Notes to Financial Statements - Continued

Note 1 – Summary of Significant Accounting Policies - Continued

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.

Donated Services – Donated services are comprised of personnel related costs provided by Arizona Western College which was \$124,860 and \$87,003 for the years ended June 30, 2016 and 2015, respectively.

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, 2016, no uncertain tax positions have been identified and accordingly, no provision has been made.

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.

Notes to Financial Statements - Continued

Note 2 – Fair Value Measurements - Continued

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.

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, 2016 and 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
June 30, 2016				
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>	-	-	4,623,489
Hedge funds measured at net asset value	-	-	-	380,743
Total as of June 30, 2016	<u>\$ 4,623,489</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,004,232</u>

Notes to Financial Statements - Continued

Note 2 – Fair Value Measurements - Continued

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
June 30, 2015				
Equities	\$ 1,561,171	\$ -	\$ -	\$ 1,561,171
Corporate bonds	982,509	-	-	982,509
Mutual funds	764,898	-	-	764,898
Mutual funds – equity securities	743,796	-	-	743,796
Real estate (REIT and other)	259,890	-	-	259,890
Land	-	-	13,841	13,841
Total as of June 30, 2015	<u>\$ 4,312,264</u>	<u>\$ -</u>	<u>\$ 13,841</u>	<u>\$ 4,326,105</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 standards 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.

The following table sets forth a summary of changes in the fair value of the Foundation's level 3 assets for the years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Balances at beginning of year	\$ 13,841	\$ -
Sale of land	(13,841)	-
Donation of land	-	13,841
Balances at end of year	<u>\$ -</u>	<u>\$ 13,841</u>

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 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 due at maturity of \$43,538.

Notes to Financial Statements - Continued

Note 3 - Note Receivable - Continued

The outstanding note balances at June 30, 2016 and 2015 are as follows:

	2016	2015
Schewe Idaho property	\$ 46,210	\$ 47,486
Barbara Cook Trust	44,528	-
Total outstanding	\$ 90,738	\$ 47,486

Note 4 – Property and Equipment

Property and equipment as of June 30, 2016 and 2015, consists of the following:

	2016	2015
Building and improvements	\$ 1,175,410	\$ 1,175,411
Furniture and equipment	9,491	9,491
	1,184,901	1,184,902
Less: accumulated depreciation	(708,821)	(663,794)
	476,080	521,108
Land	254,740	254,740
Net property and equipment	\$ 730,820	\$ 775,848

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:

June 30	Amount
2017	\$ 1,381
2018	1,381
2019	690
Total payments	\$ 3,452
Less: amount representing interest	(390)
Total principal	\$ 3,062
Less: current portion	(1,198)
Long-term portion	\$ 1,864

Assets acquired under capital leases are recorded at \$6,052 and the accumulated depreciation on these assets as of June 30, 2016 was \$3,426.

Notes to Financial Statements - Continued

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, 2016, Arizona Western College Foundation designated \$383,866 to meet matching 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.

The composition of and changes in the board designated endowment assets for the year ended June 30, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Balance, beginning of year, as reclassified	\$ 222,473	\$ 205,512
Increase in designation	<u>161,393</u>	<u>16,961</u>
Balance, end of year	<u>\$ 383,866</u>	<u>\$ 222,473</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.

Notes to Financial Statements - Continued

Note 7 – Board Designated Net Assets and Endowments – Continued

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.

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.

Notes to Financial Statements - Continued

Note 7 – Board Designated Net Assets and Endowments - Continued

The summary of changes in endowment fund balances for the years ended June 30, 2016 and 2015 follows:

	Temporarily Restricted	Permanently Restricted	Total
Balance as of June 30, 2014, as restated	\$ 769,092	\$ 1,559,473	\$ 2,328,565
Contributions	165,843	90,919	256,762
Endowment adjustments	7,317	-	7,317
Investment return:			
Investment income	139,748	-	139,748
Investment expenses	(41,430)	-	(41,430)
Realized gains	8,979	-	8,979
Unrealized gains	74,093	-	74,093
Total investment return	181,390	-	181,390
Appropriations	(167,778)	-	(167,778)
Balance as of June 30, 2015	\$ 955,864	\$ 1,650,392	\$ 2,606,256
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 return	(95,744)	-	(95,744)
Appropriations	(249,821)	-	(249,821)
Balance as of June 30, 2016	\$ 1,400,340	\$ 1,731,084	\$ 3,131,424

Note 8 - Temporarily Restricted Net Assets

The components of temporarily restricted net assets at June 30, 2016 and 2015, are as follows:

	2016	2015
Endowments	\$ 1,400,340	\$ 955,864
Title V Dreams to Reality	383,866	222,473
Other investments	1,268,248	1,295,035
Total temporarily restricted net assets	\$ 3,052,454	\$ 2,473,372

Notes to Financial Statements - Continued

Note 9 – Restatement of 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 net assets relating to the Title V Dreams to Reality grant and matching contributions. These errors had no effect on the changes in net assets for the year ended June 30, 2015.

	<u>Unrestricted</u>		<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
	<u>Undesignated</u>	<u>Designated</u>			
Net assets as of June 30, 2014, as originally reported	\$ 991,705	\$ 411,024	\$ 2,117,412	\$ 1,799,300	\$ 5,319,441
Reclass of net assets	<u>274,557</u>	<u>(205,512)</u>	<u>170,782</u>	<u>(239,827)</u>	<u>-</u>
Net assets as of July 1, 2014, as restated	<u>\$ 1,266,262</u>	<u>\$ 205,512</u>	<u>\$ 2,288,194</u>	<u>\$ 1,559,473</u>	<u>\$ 5,319,441</u>

Note 10 – Subsequent Events

Management evaluated subsequent events through October 12, 2016, the date the financial statements were available to be issued. No events of transactions occurred after year-end that require additional disclosure or adjustments to the financial statements.