

GRAND CANYON YOUTH, INC.

Financial Statements
and
Independent Auditors' Report

December 31, 2019
(with comparative totals for 2018)

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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, 2019, 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, 2019, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in the year ended December 31, 2019, Grand Canyon Youth, Inc. adopted new accounting guidance Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2018-18, *Not-for-Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies and improves the scope and the accounting guidance for contributions received and made by not-for-profit organizations. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited GCY's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 14, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial information from which it has been derived.

Fester & Chapman, PLLC

April 24, 2020

Grand Canyon Youth, Inc.

STATEMENT OF FINANCIAL POSITION

December 31, 2019

(with comparative financial information as of December 31, 2018)

ASSETS

	2019	2018
Cash and cash equivalents	\$ 581,464	\$ 290,021
Accounts receivable	15,115	2,214
Investments	163,093	147,545
Prepaid expenses	26,504	13,861
Furniture and equipment, net of \$263,045 and \$238,570 in accumulated depreciation, respectively	<u>68,940</u>	<u>82,418</u>
Total assets	<u>\$ 855,116</u>	<u>\$ 536,059</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable and accrued expenses	\$ 26,585	\$ 9,219
Trip deposits	<u>25,585</u>	<u>16,324</u>
Total liabilities	52,170	25,543
Net assets:		
Without donor restrictions	408,410	410,182
With donor restrictions	<u>394,536</u>	<u>100,334</u>
Total net assets	<u>802,946</u>	<u>510,516</u>
Total liabilities and net assets	<u>\$ 855,116</u>	<u>\$ 536,059</u>

The accompanying notes are an integral part of these statements.

Grand Canyon Youth, Inc.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2019

(with comparative financial information for the year ended December 31, 2018)

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Totals</u>	
			<u>2019</u>	<u>2018</u>
Program fees and support:				
Program fees	\$ 676,959		\$ 676,959	\$ 591,016
Contributions and grant revenue	446,093	\$ 365,902	811,995	522,108
In-kind contributions	86,650		86,650	79,746
Special event income	39,680		39,680	34,087
Gain (loss) on investment, net of fees of \$1,463 and \$1,368, respectively	16,201		16,201	(3,261)
Miscellaneous income	<u>4,627</u>		<u>4,627</u>	<u>3,837</u>
	1,270,210	365,902	1,636,112	1,227,533
Net assets released from restrictions	<u>71,700</u>	<u>(71,700)</u>		
Total program fees and support	<u>1,341,910</u>	<u>294,202</u>	<u>1,636,112</u>	<u>1,227,533</u>
Expenses:				
Program services	1,173,773		1,173,773	1,005,453
Supporting services:				
Management and general	95,340		95,340	82,698
Fundraising	<u>74,569</u>		<u>74,569</u>	<u>50,219</u>
Total supporting services	<u>169,909</u>		<u>169,909</u>	<u>132,917</u>
Total expenses	<u>1,343,682</u>		<u>1,343,682</u>	<u>1,138,370</u>
Change in net assets	(1,772)	294,202	292,430	89,163
Net assets, beginning of year	<u>410,182</u>	<u>100,334</u>	<u>510,516</u>	<u>421,353</u>
Net assets, end of year	<u>\$ 408,410</u>	<u>\$ 394,536</u>	<u>\$ 802,946</u>	<u>\$ 510,516</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, 2019
(with comparative financial information for the year ended December 31, 2018)

	2019					2018
	Supporting Services			Total Supporting Services	Total Expenses	
	Program Services	Management and General	Fundraising			
Payroll and payroll taxes	\$ 486,194	\$ 60,389	\$ 41,581	\$ 101,970	\$ 588,164	\$ 472,881
Employee benefits	45,706	6,237	2,525	8,762	54,468	40,082
Trip transportation	114,995				114,995	107,034
Trip food	73,160				73,160	62,420
Logistical support, including \$72,850 of in-kind outfitter fees	136,690				136,690	112,527
Financial aid awarded (noncash)	73,541				73,541	44,938
Insurance	66,403	8,234	4,738	12,972	79,375	68,531
Rent and utilities	56,980	7,077	4,873	11,950	68,930	68,373
Depreciation	21,524	2,670	281	2,951	24,475	26,463
Permits and fees	39,119				39,119	46,311
Small equipment and supplies	26,028	452	298	750	26,778	30,829
Fundraising events			19,454	19,454	19,454	18,471
Contract labor	17,721	179	550	729	18,450	20,784
Postage and printing	932	302	64	366	1,298	2,051
Educational materials	6,782				6,782	666
Accounting and audit	815	9,490	50	9,540	10,355	9,874
Other expenses	7,183	310	155	465	7,648	6,135
	<u>\$ 1,173,773</u>	<u>\$ 95,340</u>	<u>\$ 74,569</u>	<u>\$ 169,909</u>	<u>\$ 1,343,682</u>	<u>\$ 1,138,370</u>

The accompanying notes are an integral part of these statements.

Grand Canyon Youth, Inc.

STATEMENT OF CASH FLOWS

Year Ended December 31, 2019

(with comparative financial information for the year ended December 31, 2018)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 292,430	\$ 89,163
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation	24,475	26,463
Net (gain) loss on investments	(14,095)	4,920
Contributions restricted for long-term purposes	(186,163)	
Change in:		
Accounts receivable	(12,901)	1,485
Prepaid expenses	(12,643)	8,742
Accounts payable and accrued expenses	17,366	(2,088)
Trip deposits	<u>9,261</u>	<u>(13,579)</u>
Net cash and cash equivalents provided by operating activities	<u>117,730</u>	<u>115,106</u>
Cash flows from investing activities:		
Purchase of furniture and equipment	(10,997)	(39,601)
Purchase of investments	<u>(1,453)</u>	<u>(1,715)</u>
Net cash and cash equivalents used by investing activities	<u>(12,450)</u>	<u>(41,316)</u>
Cash flows from financing activities:		
Contributions restricted for long term purposes	<u>186,163</u>	<u> </u>
Net cash and cash equivalents provided by financing activities	<u>186,163</u>	<u> </u>
Net increase in cash and cash equivalents	291,443	73,790
Cash and cash equivalents, beginning of year	<u>290,021</u>	<u>216,231</u>
Cash and cash equivalents, end of year	<u>\$ 581,464</u>	<u>\$ 290,021</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, 2019

(with comparative financial information as of and for the year ended December 31, 2018)

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, 2019

(with comparative financial information as of and for the year ended December 31, 2018)

NOTE 1 - BACKGROUND AND SUMMARY OF ACCOUNTING POLICIES - CONTINUED

Accounts Receivable: Accounts receivable consist mainly of receivables related to contribution and grant revenue. The number and balance of uncollectible accounts presently and in the past has been immaterial, therefore no allowance has been established.

Prepaid Expenses: Prepaid expenses consist of amounts paid in advance for insurance, contract labor, transportation 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 \$24,475 and \$26,463 for the years ended December 31, 2019 and 2018, 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.

Grand Canyon Youth, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

(with comparative financial information as of and for the year ended December 31, 2018)

NOTE 1 - BACKGROUND AND SUMMARY OF ACCOUNTING POLICIES - CONTINUED

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.

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, 2018 from which the summarized information was derived.

Change in Accounting Principle: On June 21, 2018, FASB issued Accounting Standards Update (ASU) 2018-18, *Not-for-Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The update provides a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction by clarifying how a not-for-profit organization determines whether a resource provider is participating in an exchange transaction.

Grand Canyon Youth, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

(with comparative financial information as of and for the year ended December 31, 2018)

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>2019</u>	<u>2018</u>
Financial assets:		
Cash and cash equivalents	\$ 581,464	\$ 290,021
Accounts receivable	15,115	2,214
Investments	<u>163,093</u>	<u>147,545</u>
Total financial assets	759,672	439,780
Less amounts unavailable for general expenditure within one year:		
Board-designated operating reserves	(11,500)	(11,500)
Net assets with donor restrictions	<u>(394,536)</u>	<u>(100,334)</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 353,636</u>	<u>\$ 327,946</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.

Grand Canyon Youth, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

(with comparative financial information as of and for the year ended December 31, 2018)

NOTE 3 - INVESTMENTS AND FAIR VALUE MEASUREMENTS

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 Arizona Community Foundation (ACF) investment pool, measured on a recurring basis, were \$163,093 and \$147,545 at December 31, 2019 and 2018, respectively.

NOTE 4 - IN-KIND CONTRIBUTIONS AND EXPENSES

During the years ended December 31, 2019 and 2018, GCY received the following donated services and materials:

	2019	2018
Outfitter fees	\$ 72,850	\$ 44,948
Permits and fees	9,300	27,798
Other	4,500	7,000
	<u>\$ 86,650</u>	<u>\$ 79,746</u>

Grand Canyon Youth, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

(with comparative financial information as of and for the year ended December 31, 2018)

NOTE 5 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions activity for the year ended December 31, 2019 is as follows:

	Beginning <u>Balance</u>	<u>Contributions</u>	<u>Releases</u>	Ending <u>Balance</u>
Programmatic support and logistics	\$ 82,664	\$ 179,639	\$ (71,700)	\$ 190,603
Endowment fund	17,670	100		17,770
Building fund		186,163		186,163
	<u>\$ 100,334</u>	<u>\$ 365,902</u>	<u>\$ (71,700)</u>	<u>\$ 394,536</u>

Net assets of \$71,700 and \$39,812 were expended for donor intended purposes during the years ended December 31, 2019 and 2018, 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. 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, 2019

(with comparative financial information as of and for the year ended December 31, 2018)

NOTE 5 - 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 with or without donor restrictions, depending on the underlying net asset classification.

Activity of the endowment fund is as follows:

Year ended December 31, 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 11,500	\$ 17,670	\$ 29,170
Contributions		100	100
Endowment net assets, end of year	<u>\$ 11,500</u>	<u>\$ 17,770</u>	<u>\$ 29,270</u>

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>

NOTE 6 - CONCENTRATION OF REVENUES

GCY received supporting grants from one grantor which comprised 16% and 17% of total revenue for the years ended December 31, 2019 and 2018, respectively. This grantor has been a consistent donor for over 16 years.

Grand Canyon Youth, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

(with comparative financial information as of and for the year ended December 31, 2018)

NOTE 7 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through April 24, 2020, which was the date GCY's financial statements were available to be issued. As of January 30, 2020 GCY obtained a loan with an original balance of \$593,000, bearing interest at 4.24%, payable in 180 monthly principal and interest installments of \$3,210, maturing in January 2035. The note is secured by GCY's building.

The worldwide COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary cancellations of GCY's services. While the disruption is expected to be temporary, there is uncertainty around the duration of the closings. However, while the complete financial impact and duration cannot be reasonably estimated at this time, as of April 24, 2020, GCY has experienced the cancellation of approximately 100% of its scheduled program trips for 2020, which will severely impact program fees revenue to approximately the same degree. The organization has taken steps to reduce its operating expenses where feasible, reduce staff compensation and proceed with applying for various federal relief programs and tax credits.