

Arizona Western College Foundation

Financial Statements

Years ended June 30, 2018 and 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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 11, 2018

Arizona Western College Foundation
Statements of Financial Position
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 422,707	\$ 248,504
Accounts receivable	5,228	4,097
Other assets	1,129	3,296
Long-lived assets held for sale, net	693,334	-
Current portion of notes receivable	-	39,580
Total current assets	1,122,398	295,477
Investments	5,742,990	5,689,755
Property and equipment, net	342	694,371
Notes receivable, less current portion	-	43,960
Total assets	<u>\$ 6,865,730</u>	<u>\$ 6,723,563</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 8,535	\$ 1,178
Accrued payroll and related liabilities	5,285	5,112
Current portion of capital leases	567	1,284
Rental deposits	14,430	11,812
Unearned rents	2,102	5,883
Total current liabilities	30,919	25,269
Long-term liabilities		
Capital leases, net of current portion	-	573
Compensated absences payable	17,652	15,493
Total liabilities	48,571	41,335
Net assets		
Unrestricted:		
Undesignated	1,126,215	1,089,797
Designated	467,840	472,046
Temporarily restricted	3,422,371	3,349,799
Permanently restricted	1,800,733	1,770,586
Total net assets	6,817,159	6,682,228
Total liabilities and net assets	<u>\$ 6,865,730</u>	<u>\$ 6,723,563</u>

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

Arizona Western College Foundation
Statements of Activities
Years Ended June 30, 2018 and 2017

	<u>2018</u>				<u>2017</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	\$ -	\$ 176,007	\$ 30,147	\$ 206,154	\$ 2,528	\$ 139,908	\$ 22,088	\$ 164,524
In-kind contributions	186,770	-	-	186,770	163,102	-	-	163,102
Rental income	187,662	-	-	187,662	140,912	-	-	140,912
Investment income, net of expenses of \$55,195 and \$61,848, respectively	40,440	47,875	-	88,315	59,996	51,663	-	111,659
Unrealized gains (losses)	(72,984)	(89,923)	-	(162,907)	246,497	222,735	-	469,232
Realized gains (losses)	118,100	145,511	-	263,611	(8,009)	(7,237)	-	(15,246)
Fundraising income	23,861	-	-	23,861	3,564	-	-	3,564
Other income	17,323	-	-	17,323	26,186	-	-	26,186
Net assets released from restrictions	206,898	(206,898)	-	-	99,224	(99,224)	-	-
Total revenues and support	708,070	72,572	30,147	810,789	734,000	307,845	22,088	1,063,933
Expenses								
<i>Program services:</i>								
Salaries	144,622	-	-	144,622	140,162	-	-	140,162
Scholarships	230,901	-	-	230,901	270,113	-	-	270,113
Rental operations	123,627	-	-	123,627	171,941	-	-	171,941
<i>Supporting services:</i>								
Management and general	155,837	-	-	155,837	144,800	-	-	144,800
Fundraising	20,871	-	-	20,871	2,786	-	-	2,786
Total expenses	675,858	-	-	675,858	729,802	-	-	729,802
Change in net assets	32,212	72,572	30,147	134,931	4,198	307,845	22,088	334,131
Net assets, beginning of year	1,561,843	3,349,799	1,770,586	6,682,228	1,557,645	3,041,954	1,748,498	6,348,097
Net assets, end of year	<u>\$ 1,594,055</u>	<u>\$ 3,422,371</u>	<u>\$ 1,800,733</u>	<u>\$ 6,817,159</u>	<u>\$ 1,561,843</u>	<u>\$ 3,349,799</u>	<u>\$ 1,770,586</u>	<u>\$ 6,682,228</u>

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

Arizona Western College Foundation
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Cash received from donations and other revenues	\$ 434,873	\$ 356,266
Cash payments to employees	(53,396)	(50,857)
Cash payments for scholarships and to suppliers	(480,503)	(462,627)
Cash received from investment income	143,510	111,659
Net cash provided by (used for) operating activities	44,484	(45,559)
Cash flows from investing activities:		
Purchases of property and equipment	-	(12,516)
Purchase of investments	(6,043,664)	(231,536)
Proceeds from sale of investments	6,091,133	-
Principal payments on notes receivable	83,540	7,198
Net cash provided by (used for) investing activities	131,009	(236,854)
Cash flows from financing activities:		
Principal payments on capital leases	(1,290)	(1,205)
Net cash used for financing activities	(1,290)	(1,205)
Net increase (decrease) in cash and cash equivalents	174,203	(283,618)
Cash and cash equivalents, beginning of year	248,504	532,122
Cash and cash equivalents, end of year	<u>\$ 422,707</u>	<u>\$ 248,504</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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Reconciliation of changes in net assets to net cash provided by (used for) operating activities:		
Changes in net assets	\$ 134,931	\$ 334,131
Adjustments to reconcile changes in net assets to net cash provided by (used for) operating activities:		
In-kind contributions	186,770	163,102
In-kind expenses	(186,770)	(163,102)
Depreciation	695	45,084
Unrealized losses (gains) on investments	162,907	(469,232)
Realized (gains) losses on investments	(263,611)	15,246
Loss on sale of assets	-	3,880
Decrease (increase) in operating assets:		
Accounts receivable	(1,131)	12,882
Other assets	2,167	(796)
(Decrease) increase in operating liabilities:		
Accounts payable	7,357	(4,767)
Accrued payroll and related liabilities	173	(754)
Rental deposits	2,618	2,316
Unearned rents	(3,781)	5,883
Compensated absences payable	2,159	10,568
Net cash provided by (used for) operating activities	<u>\$ 44,484</u>	<u>\$ (45,559)</u>

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

Arizona Western College Foundation
Notes to Financial Statements
Years ended June 30, 2018 and 2017

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 mostly comprised of assets that the board of directors have designated for the purpose of matching donated contributions for the Dreams to Reality Program. These assets are held in investments in a board designated endowment fund. A portion of net assets are also designated for scholarship programs.

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 has been met, 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 donor imposed restrictions 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

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. 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 sale 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. Costs associated with the repair or maintenance of buildings and improvements, furniture and equipment are expensed as incurred. Estimated useful lives of property and equipment range from 3 to 31 years.

In-Kind Contributions

In-kind contributions are reflected as contributions in the accompanying financial statements at their estimated values at the 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, 2018, no uncertain tax positions have been identified and accordingly, no provision has been made.

Notes to Financial Statements - Continued

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 building, related improvements and the land reported as property and equipment on the statements of financial position and in Note 4 are related to the Foundation's rental operations.

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 the 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 reported as of June 30, 2017 represent 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, 2018 and 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
June 30, 2018				
Equities	\$ 3,929,162	\$ -	\$ -	\$ 3,929,162
Corporate bonds	-	1,585,272	-	1,585,272
U.S. Treasury bonds	228,556	-	-	228,556
Total as of June 30, 2018	<u>\$ 4,157,718</u>	<u>\$ 1,585,272</u>	<u>\$ -</u>	<u>\$ 5,742,990</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
June 30, 2017				
Equities	\$ 2,433,166	\$ -	\$ -	\$ 2,433,166
Corporate bonds	-	1,107,029	-	1,107,029
Mutual funds – equity securities	1,397,578	-	-	1,397,578
Real estate (REIT and other)	-	315,315	-	315,315
	<u>\$ 3,830,744</u>	<u>\$ 1,422,344</u>	<u>\$ -</u>	<u>5,253,088</u>
Hedge funds measured at net asset value				<u>436,667</u>
Total as of June 30, 2017				<u>\$ 5,689,755</u>

The Foundation's hedge fund investments carried at fair value have not been categorized in the above fair value hierarchy in accordance with the NAV per share practical expedient as set forth by the Financial Accounting Standards Board in Topic 820, *Fair Value Measurements*.

Note 3 – Notes 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 was 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. The balance on the note was collected in full during the year ended June 30, 2018.

Notes to Financial Statements - Continued

Note 3 – Notes Receivable - Continued

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 was 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 was collateralized by the property being financed. The remaining balance on the note was collected in full during the year ended June 30, 2018.

Note 4 – Long Lived Assets Held for Sale

During fiscal year 2018, the Foundation's board of directors formally approved selling Century Plaza due to the time commitment and costs of repairs needed on the property. As a result, the property was reclassified in the 2018 financial statements from property, improvements and land to long-lived assets held for sale and the Foundation ceased recording depreciation on the property.

	<u>2018</u>
Building and improvements	\$ 1,176,826
Less: accumulated depreciation	<u>(738,232)</u>
	438,594
Land	<u>254,740</u>
Long lived assets held for sale, net	<u>\$ 693,334</u>

As described in rental operations in Note 1, the Foundation has rental income from operating leases with various tenants of Century Plaza. Rental income was \$187,662 and \$140,912 for the years ended June 30, 2018 and 2017, respectively. Expenses related to rental operations for the years ended June 30, 2018 and 2017 was \$166,378 and \$171,941, respectively.

Subsequent Event

On August 30, 2018, the Foundation sold Century Plaza for \$920,000 resulting in cash proceeds of \$813,995. Since the value of the assets held for sale is greater than the proceeds from the sale, no adjustment was made to the value of the assets for fiscal year 2018.

Due to the sale of the property, rental income for fiscal year 2019 will decrease to approximately \$38,000.

Notes to Financial Statements - Continued

Note 5 – Property and Equipment

Property and equipment as of June 30, 2018 and 2017, consists of the following:

	<u>2018</u>	<u>2017</u>
Building and improvements	\$ -	\$ 1,176,826
Furniture and equipment	9,491	9,491
	<u>9,491</u>	<u>1,186,317</u>
Less: accumulated depreciation	(9,149)	(746,686)
	342	439,631
Land	-	254,740
Property and equipment, net	<u>\$ 342</u>	<u>\$ 694,371</u>

The decrease in property and equipment for 2018 was related to the sale described in Note 4.

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, 2018, Arizona Western College Foundation designated \$432,321 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, 2018 and 2017 were as follows:

	2018	2017
Title V balance, beginning of year	\$ 423,092	\$ 383,866
Increase in Title V designation	9,229	39,226
Title V balance, end of year	432,321	423,092
Other board designations	35,519	48,954
Total board designated net assets	<u>\$ 467,840</u>	<u>\$ 472,046</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

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, 2018 and 2017 follows:

	Temporarily Restricted	Permanently Restricted	Total
Balance as of June 30, 2016	\$ 1,389,840	\$ 1,748,498	\$ 3,138,338
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)
Balance as of June 30, 2017	\$ 1,649,280	\$ 1,770,586	\$ 3,419,866
Contributions	169,039	30,147	199,186
Investment return:			
Investment income	37,568	-	37,568
Investment expenses	(14,610)	-	(14,610)
Realized gains	197,389	-	197,389
Unrealized losses	(170,733)	-	(170,733)
Total investment return	49,614	-	49,614
Appropriations	(211,519)	-	(211,519)
Balance as of June 30, 2018	\$ 1,656,414	\$ 1,800,733	\$ 3,457,147

Notes to Financial Statements - Continued

Note 8 - Temporarily Restricted Net Assets

The components of temporarily restricted net assets at June 30, 2018 and 2017, are as follows:

	<u>2018</u>	<u>2017</u>
Endowments	\$ 1,656,414	\$ 1,649,280
Title V Dreams to Reality	424,092	417,007
Other investments	<u>1,341,865</u>	<u>1,283,512</u>
Total temporarily restricted net assets	<u>\$ 3,422,371</u>	<u>\$ 3,349,799</u>

Other investments represents amounts from various donors which are restricted for scholarships or other programs.

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 \$176,699 and \$163,102 for the years ended June 30, 2018 and 2017, respectively.

During the year ended June 30, 2018, the Foundation also received a stock contribution valued at \$10,071.

Note 10 – Subsequent Events

Management evaluated subsequent events through October 11, 2018, the date the financial statements were available to be issued. Other than the sale described in Note 4, no events or transactions occurred after year-end that require additional disclosure or adjustment to the financial statements.