

GRAND CANYON YOUTH, INC.

Financial Statements
and
Independent Auditors' Report

December 31, 2018
(with comparative totals for 2017)

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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, 2018, 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, 2018, 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 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 21, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial information from which it has been derived.

Fester & Chapman, PLLC

May 14, 2019

Grand Canyon Youth, Inc.

STATEMENT OF FINANCIAL POSITION

December 31, 2018

(with comparative financial information as of December 31, 2017)

	ASSETS	
	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 290,021	\$ 216,231
Accounts receivable	2,214	3,699
Investments	147,545	150,750
Prepaid expenses	13,861	22,603
Furniture and equipment, net of \$238,570 and \$212,107 in accumulated depreciation, respectively	<u>82,418</u>	<u>69,280</u>
Total assets	<u>\$ 536,059</u>	<u>\$ 462,563</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 9,219	\$ 11,307
Trip deposits	<u>16,324</u>	<u>29,903</u>
Total liabilities	25,543	41,210
Net assets:		
Without donor restrictions	410,182	363,971
With donor restrictions	<u>100,334</u>	<u>57,382</u>
Total net assets	<u>510,516</u>	<u>421,353</u>
Total liabilities and net assets	<u>\$ 536,059</u>	<u>\$ 462,563</u>

The accompanying notes are an integral part of these statements.

Grand Canyon Youth, Inc.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2018

(with comparative financial information for the year ended December 31, 2017)

	Without Donor Restrictions	With Donor Restrictions	<u>Totals</u>	
			<u>2018</u>	<u>2017</u>
Program fees and support:				
Program fees	\$ 591,016		\$ 591,016	\$ 520,513
Contributions and grant revenue	439,344	\$ 82,764	522,108	381,822
In-kind contributions	79,746		79,746	75,900
Special event income	34,087		34,087	42,070
Net (loss) gain on investments	(4,920)		(4,920)	12,312
Miscellaneous income	5,496		5,496	3,335
	<u>1,144,769</u>	<u>82,764</u>	<u>1,227,533</u>	<u>1,035,952</u>
Net assets released from restrictions	<u>39,812</u>	<u>(39,812)</u>		
Total program fees and support	<u>1,184,581</u>	<u>42,952</u>	<u>1,227,533</u>	<u>1,035,952</u>
Expenses:				
Program services	1,005,453		1,005,453	899,703
Supporting services:				
Management and general	82,698		82,698	66,428
Fundraising	50,219		50,219	37,746
Total supporting services	<u>132,917</u>		<u>132,917</u>	<u>104,174</u>
Total expenses	<u>1,138,370</u>		<u>1,138,370</u>	<u>1,003,877</u>
Change in net assets	46,211	42,952	89,163	32,075
Net assets, beginning of year	<u>363,971</u>	<u>57,382</u>	<u>421,353</u>	<u>389,278</u>
Net assets, end of year	<u>\$ 410,182</u>	<u>\$ 100,334</u>	<u>\$ 510,516</u>	<u>\$ 421,353</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, 2018
(with comparative financial information for the year ended December 31, 2017)

	2018				Total Expenses	2017
	Program Services	Management and General	Fundraising	Total Supporting Services		
Payroll and payroll taxes	\$ 402,980	\$ 46,986	\$ 22,915	\$ 69,901	\$ 472,881	\$ 418,510
Employee benefits	31,589	7,000	1,493	8,493	40,082	33,564
Trip transportation	107,034				107,034	87,943
Trip food	62,420				62,420	53,298
Logistical support	112,527				112,527	103,621
Financial aid	44,938				44,938	48,599
Insurance	58,378	6,769	3,384	10,153	68,531	72,185
Rent and utilities	58,117	6,837	3,419	10,256	68,373	54,617
Depreciation	23,595	2,595	273	2,868	26,463	20,708
Permits and fees	46,111	200		200	46,311	36,234
Small equipment and supplies	15,352	351	175	526	15,878	11,564
Fundraising events			18,471	18,471	18,471	13,366
Contract labor	20,784				20,784	16,341
Postage and printing	950	1,101		1,101	2,051	1,413
Educational materials	666				666	348
Accounting and audit		9,874		9,874	9,874	9,648
Other expenses	20,012	985	89	1,074	21,086	21,918
	<u>\$ 1,005,453</u>	<u>\$ 82,698</u>	<u>\$ 50,219</u>	<u>\$ 132,917</u>	<u>\$ 1,138,370</u>	<u>\$ 1,003,877</u>

The accompanying notes are an integral part of these statements.

Grand Canyon Youth, Inc.

STATEMENT OF CASH FLOWS

Year Ended December 31, 2018

(with comparative financial information for the year ended December 31, 2017)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ 89,163	\$ 32,075
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation	26,463	20,708
Donated furniture and equipment		(2,500)
Net loss (gain) on investments	4,920	(12,312)
Change in:		
Accounts receivable	1,485	(3,699)
Prepaid expenses	8,742	(5,208)
Accounts payable and accrued expenses	(2,088)	(2,005)
Trip deposits	<u>(13,579)</u>	<u>(11,147)</u>
Net cash and cash equivalents provided by operating activities	115,106	15,912
Cash flows from investing activities:		
Purchase of furniture and equipment	(39,601)	(30,238)
Purchase of investments	<u>(1,715)</u>	<u>(2,992)</u>
Net cash used by investing activities	<u>(41,316)</u>	<u>(33,230)</u>
Net increase (decrease) in cash and cash equivalents	73,790	(17,318)
Cash and cash equivalents, beginning of year	<u>216,231</u>	<u>233,549</u>
Cash and cash equivalents, end of year	<u>\$ 290,021</u>	<u>\$ 216,231</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, 2018

(with comparative financial information as of and for the year ended December 31, 2017)

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 10–19) 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 two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for a board-designated endowment and for operating reserves.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Cash and Cash Equivalents: For purposes of the statement of cash flows, cash equivalents consist of short-term, highly liquid investments which are readily convertible into cash within ninety days of purchase or donation.

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.

Grand Canyon Youth, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

(with comparative financial information as of and for the year ended December 31, 2017)

NOTE 1 - BACKGROUND AND SUMMARY OF ACCOUNTING POLICIES - CONTINUED

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 donation. 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 \$26,463 and \$20,708 for the years ended December 31, 2018 and 2017, 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.

Contributions: Contributions are reported in accordance with the FASB ASC subtopic of *Revenue Recognition for Not-for-Profit Entities*. Contributions received are recorded as net assets without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor restrictions. Restricted contributions are reported as increases in net assets without restrictions if the restrictions have been met in the current fiscal period. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

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 program services 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 the basis of estimates of proportional use or time and effort.

Grand Canyon Youth, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

(with comparative financial information as of and for the year ended December 31, 2017)

NOTE 1 - BACKGROUND AND SUMMARY OF ACCOUNTING POLICIES - CONTINUED

GCY defines program expenses as any cost directly contributing to its mission of providing youth (ages 10–19) 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, 2017 from which the summarized information was derived.

Change in Accounting Principle: On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classifications, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment returns. A key change required by ASU 2016-14 is the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions. A footnote on liquidity has also been added (Note 2).

Grand Canyon Youth, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

(with comparative financial information as of and for the year ended December 31, 2017)

NOTE 2 - LIQUIDITY AND AVAILABILITY

GCY monitors its liquidity so that it is able to meet its operating needs and other contractual commitments while maximizing the investment of its excess operating cash. GCY has the following financial assets that could readily be made available within one year of each fiscal year end to fund expenses without limitations:

	<u>2018</u>	<u>2017</u>
Financial assets:		
Cash	\$ 290,021	\$ 216,231
Accounts receivable	2,214	3,699
Investments	<u>147,545</u>	<u>150,750</u>
Total financial assets	439,780	370,680
Less amounts unavailable for general expenditure within one year:		
Board-designated operating reserves	(11,500)	(11,500)
Endowment fund-donor restricted	<u>(17,670)</u>	<u>(17,570)</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 410,610</u>	<u>\$ 341,610</u>

In addition to financial assets available to meet general expenditures over the year, GCY operates with a balanced budget and anticipates covering its general expenditures by collecting contributions, grants, and other revenues; and by utilizing donor-restricted resources from current and prior years gifts.

NOTE 3 - INVESTMENTS AND FAIR VALUE MEASUREMENTS

At December 31, 2018, GCY's investments deposited with Arizona Community Foundation (ACF) totaling \$147,545 consisted of endowment funds with a fair value of \$17,670 (classified as net assets with donor restrictions), and \$129,875 that were classified as net assets without donor restrictions.

Net (loss) gain on investments consists of the following for the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Realized gain from investments	\$ 3,222	\$ 2,614
Unrealized (loss) gain from investments	<u>(8,142)</u>	<u>9,698</u>
Net (loss) gain on investments	<u>\$ (4,920)</u>	<u>\$ 12,312</u>

Grand Canyon Youth, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

(with comparative financial information as of and for the year ended December 31, 2017)

NOTE 3 - INVESTMENTS AND FAIR VALUE MEASUREMENTS - CONTINUED

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.

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 \$147,545 and \$150,750 at December 31, 2018 and 2017, respectively.

NOTE 4 - 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, 2018, are as follows:

2019	\$ 59,020
2020	<u>30,968</u>
	<u>\$ 89,988</u>

Grand Canyon Youth, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

(with comparative financial information as of and for the year ended December 31, 2017)

NOTE 5 - IN-KIND CONTRIBUTIONS AND EXPENSES

During the years ended December 31, 2018 and 2017, GCY received the following donated services and materials:

	2018	2017
Outfitter services	\$ 44,948	\$ 48,205
Permits and fees	27,798	17,591
Other	7,000	10,104
	<u>\$ 79,746</u>	<u>\$ 75,900</u>

NOTE 6 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions of \$82,664 and \$39,812 as of December 31, 2018 and 2017, respectively, consisted of contributions to be used for programmatic support and logistics.

Net assets with donor restrictions of \$17,670 and \$17,570 as of December 31, 2018 and 2017, respectively, consisted of contributions restricted by donors to be held in an endowment fund.

Net assets of \$39,812 and \$53,100 were expended for donor intended purposes during the years ended December 31, 2018 and 2017, respectively.

Endowment Description: GCY's endowment fund is classified as net assets with donor restrictions if donor imposed restrictions require the endowment to be maintained in perpetuity. Absent donor restrictions, the endowment fund is classified as board designated net assets, without donor restrictions. Investment income is designated as net assets without donor restrictions. The endowment account is held and managed by ACF.

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.

Grand Canyon Youth, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

(with comparative financial information as of and for the year ended December 31, 2017)

NOTE 6 - NET ASSETS WITH DONOR RESTRICTIONS - CONTINUED

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 GCY to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported as net assets without donor restrictions.

Activity of the endowment fund is as follows:

Year ended December 31, 2018:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 11,500	17,570	\$ 29,070
Contributions		100	100
Endowment net assets, end of year	<u>\$ 11,500</u>	<u>\$ 17,670</u>	<u>\$ 29,170</u>

Year ended December 31, 2017:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 11,500	17,150	\$ 28,650
Contributions		420	420
Endowment net assets, end of year	<u>\$ 11,500</u>	<u>\$ 17,570</u>	<u>\$ 29,070</u>

NOTE 7 - RELATED PARTY TRANSACTIONS

During the years ended December 31, 2018 and 2017, GCY paid \$62,472 and \$48,918, 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.

Grand Canyon Youth, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

(with comparative financial information as of and for the year ended December 31, 2017)

NOTE 8 - CONCENTRATION OF REVENUES

GCY received supporting grants from one grantor which comprised 17% of total revenue for the years ended December 31, 2018 and 2017. This grantor has been a consistent donor for over 16 years.

NOTE 9 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through May 14, 2019, which was the date GCY's financial statements were available to be issued.