

GRAND CANYON YOUTH, INC.

Financial Statements
and
Independent Auditors' Report

December 31, 2016
(with comparative totals for 2015)

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Grand Canyon Youth, Inc.
Flagstaff, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of Grand Canyon Youth, Inc. (GCY, an Arizona nonprofit corporation), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Grand Canyon Youth, Inc. as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited GCY's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 11, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial information from which it has been derived.

Fester & Chapman P.C.

April 14, 2017

Grand Canyon Youth, Inc.

STATEMENT OF FINANCIAL POSITION

December 31, 2016

(with comparative financial information as of December 31, 2015)

ASSETS		
	<u>2016</u>	<u>2015</u>
Cash	\$ 233,549	\$ 230,756
Accounts receivable		1,206
Investments	135,446	128,630
Prepaid expenses	17,395	14,322
Furniture and equipment, net of \$191,399 and \$176,073 in accumulated depreciation, respectively	<u>57,250</u>	<u>27,963</u>
Total assets	<u>\$ 443,640</u>	<u>\$ 402,877</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 13,312	\$ 3,821
Trip deposits	<u>41,050</u>	<u>51,074</u>
Total liabilities	54,362	54,895
Net assets:		
Unrestricted:		
Undesignated	307,528	255,774
Board designated for endowment	<u>11,500</u>	<u>11,500</u>
Total unrestricted net assets	319,028	267,274
Temporarily restricted	53,100	65,558
Permanently restricted for endowment	<u>17,150</u>	<u>15,150</u>
Total net assets	<u>389,278</u>	<u>347,982</u>
Total liabilities and net assets	<u>\$ 443,640</u>	<u>\$ 402,877</u>

The accompanying notes are an integral part of these statements.

Grand Canyon Youth, Inc.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2016

(with comparative financial information for the year ended December 31, 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2016	2015
Program fees and support:					
Program fees	\$ 450,563			\$ 450,563	\$ 400,740
Contributions and grant revenue	307,344	\$ 53,100	\$ 2,000	362,444	359,503
In-kind contributions	73,276			73,276	59,310
Special event income	47,169			47,169	38,402
Miscellaneous income	2,701			2,701	1,349
Net gain (loss) on investments	4,841			4,841	(1,635)
	<u>885,894</u>	<u>53,100</u>	<u>2,000</u>	<u>940,994</u>	<u>857,669</u>
Net assets released from restrictions	<u>65,558</u>	<u>(65,558)</u>			
Total program fees and support	<u>951,452</u>	<u>(12,458)</u>	<u>2,000</u>	<u>940,994</u>	<u>857,669</u>
Expenses:					
Program expenses	814,043			814,043	676,667
Supporting services:					
Management and general	51,896			51,896	46,010
Fundraising	33,759			33,759	30,322
Total supporting services	<u>85,655</u>			<u>85,655</u>	<u>76,332</u>
Total expenses	<u>899,698</u>			<u>899,698</u>	<u>752,999</u>
Change in net assets	51,754	(12,458)	2,000	41,296	104,670
Net assets, beginning of year	<u>267,274</u>	<u>65,558</u>	<u>15,150</u>	<u>347,982</u>	<u>243,312</u>
Net assets, end of year	<u>\$ 319,028</u>	<u>\$ 53,100</u>	<u>\$ 17,150</u>	<u>\$ 389,278</u>	<u>\$ 347,982</u>

The accompanying notes are an integral part of these statements.

Grand Canyon Youth, Inc.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2016
(with comparative financial information for the year ended December 31, 2015)

	2016					2015
	Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses	
Payroll and payroll taxes	\$ 313,732	\$ 23,813	\$ 11,906	\$ 35,719	\$ 349,451	\$ 306,815
Employee benefits	25,670	3,185	1,592	4,777	30,447	32,841
Trip transportation	84,137				84,137	74,302
Trip food	50,418				50,418	48,465
Logistical support	109,209				109,209	55,675
Financial aid	31,752				31,752	13,610
Insurance	42,476	5,428	2,714	8,142	50,618	53,468
Rent and utilities	44,833	5,596	2,798	8,394	53,227	52,760
Depreciation	13,803	1,378	145	1,523	15,326	8,364
Permits and fees	34,398				34,398	35,072
Small equipment and supplies	10,908	132	66	198	11,106	10,270
Fundraising events			14,506	14,506	14,506	15,635
Contract labor	26,568	765		765	27,333	16,150
Postage and printing	1,128	1,226		1,226	2,354	2,928
Educational materials	590				590	2,101
Accounting		9,917		9,917	9,917	9,004
Other expenses	24,421	456	32	488	24,909	15,539
	<u>\$ 814,043</u>	<u>\$ 51,896</u>	<u>\$ 33,759</u>	<u>\$ 85,655</u>	<u>\$ 899,698</u>	<u>\$ 752,999</u>

The accompanying notes are an integral part of these statements.

Grand Canyon Youth, Inc.

STATEMENT OF CASH FLOWS

Year Ended December 31, 2016

(with comparative financial information for the year ended December 31, 2015)

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ 41,296	\$ 104,670
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	15,326	8,364
Net (gain) loss on investments	(4,841)	1,635
Change in:		
Accounts receivable	1,206	8,803
Prepaid expenses	(3,073)	255
Accounts payable and accrued expenses	9,491	(9,983)
Trip deposits	<u>(10,024)</u>	<u>10,789</u>
Net cash provided by operating activities	49,381	124,533
Cash flows from investing activities:		
Purchase of furniture and equipment	(44,613)	(18,194)
Purchase of investments	<u>(1,975)</u>	<u>(130,265)</u>
Net cash used by investing activities	<u>(46,588)</u>	<u>(148,459)</u>
Net increase (decrease) in cash	2,793	(23,926)
Cash, beginning of year	<u>230,756</u>	<u>254,682</u>
Cash, end of year	<u>\$ 233,549</u>	<u>\$ 230,756</u>
<u>Supplemental disclosure of cash flow information:</u>		
Cash paid for interest	<u>\$ 0</u>	<u>\$ 0</u>

The accompanying notes are an integral part of these statements.

Grand Canyon Youth, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

(with comparative financial information as of and for the year ended December 31, 2015)

NOTE 1 - BACKGROUND AND SUMMARY OF ACCOUNTING POLICIES

Grand Canyon Youth, Inc. (GCY) is a nonprofit organization, incorporated in February 2000 in the state of Arizona. GCY's purpose is to give youth (ages 11–19) an experiential education along the rivers and canyons of the Southwest in an effort to promote environmental awareness, community involvement, personal growth, and teamwork among people of diverse backgrounds.

The significant accounting policies of GCY are as follows:

Basis of Presentation: Financial statement presentation follows the recommendations of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) topic of *Not-for-Profit Entities*, requiring GCY to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Use of Estimates: In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions affecting the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of Credit Risk: GCY maintains cash balances at several financial institutions located throughout northern Arizona. The balances, at times, may temporarily exceed the federally insured limits. GCY has not experienced any loss in such accounts and believes it is not exposed to any significant risk on cash accounts.

Prepaid Expenses: Prepaid expenses consist of amounts paid in advance for insurance, contract labor, and permits and fees relating to the subsequent year.

Furniture and Equipment: Furniture and equipment are recorded at cost or estimated fair value at time of purchase or gift. Furniture and equipment with a useful life of more than one year is capitalized. Depreciation is provided over estimated useful lives of three to seven years using the straight-line method. Depreciation expense totaled \$15,326 and \$8,364 for the years ended December 31, 2016 and 2015, respectively.

Trip Deposits: Trip deposits received in advance of river expeditions are recorded as liabilities on the statement of financial position and recognized as revenue during the period in which the trip occurs.

Grand Canyon Youth, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

(with comparative financial information as of and for the year ended December 31, 2015)

NOTE 1 - BACKGROUND AND SUMMARY OF ACCOUNTING POLICIES - CONTINUED

Contributions: Contributions are reported in accordance with the FASB ASC topic of *Not-for-Profit Entities, Accounting for Contributions Received and Contributions Made*. Contributions are recognized when the donor makes a pledge to give, that is, in substance, an unconditional promise. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the nature of donor restrictions and depending on whether the restrictions are met in the current fiscal period. Restricted contributions are reported as increases in unrestricted net assets if the restrictions have been met in the current fiscal period. If the restriction has not been met by fiscal year end, the amount is reported as an increase in temporarily or permanently restricted net assets. When the restriction is finally met on a contribution received in a prior fiscal period, the amount is shown as a reclassification of restricted net assets to unrestricted net assets. Contributions to the endowment fund are recorded as permanently restricted.

In-Kind Contributions: In-kind contributions represent donated services and materials which meet the criteria specified in the FASB ASC topic of *Not-for-Profit Entities*; among other things, services requiring specialized skills and services that GCY would typically purchase. Contributed services and materials are recognized at the estimated fair value of the contributions received.

Income Taxes: GCY is exempt from federal and state income taxes as an organization other than a private foundation under Section 501(c)(3) of the Internal Revenue Code and similar state provisions.

Functional Expense Allocation: The costs of providing the various programs and activities are reported on a functional basis in the accompanying statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on directly identifiable expenses, or on management's estimates of employee hours and facility usage devoted to each function.

GCY defines program expenses as any cost directly contributing to its mission of providing youth (ages 11–19) an experiential education along the rivers and canyons of the Southwest in an effort to promote environmental awareness, community involvement, personal growth, and teamwork among people of diverse backgrounds.

Prior Year Summarized Information: The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should only be read in conjunction with GCY's financial statements for the year ended December 31, 2015 from which the summarized information was derived.

Grand Canyon Youth, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

(with comparative financial information as of and for the year ended December 31, 2015)

NOTE 2 - INVESTMENTS AND FAIR VALUE MEASUREMENTS

At December 31, 2016, GCY's investments deposited with Arizona Community Foundation (ACF) totaling \$135,446 consisted of permanently restricted endowment funds with a fair value of \$15,879, and unrestricted funds of \$119,567.

At December 31, 2015, GCY's investments deposited with ACF totaling \$128,630 consisted of permanently restricted endowment funds with a fair value of \$13,196, and unrestricted funds of \$115,434.

Net gain (loss) on investments consists of the following for the years ended December 31, 2016 and 2015:

	2016	2015
Realized gain from investments	\$ 6,164	\$ 1,337
Unrealized loss from investments	<u>(1,323)</u>	<u>(2,972)</u>
Net gain (loss) on investments	<u>\$ 4,841</u>	<u>\$ (1,635)</u>

Generally accepted accounting principles establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 inputs - A quoted price in an active market for an identical asset or liability is considered to be the most reliable evidence of fair value.

Level 2 inputs - These are observable inputs, either directly or indirectly, other than quoted prices included within Level 1.

Level 3 inputs - These inputs are unobservable and are used to measure fair value only when observable inputs are not available.

The level of the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Grand Canyon Youth, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

(with comparative financial information as of and for the year ended December 31, 2015)

NOTE 2 - INVESTMENTS AND FAIR VALUE MEASUREMENTS - CONTINUED

GCY does not currently have any financial instruments it values based on Level 1 or Level 3 inputs.

Fair value of assets based on Level 2 inputs in the ACF investment pool, measured on a recurring basis, were \$135,446 and \$128,630 at December 31, 2016 and 2015, respectively.

NOTE 3 - OPERATING LEASE

GCY leases its office space and warehouse under an operating lease agreement that expires on August 31, 2020. Future minimum lease payments as of December 31, 2016, were as follows:

2017	\$	44,884
2018		45,472
2019		46,060
2020		<u>30,968</u>
	\$	<u><u>167,384</u></u>

NOTE 4 - CONCENTRATION OF REVENUES

GCY received supporting grants from one grantor which comprised 18% and 20% of total program fees and support for the years ended December 31, 2016 and 2015, respectively.

NOTE 5 - IN-KIND REVENUE AND EXPENSE

During the years ended December 31, 2016 and 2015, GCY received the following donated services and materials:

	<u>2016</u>	<u>2015</u>
Outfitter services	\$ 49,617	\$ 33,340
Permits and fees	17,077	18,682
Other	<u>6,582</u>	<u>7,288</u>
	<u><u>\$ 73,276</u></u>	<u><u>\$ 59,310</u></u>

Grand Canyon Youth, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

(with comparative financial information as of and for the year ended December 31, 2015)

NOTE 6 - RESTRICTED NET ASSETS

Temporarily restricted net assets of \$53,100 and \$65,558 as of December 31, 2016 and 2015, respectively, consisted of contributions to be used for programmatic support and logistics.

Net assets of \$65,558 and \$31,365 were expended for donor intended purposes during the years ended December 31, 2016 and 2015, respectively.

Permanently restricted net assets of \$17,150 and \$15,150 as of December 31, 2016 and 2015, respectively, consisted of contributions restricted by donors for the creation of an endowment fund.

Endowment Description: GCY's endowment fund is classified as permanently restricted net assets if donor imposed restrictions require the corpus to be maintained in perpetuity. Absent donor restrictions, the endowment fund is classified as board designated, unrestricted net assets. Investment income is designated as unrestricted net assets.

Interpretation of Relevant Law: GCY's endowment fund is subject to compliance with the State of Arizona's version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA is a statute providing uniform and fundamental rules for the investment of funds held by a charitable organization and the expenditure of funds donated as endowments to an organization. The Board of Directors has interpreted 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.

Return Objectives and Risk Parameters: GCY's endowment fund is invested with ACF in long-term investment pools in order to achieve return objectives and to maintain appropriate risk parameters.

Strategies Employed for Achieving Objectives: GCY's Board of Directors oversees the management of the endowment fund.

Spending Policy: ACF makes approximately five percent of the fund's fair value available for distribution to GCY annually, calculated as the average of the fair value of the previous twelve quarters of the fund. From time to time, the fair value of assets associated with GCY's endowment fund may fall below the level that the donor or UPMIFA requires the Association to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported as unrestricted net assets.

Grand Canyon Youth, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

(with comparative financial information as of and for the year ended December 31, 2015)

NOTE 6 - RESTRICTED NET ASSETS - CONTINUED

Activity of the endowment fund is as follows:

Year ended December 31, 2016:

	<u>Unrestricted Net Assets</u>	<u>Temporarily Restricted Net Assets</u>	<u>Permanently Restricted Net Assets</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 11,500		\$ 15,150	\$ 26,650
Contributions			2,000	2,000
Endowment net assets, end of year	<u>\$ 11,500</u>	<u>\$</u>	<u>\$ 17,150</u>	<u>\$ 28,650</u>

Year ended December 31, 2015:

	<u>Unrestricted Net Assets</u>	<u>Temporarily Restricted Net Assets</u>	<u>Permanently Restricted Net Assets</u>	<u>Total</u>
Endowment net assets, beginning of year			\$ 13,500	\$ 13,500
Contributions	\$ 11,500		1,650	13,150
Endowment net assets, end of year	<u>\$ 11,500</u>	<u>\$</u>	<u>\$ 15,150</u>	<u>\$ 26,650</u>

NOTE 7 - RELATED PARTY TRANSACTIONS

During the years ended December 31, 2016 and 2015, GCY paid \$47,737 and \$47,965, respectively, in rent and utilities expenses for a facility owned by a member of the Board of Directors. Management believes that rental costs are similar to what would be paid to a non-related party.

NOTE 8 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through April 14, 2017, which was the date GCY's financial statements were available to be issued.