

***BROPHY
COMMUNITY
FOUNDATION***

AUDITED FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
JUNE 30, 2017 and 2016**

Tull Forsberg & Olson

Professional Limited Liability Company



Certified Public Accountants

BROPHY COMMUNITY FOUNDATION

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October 25, 2017

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Brophy Community Foundation
Phoenix, Arizona

We have audited the accompanying financial statements of Brophy Community Foundation (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, 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 the 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 audits. We conducted our audits in accordance with the 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.

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To the Board of Directors
Brophy Community Foundation
October 25, 2017

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INDEPENDENT AUDITORS' REPORT - CONTINUED

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 Brophy Community Foundation as of June 30, 2017 and 2016, 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.

Juel Jonsberg & Olson PC

BROPHY COMMUNITY FOUNDATION

STATEMENTS OF FINANCIAL POSITION

June 30, 2017 and 2016

ASSETS		
	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 8,517,004	\$9,232,327
Marketable securities	<u>1,748,612</u>	<u>-</u>
TOTAL ASSETS	<u>\$10,265,616</u>	<u>\$9,232,327</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Due to related party	\$ 123,852	\$ 123,169
Student Grants Payable Arising from Individual Donations		
Brophy College Preparatory	894,250	942,522
Other schools	135,500	299,400
Student Grants Payable Arising from Plus Donations		
Brophy College Preparatory	605,575	592,732
Other schools	125,600	177,250
Student Grants Payable Arising from Corporate Donations		
Brophy College Preparatory	5,493,400	4,050,150
Other schools	<u>1,323,350</u>	<u>1,197,222</u>
TOTAL LIABILITIES	8,701,527	7,382,445
NET ASSETS		
Unrestricted	<u>1,564,089</u>	<u>1,849,882</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$10,265,616</u>	<u>\$9,232,327</u>

See Independent Auditors' Report.

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

BROPHY COMMUNITY FOUNDATION

STATEMENTS OF ACTIVITIES For the Years Ended June 30, 2017 and 2016

	2017	2016
REVENUES AND OTHER SUPPORT		
Individual tax credit contributions	\$1,251,280	\$1,309,936
Plus tax credit contributions	952,485	929,167
Corporate tax credit contributions	3,937,500	3,985,000
Other contributions	35,759	21,500
Interest Income		
Individual gifts and donations	\$ 3,171	\$ 963
Plus gifts and donations	1,658	581
Corporate gifts and donations	<u>27,600</u>	<u>42,801</u>
Total Interest Income	32,429	44,345
Investment Income		
Corporate gifts and donations	<u>2,034</u>	<u>-</u>
TOTAL REVENUES AND OTHER SUPPORT	<u>6,211,487</u>	<u>6,289,948</u>
 EXPENSES		
Program Services		
Individual student grants	1,052,989	1,288,702
Plus student grants	1,001,125	766,532
Corporate student grants	<u>4,165,883</u>	<u>1,689,781</u>
Total Program Services	6,219,997	3,745,015
Fundraising	86,120	61,008
General and administrative	<u>191,163</u>	<u>185,155</u>
TOTAL EXPENSES	<u>6,497,280</u>	<u>3,991,178</u>
 CHANGE IN UNRESTRICTED NET ASSETS	 (285,793)	 2,298,770
 UNRESTRICTED NET ASSETS (DEFICIT) -		
Beginning of Year	<u>1,849,882</u>	<u>(448,888)</u>
 UNRESTRICTED NET ASSETS -		
End of Year	<u>\$1,564,089</u>	<u>\$1,849,882</u>

See Independent Auditors' Report.
The accompanying notes are an integral part of these financial statements.

BROPHY COMMUNITY FOUNDATION

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in unrestricted net assets	\$ (285,793)	\$ 2,298,770
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Net unrealized/realized gain in marketable securities	(2,034)	-
Changes in Operating Assets and Liabilities:		
Decrease (Increase) in:		
Due from related party	6,769	-
Increase (Decrease) in:		
Accounts payable	-	(76)
Due to related party	(6,086)	107,361
Student grants payable	<u>1,318,399</u>	<u>(1,062,149)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,031,255</u>	<u>1,343,906</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of marketable securities	<u>(1,746,578)</u>	-
NET CASH USED IN INVESTING ACTIVITIES	<u>(1,746,578)</u>	-
 NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(715,323)	1,343,906
 CASH AND CASH EQUIVALENTS - Beginning of Year	<u>9,232,327</u>	<u>7,888,421</u>
 CASH AND CASH EQUIVALENTS - End of Year	<u>\$ 8,517,004</u>	<u>\$ 9,232,327</u>

See Independent Auditors' Report.
The accompanying notes are an integral part of these financial statements.

BROPHY COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS For the Years Ended June 30, 2017 and 2016

NOTE 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Brophy Community Foundation (the "Foundation") is a school tuition organization located in Phoenix, Arizona that was established in 1998 to receive and distribute donations in the form of tuition aid to students of Brophy College Preparatory (the "School") and other qualified Arizona schools.

The significant accounting policies followed in the preparation of the accompanying financial statements are summarized below.

Financial Statement Presentation

The accompanying financial statements are prepared in accordance with the requirements of the *Not-for-Profits* Topic of the FASB Accounting Standards Codification, which requires the Foundation 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. As of June 30, 2017 and 2016, there were no temporarily or permanently restricted net assets.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Marketable Securities

The Foundation accounts for its marketable securities in accordance with *Not-for-Profit Entities - Investments - Debt and Equity Securities* and *Not-for-Profit Entities - Investments - Other* topics of the FASB Accounting Standards Codification. Under *Not-for-Profit Entities - Investments - Debt and Equity Securities*, the Foundation is required to report marketable securities in equity securities that have readily determinable fair values, and all marketable securities in debt securities, at fair value. The fair value is based on quoted market prices. Under *Not-for-Profit Entities - Investments - Other*, partnership interests, stocks in closely held companies and real estate held for investment are recorded at fair value at the dates the investments were donated and are periodically revalued through the use of a third party appraiser or other appropriate valuation methods, including the market and income approaches. Changes in value are shown as investment income or losses on the consolidated statement of activities.

BROPHY COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS - CONTINUED For the Years Ended June 30, 2017 and 2016

NOTE 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Marketable Securities - Continued

Marketable securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain marketable securities, it is at least reasonably possible that changes in risks in the near term could materially affect account balances and the amounts reported in the accompanying consolidated financial statements.

Contributions

The Foundation accounts for contributions in accordance with the *Not-for-Profits* Topic of the FASB Accounting Standards Codification. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted based on the existence and/or nature of any donor-imposed restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction has been accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets are released from restriction. However, if a restriction is fulfilled in the same year in which the contribution is received, the Foundation reports the contribution as unrestricted. All other net assets, including board-designated or appropriated amounts, are legally unrestricted and are reported as part of the unrestricted class.

Income Taxes

Brophy Community Foundation has been granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code of 1954 and similar state provisions, and accordingly, there is no provision for income taxes. Income determined to be unrelated business taxable income would be taxable.

The Foundation follows the provisions of the *Income Taxes* topic of the FASB Accounting Standards Codification when accounting for uncertainty in income taxes. The Foundation believes it has no uncertain tax positions that qualify for either recognition or disclosure. As of June 30, 2017 and 2016, due to statutes of limitations, the Foundation is no longer subject to examination of its income tax returns by the federal and state taxing authorities for years prior to 2013 and 2012, respectively.

NOTE 2. MARKETABLE SECURITIES

Marketable securities consist of the following at June 30:

	2017	2016
Corporate Bonds	\$ 1,748,612	\$ -

BROPHY COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS - CONTINUED For the Years Ended June 30, 2017 and 2016

NOTE 2. MARKETABLE SECURITIES - Continued

Investment income for the years ended June 30, 2017 and 2016 are as follows:

	2017	2016
Dividends and interest	\$ 26	\$ -
Net realized/unrealized gains on investments	2,008	-
	<u>\$2,034</u>	<u>\$ -</u>

Investments are subject to ongoing changes in market value. The amount ultimately realized may be more or less than amounts reported in the financial statements.

NOTE 3. STUDENT GRANTS PAYABLE

Arizona law requires the Foundation to allocate at least 90% of the individual, plus and corporate contributions received in a fiscal year to student aid. Pursuant to A.R.S. Sections 43-1603 and 43-1504, Arizona law places specific restrictions on school tuition organizations as to how individual, plus and corporate donations can be awarded.

The Foundation's Board of Directors approves the scholarship amounts that will be paid in the succeeding academic year. Each year the Foundation recognizes a grant expense in the accompanying statements of activities for the amount required by the state to be allocated for student aid. Amounts allocated to future years are recorded as student grants payable in the accompanying statements of financial position.

As of June 30, 2017, student grants payable arising from individual, plus, and corporate donors totaled \$1,029,750, \$731,175, and \$6,816,750 respectively. All grants payable have been awarded to specific students.

As of June 30, 2016, student grants payable arising from individual, plus, and corporate donors totaled \$1,241,922, \$769,982, and \$5,247,372 respectively. All grants payable have been awarded to specific students.

The contributions that the Foundation received in one year are required to be paid out in scholarships within the following two years or reserved for future scholarships for specific students awarded next-year or multi-year scholarships. Therefore, a scholarship that was assigned to one student who has left the private school system is required to be reallocated to another qualified student within the next two years.

As of June 30, 2017, the Foundation had reallocated all unused grants from prior-year scholarships to other students.

As of June 30, 2016, the Foundation had grants to be reallocated to other students in the next fiscal year totaling \$1,200 in plus grants, and \$76,541 in corporate grants.

BROPHY COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS - CONTINUED For the Years Ended June 30, 2017 and 2016

NOTE 4. ECONOMIC DEPENDENCY

The Foundation receives all of its revenues from public donations that result in a state tax credit to the donor. If these tax credits were rescinded, the Foundation would not be able to operate in the same manner as it has in the past.

NOTE 5. MAJOR CONTRIBUTORS

During the years ended June 30, 2017 and 2016, the Foundation received approximately 38% and 34% of its corporate donations from three corporate donors, respectively.

NOTE 6. CONCENTRATIONS OF CREDIT RISK

Financial instruments that subject the Foundation to potential concentrations of credit risk consist principally of cash and short-term investments. The Foundation maintains its cash and short-term investments with banks, which, at times, may exceed federally insured limits. For the years ended June 30, 2017 and 2016, the Foundation's bank balances exceeded federally insured limits by \$7,017,004 and \$7,732,327, respectively. The Foundation has not experienced any losses in such accounts.

NOTE 7. FAIR VALUE MEASUREMENTS

The Foundation's investments are reported at fair value in the accompanying statements of financial position. The methods used to measure fair value may produce an amount that may not be indicative of the net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority. Level 2 inputs consist of inputs other than quoted market prices included in Level 1 that are observable to valuing the asset either directly or indirectly. Observable inputs include quoted prices for similar assets in active or non-active markets. Level 3 inputs are unobservable and have the lowest priority.

The following tables summarize the valuation of the Foundation's assets and liabilities subject to measurements at fair value by the above standard:

BROPHY COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS - CONTINUED For the Years Ended June 30, 2017 and 2016

NOTE 7. FAIR VALUE MEASUREMENTS - Continued

	<u>Fair Value</u>	<u>Fair Value Measurements Using: Quoted Prices In Active Markets (Level 1)</u>
<u>June 30, 2017</u> Marketable securities	<u>\$1,748,612</u>	<u>\$1,748,612</u>
<u>June 30, 2016</u> Marketable securities	<u>\$ -</u>	<u>\$ -</u>

NOTE 8. RELATED PARTY TRANSACTIONS

The School and Foundation are associated in part due to two Foundation Board Members also being School Administrators. Students of the School receive grants issued by the Foundation. As of June 30, 2017 and 2016, the School was allocated and paid grants from individual contributions totaling \$934,396 and \$987,324, plus contributions totaling \$783,673 and \$501,450, and corporate contributions totaling \$2,870,438 and \$544,000, respectively. The School is also reimbursed for administrative support services provided to the Foundation. For the years ended June 30, 2017 and 2016, the School provided administrative support services totaling \$113,701 and \$100,625, respectively.

The Foundation practices the right of offset and net amounts due from and to the School.

	<u>2017</u>	<u>2016</u>
Due from related party	<u>\$ (334)</u>	<u>\$ (7,103)</u>
Due to related party	<u>124,186</u>	<u>130,272</u>
Net Amount Due to/from Related Party	<u>\$123,852</u>	<u>\$123,169</u>

NOTE 9. SUBSEQUENT EVENTS

Subsequent events were evaluated through October 25, 2017, which is the date the financial statements were available to be issued.