

***BROPHY  
COMMUNITY  
FOUNDATION***

**AUDITED FINANCIAL STATEMENTS**

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**FOR THE YEARS ENDED  
JUNE 30, 2018 and 2017**

*Tull Forsberg & Olson*

Professional Limited Liability Company



*Certified Public Accountants*

# **BROPHY COMMUNITY FOUNDATION**

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October 10, 2018

**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, 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.

**Auditors' 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.

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To the Board of Directors  
Brophy Community Foundation  
October 10, 2018

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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, 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.

*Julie Tomberg & Olson PLLC*

## **BROPHY COMMUNITY FOUNDATION**

### STATEMENTS OF FINANCIAL POSITION June 30, 2018 and 2017

	<b>ASSETS</b>	
	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 11,076,851	\$ 8,517,004
Marketable securities	<u>-</u>	<u>1,748,612</u>
TOTAL ASSETS	<u>11,076,851</u>	<u>10,265,616</u>
	<b>LIABILITIES AND NET ASSETS</b>	
<b>LIABILITIES</b>		
Due to related party	6,184	123,852
Student Grants Payable Arising from Individual Donations		
Brophy College Preparatory	998,075	894,250
Other schools	124,500	135,500
Student Grants Payable Arising from Plus Donations		
Brophy College Preparatory	587,875	605,575
Other schools	1,700	125,600
Student Grants Payable Arising from Corporate Donations		
Brophy College Preparatory	5,277,250	5,493,400
Other schools	<u>1,331,426</u>	<u>1,323,350</u>
TOTAL LIABILITIES	<u>8,327,010</u>	<u>8,701,527</u>
<b>NET ASSETS</b>		
Unrestricted	<u>2,749,841</u>	<u>1,564,089</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 11,076,851</u>	<u>\$ 10,265,616</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, 2018 and 2017

	2018	2017
<b>REVENUES AND OTHER SUPPORT</b>		
Individual tax credit contributions	\$ 1,344,361	\$ 1,251,280
Plus tax credit contributions	1,029,791	952,485
Corporate tax credit contributions	3,963,500	3,937,500
Other contributions	75,916	35,759
Interest Income		
Individual gifts and donations	\$ 12,474	\$ 3,171
Plus gifts and donations	2,957	1,658
Corporate gifts and donations	51,009	27,600
Other	5,484	-
Total Interest Income	71,924	32,429
Investment Income		
Corporate gifts and donations	3,654	2,034
<b>TOTAL REVENUES AND OTHER SUPPORT</b>	<b>6,489,146</b>	<b>6,211,487</b>
<b>EXPENSES</b>		
Program Services		
Individual student grants	1,194,850	1,052,989
Plus student grants	704,468	1,001,125
Corporate student grants	3,110,455	4,165,883
Total Program Services	5,009,773	6,219,997
Fundraising	68,135	86,120
General and administrative	225,486	191,163
<b>TOTAL EXPENSES</b>	<b>5,303,394</b>	<b>6,497,280</b>
<b>CHANGE IN UNRESTRICTED NET ASSETS</b>	<b>1,185,752</b>	<b>(285,793)</b>
UNRESTRICTED NET ASSETS -		
Beginning of Year	1,564,089	1,849,882
<b>UNRESTRICTED NET ASSETS -</b>		
End of Year	<b>\$ 2,749,841</b>	<b>\$ 1,564,089</b>

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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in unrestricted net assets	\$ 1,185,752	\$ (285,793)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Net unrealized/realized gain in marketable securities	(3,654)	(2,034)
Changes in Operating Assets and Liabilities:		
(Increase)/Decrease in:		
Due from related party	(3,064)	6,769
Due to related party	(114,604)	(6,086)
Student grants payable	<u>(256,849)</u>	<u>1,318,399</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>807,581</u>	<u>1,031,255</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of marketable securities	-	(1,746,578)
Proceeds from sale of marketable securities	<u>1,752,266</u>	<u>-</u>
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<u>1,752,266</u>	<u>(1,746,578)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>2,559,847</b>	<b>(715,323)</b>
CASH AT BEGINNING OF YEAR	<u>8,517,004</u>	<u>9,232,327</u>
<b>CASH AT END OF YEAR</b>	<u><b>\$ 11,076,851</b></u>	<u><b>\$ 8,517,004</b></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, 2018 and 2017

#### **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, 2018 and 2017, 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 statements of activities.

## **BROPHY COMMUNITY FOUNDATION**

### NOTES TO FINANCIAL STATEMENTS - CONTINUED For the Years Ended June 30, 2018 and 2017

#### **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.

##### In-Kind Donations

Contributions of donated non-cash assets are recorded at their fair values in the period received. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Foundation, but these services do not meet the criteria for recognition as contributed services.

##### 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, 2018 and 2017, 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 2014 and 2013, respectively.

##### Recent Accounting Pronouncements

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 improves the current net asset classification requirements and the information presented in combined financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. ASU 2016-14 is effective

## **BROPHY COMMUNITY FOUNDATION**

### NOTES TO FINANCIAL STATEMENTS - CONTINUED For the Years Ended June 30, 2018 and 2017

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

for annual financial statements issued for fiscal years beginning after December 15, 2017. Early application is permitted. The amendments of this ASU are to be applied on a retrospective basis in the year that the ASU is first applied. The Foundation is currently evaluating the full effect that the adoption of this standard will have on the financial statements.

#### **NOTE 2. MARKETABLE SECURITIES**

Marketable securities consist of the following at June 30, 2018 and 2017:

	2018	2017
Corporate Bonds	\$ -	\$1,748,612

Investment income for the years ended June 30, 2018 and 2017 are as follows:

	2018	2017
Dividends and interest	\$ 3	\$ 26
Net realized/unrealized gains on investments	3,651	2,008
	\$3,654	\$2,034

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.

The contributions that the Foundation received in one fiscal year are required to be paid out in scholarships within the following two fiscal 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 fiscal years.

## **BROPHY COMMUNITY FOUNDATION**

### **NOTES TO FINANCIAL STATEMENTS - CONTINUED** For the Years Ended June 30, 2018 and 2017

#### **NOTE 3. STUDENT GRANTS PAYABLE - Continued**

As of June 30, 2018, student grants payable arising from individual, plus, and corporate donors totaled \$1,122,575, \$589,575, and \$6,608,676, respectively. All grants payable have been awarded to specific students with the exception of \$1,700 in plus grants and \$50,566 in corporate grants which will be awarded in the next two years.

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.

#### **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.

The Internal Revenue Service has issued proposed regulations (REG-112176-18) on August 23, 2018 that will no longer allow Foundation donors a charitable deduction on their federal tax return for the state tax credit donations made after August 27, 2018. The Foundation is currently evaluating the effect that these regulations will have on future operations.

#### **NOTE 5. MAJOR CONTRIBUTORS**

During the years ended June 30, 2018 and 2017, the Foundation received approximately 38% 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, 2018 and 2017, the Foundation's bank balances exceeded federally insured limits by \$9,131,142 and \$7,017,004, 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,

## **BROPHY COMMUNITY FOUNDATION**

### NOTES TO FINANCIAL STATEMENTS - CONTINUED For the Years Ended June 30, 2018 and 2017

#### **NOTE 7. FAIR VALUE MEASUREMENTS - Continued**

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:

	<u>Fair Value</u>	<u>Fair Value Measurements Using:</u>
		<u>Quoted Prices In Active Markets (Level 1)</u>
<u>June 30, 2018</u>		
Corporate Bonds	\$ -	\$ -
<u>June 30, 2017</u>		
Corporate Bonds	<u>\$1,748,612</u>	<u>\$1,748,612</u>

#### **NOTE 8. RELATED PARTY TRANSACTIONS**

The School and Foundation are associated in part due to one Foundation Board Member also being a School Administrator. Students of the School receive grants issued by the Foundation. As of June 30, 2018, and 2017, the School was allocated and paid grants from individual contributions totaling \$1,065,450 and \$934,396, plus contributions totaling \$587,875 and \$783,673, and corporate contributions totaling \$1,829,595 and \$2,870,438, respectively. The School is reimbursed for administrative support services provided to the Foundation. For the years ended June 30, 2018, and 2017, the School provided administrative support services totaling \$127,425 and \$113,701, respectively. The School also provided office space, utility, and accounting software to the Foundation as in-kind donations. For the years ended June 30, 2018 and 2017, the value of such in-kind donations were \$8,700 and \$8,700, respectively.

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

**BROPHY COMMUNITY FOUNDATION**

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
For the Years Ended June 30, 2018 and 2017

**NOTE 8. RELATED PARTY TRANSACTIONS - Continued**

	<u>2018</u>	<u>2017</u>
Due from related party	\$ 3,398	\$ 334
Due to related party	<u>(9,582)</u>	<u>(124,186)</u>
Net Amount Due to/from Related Party	<u><u>\$(6,184)</u></u>	<u><u>\$(123,852)</u></u>

**NOTE 9. SUBSEQUENT EVENTS**

Subsequent events were evaluated through October 10, 2018, which is the date the financial statements were available to be issued.