



MORTON
ACCOUNTING, LLC

INDEPENDENT
AUDITOR'S REPORT AND
FINANCIAL STATEMENTS



The Armand Hammer United World College of the American West

FOR THE YEAR ENDED MAY 31, 2019 and 2018

This page intentionally blank.

**THE ARMAND HAMMER UNITED WORLD COLLEGE OF THE AMERICAN WEST
TABLE OF CONTENTS**

Independent Auditor's Report	2
Financial Statements:	
Statements of Financial Position.....	4
Statements of Activities.....	6
Statements of Functional Expenses.....	8
Statements of Cash Flows.....	10
Notes to Financial Statements	12



www.mortonaccounting.com
1512 Pacheco Street
Suite D-204
Santa Fe, NM 87505
505.303.3557 (o)

INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Armand Hammer United World College of the American West
Montezuma, New Mexico

Report on Financial Statements

We have audited the accompanying financial statements of The Armand Hammer United World College of the American West (College), which comprise the statements of financial position as of May 31, 2019 and 2018, and the related statements of activities, functional expenses, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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 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.

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 the College as of May 31, 2019 and 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.

Emphasis of Matter

As discussed in Note B to the financial statements, in 2019, the College adopted the new accounting guidance ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. Our opinion is not modified with respect to this matter.

MORTON ACCOUNTING SERVICES, LLC

A handwritten signature in cursive script that reads "Morton Accounting Services, LLC".

Santa Fe, New Mexico

October 11, 2019

THE ARMAND HAMMER UNITED WORLD COLLEGE OF THE AMERICAN WEST
STATEMENTS OF FINANCIAL POSITION
MAY 31, 2019 AND 2018

ASSETS

	2019	2018
ASSETS		
Cash and cash equivalents	\$ 3,025,381	\$ 4,853,079
Tuition and other receivables, net of allowance	3,253	10,764
Unconditional promises to give, net of allowance	-	88,007
Prepaid expenses	265,359	126,585
Investments	235,721,150	210,606,471
Cash and cash equivalents, restricted	6,361,482	11,414,915
	245,376,625	227,099,821
Property, Plant and Equipment:		
Land, buildings and improvements	44,585,038	41,534,964
Furniture and equipment	4,138,443	3,817,238
Construction in progress	-	1,726,496
	48,723,481	47,078,698
Accumulated depreciation and amortization	(32,444,240)	(31,432,734)
	16,279,241	15,645,964
	\$ 261,655,866	\$ 242,745,785

See auditor's report and accompanying notes to financial statements

THE ARMAND HAMMER UNITED WORLD COLLEGE OF THE AMERICAN WEST
STATEMENTS OF FINANCIAL POSITION
MAY 31, 2019 AND 2018

LIABILITIES AND NET ASSETS

	<u>2019</u>	<u>2018</u>
LIABILITIES		
Accounts payable	\$ 235,906	\$ 297,644
Accrued salaries and benefits	588,851	623,175
Leases payable	28,763	49,111
Agency funds and conditional contributions received	118,048,299	90,972,373
Deposits	48,508	48,000
Deferred revenue	813,913	683,092
Post retirement benefits payable	2,539,175	2,496,070
	<u>122,303,415</u>	<u>95,169,465</u>
NET ASSETS		
Without donor restrictions	22,186,400	21,771,157
With donor restrictions	117,166,051	125,805,163
	<u>139,352,451</u>	<u>147,576,320</u>
	<u><u>\$ 261,655,866</u></u>	<u><u>\$ 242,745,785</u></u>

See auditor's report and accompanying notes to financial statements

THE ARMAND HAMMER UNITED WORLD COLLEGE OF THE AMERICAN WEST
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MAY 31, 2019

	Without donor restrictions	With donor restrictions	2019 Total
Operating activities			
REVENUES AND OTHER SUPPORT			
Contributions and gifts	\$ 2,705,543	\$ 2,426,524	\$ 5,132,067
Contributions from related parties	73,815	144,233	218,048
Tuition and fees, net of scholarships	2,291,387	-	2,291,387
Ancillary and other income	173,069	-	173,069
Other revenue	56,639	-	56,639
Revenue released from restriction	8,808,394	(8,808,394)	-
 Total revenues and other support	 14,108,847	 (6,237,637)	 7,871,210
EXPENSES			
Educational	8,809,787	-	8,809,787
Supporting services:			
General and administrative	2,386,471	-	2,386,471
Other	1,310,192	-	1,310,192
Fundraising	1,017,837	-	1,017,837
 Total support services	 4,714,500	 -	 4,714,500
 Total expenses	 13,524,287	 -	 13,524,287
 Change in net assets from operations	 584,560	 (6,237,637)	 (5,653,077)
Nonoperating activities			
Investment return, net	(125,642)	(2,401,475)	(2,527,117)
Post retirement gains (charges) other than net periodic costs	(43,675)	-	(43,675)
 Total nonoperating activities	 (169,317)	 (2,401,475)	 (2,570,792)
 CHANGE IN NET ASSETS	 415,243	 (8,639,112)	 (8,223,869)
 NET ASSETS, beginning of year	 21,771,157	 125,805,163	 147,576,320
 NET ASSETS, end of year	 <u>\$ 22,186,400</u>	 <u>\$ 117,166,051</u>	 <u>\$ 139,352,451</u>

See auditor's report and accompanying notes to financial statements

THE ARMAND HAMMER UNITED WORLD COLLEGE OF THE AMERICAN WEST
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MAY 31, 2018

	Without donor restrictions	With donor restrictions	2018 Total
Operating activities			
REVENUES AND OTHER SUPPORT			
Contributions and gifts	\$ 933,072	\$ 1,057,556	\$ 1,990,628
Contributions from related parties	2,120,431	1,025,105	3,145,536
Tuition and fees, net of scholarships	2,817,753	-	2,817,753
Ancillary and other income	179,117	-	179,117
Other revenue	36,990	-	36,990
Revenue released from restriction	8,277,552	(8,277,552)	-
 Total revenues and other support	 14,364,915	 (6,194,891)	 8,170,024
EXPENSES			
Educational	7,698,931	-	7,698,931
Supporting services:			
General and administrative	3,106,321	-	3,106,321
Other	1,618,679	-	1,618,679
Fundraising	790,715	-	790,715
 Total support services	 5,515,715	 -	 5,515,715
 Total expenses	 13,214,646	 -	 13,214,646
 Change in net assets from operations	 1,150,269	 (6,194,891)	 (5,044,622)
Nonoperating activities			
Investment return, net	714,486	11,193,542	11,908,028
Post retirement gains (charges) other than net periodic costs	1,888,781	-	1,888,781
 Total nonoperating activities	 2,603,267	 11,193,542	 13,796,809
 CHANGE IN NET ASSETS	 3,753,536	 4,998,651	 8,752,187
 NET ASSETS, beginning of year	 18,017,621	 120,806,512	 138,824,133
 NET ASSETS, end of year	 \$ 21,771,157	 \$ 125,805,163	 \$ 147,576,320

See auditor's report and accompanying notes to financial statements

THE ARMAND HAMMER UNITED WORLD COLLEGE OF THE AMERICAN WEST
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED MAY 31, 2019

	2019			
	Education Services	Management and General	Fundraising	Total
Salaries	\$ 3,975,386	\$ 725,461	\$ 277,237	\$ 4,978,084
Payroll taxes	288,660	52,695	17,169	358,524
Employee benefits	598,428	272,469	45,319	916,216
Total salaries and related expenses	4,862,474	1,050,625	339,725	6,252,824
Maintenance and repair	755,832	40	-	755,872
Labor - cafeteria	544,778	-	-	544,778
Food - cafeteria	395,799	-	-	395,799
Supplies and materials	369,188	17,551	2,810	389,549
Professional fees	130,341	190,209	52,429	372,979
Insurance	115,279	200,536	-	315,815
Dues and subscriptions	4,049	310,862	170	315,081
Utilities	272,368	-	-	272,368
Service agreements	125,896	1,400	37,766	165,062
Postage and printing	47,366	10,080	102,061	159,507
General student activities	144,469	12,126	218	156,813
Travel and transportation	120,495	18,776	10,447	149,718
Licenses and fees	126,218	1,573	1,109	128,900
Contract labor	20,123	465	98,549	119,137
Connectivity and internet	106,021	3,734	-	109,755
Post retirement	-	102,853	-	102,853
Grants to individuals	93,409	-	-	93,409
Miscellaneous	51,056	18,542	39	69,637
Recruitment	42,653	21,439	3,298	67,390
Bank and merchant fees	103	33,949	25,842	59,894
Software	57,872	1,111	-	58,983
Meals and entertainment	36,146	16,221	3,469	55,836
Professional development	34,663	10,310	1,842	46,815
Provision for bad debt	-	23,666	-	23,666
Advertising	16,020	3,234	895	20,149
	3,610,144	998,677	340,944	4,949,765
Total expenses before depreciation	8,472,618	2,049,302	680,669	11,202,589
U.S. Students Abroad	1,310,192	-	-	1,310,192
Depreciation	337,169	337,169	337,168	1,011,506
Post-retirement (gains) losses	-	43,675	-	43,675
	\$ 10,119,979	\$ 2,430,146	\$ 1,017,837	\$ 13,567,962

See auditor's report and accompanying notes to financial statements

THE ARMAND HAMMER UNITED WORLD COLLEGE OF THE AMERICAN WEST
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED MAY 31, 2018

	2018			
	Education	Management and General	Fundraising	Total
Salaries	\$ 3,535,248	\$ 920,637	\$ 285,338	\$ 4,741,223
Payroll taxes	231,716	52,486	19,670	303,872
Employee benefits	597,353	311,286	72,555	981,194
Total salaries and related expenses	4,364,317	1,284,409	377,563	6,026,289
Labor - cafeteria	519,156	-	-	519,156
Insurance	-	391,619	-	391,619
Food - cafeteria	386,813	51	63	386,927
Maintenance and repair	383,962	-	-	383,962
Professional fees	140,067	232,453	10,201	382,721
Dues and subscriptions	7,509	339,143	-	346,652
Supplies and materials	292,919	37,236	1,560	331,715
Utilities	277,777	-	-	277,777
Post retirement	-	273,377	-	273,377
Licenses and fees	187,186	4,126	5,633	196,945
Travel and transportation	145,756	29,521	6,427	181,704
General student activities	120,077	14,127	1,566	135,770
Contract labor	102,438	15,003	-	117,441
Connectivity and internet	92,503	6,831	960	100,294
Postage and printing	43,756	33,308	18,905	95,969
Service agreements	83,043	1,469	-	84,512
Grants to individuals	14,730	56,587	-	71,317
Provision for bad debt	57,305	-	-	57,305
Software	51,838	4,787	-	56,625
Meals and entertainment	41,110	6,186	5,573	52,869
Recruitment	26,205	483	-	26,688
Bank and merchant fees	60	26,164	-	26,224
Advertising	302	2,616	19,365	22,283
Professional development	14,030	4,458	532	19,020
Miscellaneous	3,704	-	-	3,704
	2,992,246	1,479,545	70,785	4,542,576
Total expenses before depreciation	7,356,563	2,763,954	448,348	10,568,865
U.S. Students Abroad	1,618,679	-	-	1,618,679
Depreciation	342,368	342,367	342,367	1,027,102
Post-retirement (gains) losses	-	(1,888,781)	-	(1,888,781)
	-	(1,888,781)	-	(1,888,781)
Total expenses	\$ 9,317,610	\$ 1,217,540	\$ 790,715	\$ 11,325,865

See auditor's report and accompanying notes to financial statements

THE ARMAND HAMMER UNITED WORLD COLLEGE OF THE AMERICAN WEST
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MAY 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (8,223,869)	\$ 8,752,187
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	1,011,506	1,027,103
Provision for uncollectible receivables	23,666	57,305
Unrealized and realized (gains) losses on investments, net	3,062,536	(11,024,685)
Contributions restricted to long-term investment	(219,335)	(9,717)
Changes in operating assets and liabilities:		
Tuition receivables	(16,155)	(65,956)
Unconditional promises to give	88,007	(54,284)
Prepaid expenses	(138,774)	(112,438)
Accounts payable	(61,738)	106,159
Accrued salaries and benefits	(34,324)	11,150
Agency funds payable and conditional contributions	27,075,926	27,782,191
Deposits	508	16,190
Deferred revenue	130,821	(103,775)
Post retirement benefits payable	43,105	(1,750,881)
CASH PROVIDED BY OPERATING ACTIVITIES	22,741,880	24,630,549

See auditor's report and accompanying notes to financial statements

THE ARMAND HAMMER UNITED WORLD COLLEGE OF THE AMERICAN WEST
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MAY 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant & equipment	(1,644,783)	(1,660,104)
Purchase of investments	(43,683,630)	(43,061,511)
Proceeds and distributions from investments	15,506,415	9,598,313
CASH USED FOR INVESTING ACTIVITIES	(29,821,998)	(35,123,302)
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital lease payments	(20,348)	(19,357)
Investment in permanent endowment	219,335	9,717
CASH PROVIDED (USED) BY FINANCING ACTIVITIES	198,987	(9,640)
NET DECREASE IN CASH	(6,881,131)	(10,502,393)
CASH AT BEGINNING OF YEAR	16,267,994	26,770,387
CASH AT END OF YEAR	\$ 9,386,863	\$ 16,267,994

See auditor's report and accompanying notes to financial statements

THE ARMAND HAMMER UNITED WORLD COLLEGE OF THE AMERICAN WEST
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2019 AND 2018

NOTE A - NATURE OF ACTIVITIES

The Armand Hammer United World College of the American West (College), located in Montezuma, New Mexico, is a New Mexico not-for-profit corporation that promotes peace and international understanding through education. The College is one of thirteen United World Colleges. The United World Colleges are a system of independent, secondary Colleges, with a coordinating office in London, England. The College is accredited by the Independent College Association of the Southwest.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting. The accompanying financial statements have been prepared using the accrual method of accounting. Under the accrual method of accounting, revenues are recognized when earned rather than when received and expenses are recognized when the related liability is incurred rather than when paid.

Classification of net assets. The College is incorporated in and subject to the laws of New Mexico, which incorporate the provisions outlined in the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Under UPMIFA, the net assets of a donor restricted endowment fund may be appropriated for expenditure by the College in accordance with the standard of prudence prescribed by UPMIFA. The College has classified its net assets as follows:

Net assets without donor restrictions. This class represents net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the College's management and the board of directors.

Net assets with donor restrictions. These net assets are subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the College or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

THE ARMAND HAMMER UNITED WORLD COLLEGE OF THE AMERICAN WEST
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2019 AND 2018

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measure of operations – The statements of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the College's ongoing education and interest and dividends earned on investments. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

Fair value measurements. The College reports investments at fair value. Fair value represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date. GAAP establishes a fair value hierarchy that prioritizes inputs to measure fair value into three levels:

Level 1 - unadjusted quoted prices in an active market that are accessible at the measurement date for assets or liabilities;

Level 2 - observable prices that are based on inputs not quoted in active markets, but corroborated by market data; and

Level 3 - unobservable inputs are used when little or no market data is available.

The fair value hierarchy gives the highest priority to level 1 inputs and the lowest to level 3 inputs. Fair values for shares in registered mutual funds are based on published share prices. The College uses net asset values reported by fund managers as a practical expedient to estimate fair values of its investments held through limited partnerships and other funds. Classification of these investments within the fair value hierarchy is based on the College's ability to timely redeem its interest rather than on inputs used.

Use of estimates. The preparation of financial statements in conformity with GAAP 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 amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates and assumptions made by management include the allowance for uncollectible receivables, useful lives and impairment of value of property and equipment, fair value measurements of investments, and the factors used in determining costs and the liability related to the employee benefit plans and other employee benefits.

THE ARMAND HAMMER UNITED WORLD COLLEGE OF THE AMERICAN WEST
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2019 AND 2018

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Values of Assets and Liabilities. The carrying values for cash and cash equivalents, unconditional promises to give, other receivables, and short term payables are recorded at cost as fair value approximates cost due to terms and relative short maturity of these financial instruments.

Cash and cash equivalents. The College considers cash, checking accounts, money market accounts, and highly liquid instruments with original maturities of three months or less, to be cash and cash equivalents, except for amounts that are subject to donor restrictions. The College maintains cash balances at several financial institutions in excess of insurance provided by the FDIC.

Tuition receivables. Tuition receivables consists of student accounts receivable and national committee accounts receivable. These receivables are written off when they are determined to be uncollectible based on credit terms with the national committees, historical collection information and existing economic conditions.

Inventory. The College expenses all materials as they are purchased and no inventory is recorded.

Property, plant and equipment. Property, plant and equipment acquisitions are recorded at cost when purchased or at fair market value when received as a donation. Expenditures for replacements are capitalized, and the replaced items are retired. Maintenance and repairs are charged to expense as incurred. The College reviews its long-lived assets for impairment whenever changes in events or circumstances indicate that the carrying amount of an asset (cost less applicable amortization or depreciation) may not be recoverable.

Depreciation is recorded on a straight-line basis over the estimated useful lives of the depreciable assets. The estimated useful lives range from 15 to 40 years for buildings and improvements, and from 3 to 20 years for furniture and equipment. Amortization is provided principally on a straight-line basis over the estimated economic lives of the capital leases.

Contributions. Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a 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 statements of activities as net assets released from restrictions.

THE ARMAND HAMMER UNITED WORLD COLLEGE OF THE AMERICAN WEST
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2019 AND 2018

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

Unconditional promises to give to be received after one year are measured at present value using a discount rate commensurate with the terms of the contribution. Amortization of the discount is recorded as contribution revenue in accordance with donor-imposed restrictions, if any, on the contribution.

An allowance is made for uncollectible unconditional promises to give based upon management's judgment, past collection experience and other relevant factors.

Conditional contributions. Conditional contributions received include donor payments received prior to match conditions being met or other criteria that has not been met based on donor requirements.

Donated services. Donated services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the College. No amounts have been reflected in the statements for donated services because they did not meet the criteria for recognition. Additionally, the College regularly uses volunteers to assist in providing services, but those services did not meet the criteria for recognition and have not been recognized in these financial statements.

Deferred revenue. Deferred revenue primarily represents tuition and summer course fees received through the statement of financial position date that relates to the academic term and seminars following the end of the fiscal year, and will be reported as revenues in the subsequent fiscal year.

Tuition and scholarships. Gross tuition and fees reflects the College's normal tuition rates for all students. Scholarships given are netted against gross tuition and fees to the extent they exceed incremental costs incurred.

The College receives tuition payments from other United World Colleges in the system and national committees for students, which are recorded as tuition revenue.

THE ARMAND HAMMER UNITED WORLD COLLEGE OF THE AMERICAN WEST
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2019 AND 2018

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Ancillary income. Ancillary income is comprised primarily of summer educational programs that are consistent with the mission of the College and conducted by the College. Ancillary income, net of related direct expense of \$173,069 and \$179,117 for the years ended May 31, 2019 and 2018, respectively, does not include any allocation of indirect or overhead cost.

Income taxes. The College is exempt from income tax under Section 501 (c)(3) of the Internal Revenue Code (the Code) and comparable state law. Contributions to the College are tax deductible within the limitations prescribed by the Code. Accordingly, no provision for income taxes is included in the accompanying financial statements. Interest and penalties recognized will be classified in the financial statements as an expense. With few exceptions, the College is no longer subject to U.S. federal, state, or local income tax examinations by tax authorities for years before 2017.

Functional expenses. The costs of providing program and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among educational services and supporting services benefited. Such allocations are determined by management on an equitable basis.

Expense	Method of Allocation	Expense	Method of Allocation
Salaries and related	Square footage	Service agreements	Actual costs
Maintenance and repair	Full time equivalent	Printing and publications	Full time equivalent
Labor - cafeteria	Actual costs	General student activities	Actual costs
Food - cafeteria	Actual costs	Travel and Transportation	Full time equivalent
Supplies and materials	Actual costs	Licenses and fees	Actual costs
Professional fees	Actual costs	Recruitment	Actual costs
Maintenance and repair	Square footage	Bank and merchant fees	Actual costs
Provision for bad debt	Actual costs	Miscellaneous	Actual costs
Insurance	Full time equivalent	Meals and entertainment	Actual costs
Dues and subscriptions	Full time equivalent	Professional development	Actual costs
Utilities	Square footage	Contract labor	Actual costs
Connectivity and internet	Full time equivalent	Advertisting	Actual costs

Grants to individuals are are considered educational costs. Post retirement expenses and provision for bad debt are categorized as general and administrative expenses.

THE ARMAND HAMMER UNITED WORLD COLLEGE OF THE AMERICAN WEST
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2019 AND 2018

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Advertising costs. The College expenses all advertising costs in the period in which they are incurred.

Reclassifications. Certain 2018 financial information has been reclassified to conform to the 2019 presentation.

New Accounting Pronouncement. On August 18, 2016, FASB issued 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 classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The College has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

Subsequent events. Management has evaluated subsequent events through October 11, 2019, the date the financial statements were available to be issued.

NOTE C - AVAILABILITY AND LIQUIDITY

The following represents the College's financial assets at May 31:

Financial assets at year end:	2019	2018
Cash and cash equivalents	\$ 3,025,381	\$ 4,853,079
Tuition and other receivables	3,253	98,771
Investments	235,721,150	210,606,471
Restricted cash	6,361,482	11,414,915
	245,111,266	226,973,236
Less amounts not available to be used for operations within one year:		
Net assets with donor restrictions	117,166,051	125,805,163
Less net assets with purpose restrictions to be met in less than a year (estimated release of restrictions)	(8,900,000)	(8,810,000)
Quasi endowment established by board	1,766,947	2,112,944
Agency funds and conditional contributions	118,048,299	90,972,373
	228,081,297	210,080,480
Financial assets available for expenditures over next 12 months	\$ 17,029,969	\$ 16,892,756

THE ARMAND HAMMER UNITED WORLD COLLEGE OF THE AMERICAN WEST
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2019 AND 2018

NOTE C - AVAILABILITY AND LIQUIDITY (continued)

The College's goal is generally to maintain financial assets to meet 90 days of operating expenses (approximately \$1.4 million). As part of its liquidity plan, excess cash is invested in certificates of deposit and/or an interest bearing money market account.

NOTE D - NET ASSETS

Net assets without donor restrictions consist of the following at May 31:

	2019	2018
Undesignated	\$ 19,539,967	\$ 18,772,654
Quasi-endowment established by board	1,766,947	2,112,944
Designated for Plant	471,777	470,463
Reserve for post-retirement liability	407,709	415,096
Total assets without donor restrictions	\$ 22,186,400	\$ 21,771,157

Net assets with donor restriction consist of the following at May 31 ,

	2019	2018
Specific Purpose:		
Scholarship and other	\$ 242,026	\$ 840,828
Property and equipment	18,651	112,206
	260,677	953,034
Endowments:		
Scholarships and other	114,781,568	122,095,007
Property and equipment	2,123,806	2,757,122
	116,905,374	124,852,129
Total assets with donor restrictions	\$ 117,166,051	\$ 125,805,163

Endowment corpus to be maintained in perpetuity consist of donor-restricted endowments and other non-endowed net assets that are restricted to investments for which income is expendable for the purposes noted.

THE ARMAND HAMMER UNITED WORLD COLLEGE OF THE AMERICAN WEST
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2019 AND 2018

NOTE E - TUITION AND OTHER RECEIVABLES, NET OF ALLOWANCE

The composition of tuition and other receivables, net of allowance is as follows at May 31 ,

	2019	2018
Tuition and other receivables	\$ 70,185	\$ 139,324
Allowance for uncollectable accounts	(66,932)	(128,560)
	\$ 3,253	\$ 10,764

NOTE F - UNCONDITIONAL PROMISES TO GIVE, NET OF ALLOWANCE

Unconditional promises to give were \$0 and \$88,007, at May 31, 2019 and 2018, respectively.

NOTE G - INVESTMENTS AND FAIR VALUE MEASUREMENTS

The following financial instruments are carried at fair value in the College's financial statements: fixed maturities, equity, securities, and separate account assets.

Investments consist of the following as of May 31, 2019:

	Level 1	Level 2	Level 3	Total
Domestic broad equities	\$ 173,926,936	\$ -	\$ -	\$ 173,926,936
Small cap broad equities	-	5,496,315	-	5,496,315
Emerging country debt	-	15,311,202	-	15,311,202
High yield	-	-	-	-
Alternative assets	-	-	731,794	731,794
International equities	-	31,831,144	-	31,831,144
Real estate	-	-	339,399	339,399
Domestic REIT	8,084,360	-	-	8,084,360
	\$ 182,011,296	\$ 52,638,661	\$ 1,071,193	\$ 235,721,150

THE ARMAND HAMMER UNITED WORLD COLLEGE OF THE AMERICAN WEST
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2019 AND 2018

NOTE G - INVESTMENTS AND FAIR VALUE MEASUREMENTS (continued)

The following is a summary of the activity of financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ending May 31, 2018:

	Real Estate	Alternative Assets	Total
Balance, beginning of year	\$ 339,399	\$ 938,223	\$ 1,277,622
Realized and unrealized gains and losses	-	(9,522)	(9,522)
Purchases	-	-	-
Redemptions	-	(196,907)	(196,907)
Balance, end of year	<u>\$ 339,399</u>	<u>\$ 731,794</u>	<u>\$ 1,071,193</u>

Investments consist of the following as of May 31, 2018:

	Level 1	Level 2	Level 3	Total
Domestic broad equities	\$ 147,443,618	\$ -	\$ -	\$ 147,443,618
Small cap broad equities	-	6,041,541	-	6,041,541
Emerging country debt	-	14,538,714	-	14,538,714
High yield	-	-	-	-
Alternative assets	-	-	938,223	938,223
International equities	-	33,780,593	-	33,780,593
Real estate	-	-	339,399	339,399
Domestic REIT	7,524,383	-	-	7,524,383
	<u>\$ 154,968,001</u>	<u>\$ 54,360,848</u>	<u>\$ 1,277,622</u>	<u>\$ 210,606,471</u>

THE ARMAND HAMMER UNITED WORLD COLLEGE OF THE AMERICAN WEST
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2019 AND 2018

NOTE G - INVESTMENTS AND FAIR VALUE MEASUREMENTS (continued)

The following is a summary of the activity of financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ending May 31, 2018:

	Real Estate	Alternative Assets	Total
Balance, beginning of year	\$ 339,399	\$ 1,144,791	\$ 1,484,190
Realized and unrealized gains and losses	-	76,220	76,220
Purchases	-	-	-
Redemptions	-	(282,788)	(282,788)
Balance, end of year	<u>\$ 339,399</u>	<u>\$ 938,223</u>	<u>\$ 1,277,622</u>

The College diversifies by asset class, geographic concentration, and other risk factors as determined by the Investment Subcommittee. The purpose of the diversification is to minimize exposure to any one market sector disruption, while ensuring that the College captures the benefit of out-performance from a variety of financial sectors.

The unfunded commitments, that the College is obligated to fund for various alternative investments, at May 31, 2019 and 2018 are listed below. The timing of the payment of the remaining commitment to purchase additional limited partnership interest is based on the sole discretion of the general partner. There are no redemption restrictions on alternative investments.

	2019	2018
Alternative assets	<u>\$ 130,699</u>	<u>\$ 148,411</u>

Investment return, net is comprised of the following components for the years ended May 31,

	2019	2018
Interest, dividends and partnership gains/losses, net of investment fees	\$ 535,419	\$ 883,343
Net realized and unrealized (losses)/gains, net of investment fees	(3,062,536)	11,024,685
	<u>\$ (2,527,117)</u>	<u>\$ 11,908,028</u>

THE ARMAND HAMMER UNITED WORLD COLLEGE OF THE AMERICAN WEST
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2019 AND 2018

NOTE H - BENEFIT PLANS

Defined Contribution Pension Plan. The College maintains a 403(b) plan for the College's employees. Under the 403(b) plan, eligible employees may elect to contribute amounts up to maximum levels established by the 403(b) plan. All of the College's eligible employees may participate in the 403(b) plan; however, only employees having completed one year of service are eligible for contributions from the College. Currently, the College matches 100 percent of employee contributions up to 8 percent of employee compensation. Employees immediately vest in their contributions to the 403(b) plan and vest in all of the College's contributions after meeting the one year of service. The College's contributions to the 403(b) plan totaled approximately \$229,839 in 2019 and \$232,587 in 2018.

Defined Benefit Retiree Health Plan. In addition, the College provides post-employment benefits for eligible employees, including retiree health insurance (the Retiree Health Plan). The amount of health insurance coverage is dependent upon the employee's years of service at retirement. As of June 1, 1998, the College amended the Retiree Health Plan to eliminate benefits to future employees. The College uses an actuary to calculate its accumulated benefit obligation.

The College uses a measurement date of May 31 for the Retiree Health Plan. The following table sets forth the College's defined benefit plan funded status as provided by consulting actuaries, as of May 31:

	2019	2018
Change in benefit obligation:		
Projected benefit obligation at beginning of year	\$ 2,496,070	\$ 4,246,951
Service cost	12,350	24,478
Interest cost	93,586	153,966
Actuarial loss	43,862	(1,793,399)
Benefits paid	(106,693)	(135,926)
Projected benefit obligation at end of year	\$ 2,539,175	\$ 2,496,070
Change in plan assets:		
Fair value of plan assets beginning of year	\$ -	\$ -
Employer contribution	106,693	135,926
Benefits paid	(106,693)	(135,926)
Fair value of plan assets end of year	-	-
Projected benefit obligation at end of year	(2,539,175)	(2,496,070)
Funded status	\$ (2,539,175)	\$ (2,496,070)

THE ARMAND HAMMER UNITED WORLD COLLEGE OF THE AMERICAN WEST
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2019 AND 2018

NOTE H - BENEFIT PLANS (continued)

Net periodic benefit cost includes the following components for the years ended May 31 ,

	2019	2018
Service cost	\$ 12,350	\$ 24,478
Interest cost	93,586	153,966
Amortization of unrecognized transition obligation	-	-
Amortization of unrecognized actuarial loss	187	95,382
	\$ 106,123	\$ 273,826

Amounts unrecognized in net periodic benefit cost:

Net actuarial loss	\$ 252,785	\$ 2,141,566
--------------------	------------	--------------

	2019	2018
Amortization amounts in the following year:		
Net actuarial loss	\$ 2,659	\$ 187

Actuarial assumptions used were as follows as of May 31,

	2019	2018
Discount rate	3.45%	3.70%
Medical trend rate	5.40%	5.50%
Ultimate rate	3.90%	3.80%
Year ultimate rate reached	2076	2076

As an indicator of sensitivity, a one percentage point change in assumed health care cost trend rate could affect 2019 as shown below:

	1% Increase	1% Decrease
Effect on 2019 postretirement health benefits service and interest cost	\$ 16,908	\$ (13,636)
Effect on postretirement health benefits obligation as of May 31, 2019:	\$ 358,483	\$ (294,174)

THE ARMAND HAMMER UNITED WORLD COLLEGE OF THE AMERICAN WEST
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2019 AND 2018

NOTE H - BENEFIT PLANS (continued)

Estimated future benefit payments are as follows for the year ended May 31 ,

	2019
2020	\$ 136,532
2021	122,421
2022	125,946
2023	132,455
2024	136,947
Years 2025 - 2029	668,182
Years 2030 - 2034	651,657
Years 2035 - 2039	607,841
2040	111,631

NOTE I - CAPITAL LEASES

The College leases copiers under a capital lease arrangement. The assets and liabilities under capital lease are recorded at the lower of the present value of the minimum lease payments or the fair value of the assets. The assets are amortized over the lesser of their related lease term or their estimated productive lives. Amortization of assets held under capital leases is included with depreciation expense.

The following is a summary of properties held under capital leases at May 31,

	2019
Property, plant and equipment	\$ 98,250
Less accumulated amortization	(69,487)
	\$ 28,763

Minimum future lease payments under capital leases are approximated as follows:

	2019
2020	\$ 22,341
2021	7,447
Thereafter	-
Total minimum lease payments	29,788
Less amount representing interest	(1,025)
Amount representing principal	\$ 28,763

THE ARMAND HAMMER UNITED WORLD COLLEGE OF THE AMERICAN WEST
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2019 AND 2018

NOTE J - ENDOWMENT

The College's endowment consists of approximately 60 individual funds established for a variety of purposes. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions.

The College's governing board has interpreted the New Mexico "Uniform Prudent Management of Institutional Funds Act" statute (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 stipulations to the contrary. As a result of this interpretation, the College classifies as net assets with donor restrictions: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The board considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the College and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation or deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the College
- (7) The investment policies of the College

Return Objectives and Risk Parameters

The College has adopted its investment policy in an attempt to provide a relatively predictable, stable and constant return to assist the College in meeting its spending needs, while seeking to increase the size of the endowment through appreciation of capital and by contributing excess income. In quantitative terms, the overall financial objective is to attain, over the long-term, an average annual total return (net of management fees) which is the sum of: (1) the spending rate of 5% per year, plus (2) 1 % - 2% growth, plus (3) the inflation rate.

THE ARMAND HAMMER UNITED WORLD COLLEGE OF THE AMERICAN WEST
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2019 AND 2018

NOTE J - ENDOWMENT (continued)

Strategies Employed for Achieving Objectives

To satisfy the long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College targets a diversified asset allocation to achieve long-term objectives with prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to the Spending Policy

The College invests its endowment funds and allocates the related return for expenditure in accordance with the total return concept. The endowment utilization is determined in accordance with the policy adopted by the College. This policy targets the spending rate at 5% of the average fair market value of applicable endowments over the prior twelve quarters. Accordingly, over the longterm, the College expects the current spending policy will allow the endowment to grow. This is consistent with objectives to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

Endowment Funds with Deficits (Underwater Endowment)

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the fund's historic dollar value. These deficiencies result principally from investment losses and continued spending policy appropriations deemed prudent by the College. Subsequent gains that restore the fair value of the assets of these endowment funds to their historic dollar value will be classified as increases in net assets without donor restrictions. The College had no underwater endowments during fiscal years 2019 or 2018.

Endowment net assets composition by type of fund as of May 31, 2019:

	Without donor restrictions	With donor restrictions	Total
Donor-restricted	\$ -	\$ 116,905,374	\$ 116,905,374
Board-designated	1,766,947	-	1,766,947
	<u>\$ 1,766,947</u>	<u>\$ 116,905,374</u>	<u>\$ 118,672,321</u>

THE ARMAND HAMMER UNITED WORLD COLLEGE OF THE AMERICAN WEST
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2019 AND 2018

NOTE J - ENDOWMENT (continued)

Changes in endowment net assets for the fiscal year ending May 31, 2019:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	\$ 2,112,944	\$ 124,852,129	\$ 126,965,073
Contributions and gifts	-	219,335	219,335
Investment return, net	(41,600)	(2,382,926)	(2,424,526)
Appropriation of assets for expenditure	(304,397)	(5,783,164)	(6,087,561)
Endowment net assets, end of year	<u>\$ 1,766,947</u>	<u>\$ 116,905,374</u>	<u>\$ 118,672,321</u>

Endowment net assets composition by type of fund as of May 31, 2018:

	Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment	\$ -	\$ 124,852,129	\$ 124,852,129
Board-designated endowment	2,112,944	-	2,112,944
	<u>\$ 2,112,944</u>	<u>\$ 124,852,129</u>	<u>\$ 126,965,073</u>

THE ARMAND HAMMER UNITED WORLD COLLEGE OF THE AMERICAN WEST
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2019 AND 2018

NOTE J - ENDOWMENT (continued)

Changes in endowment net assets for the fiscal year ending May 31, 2018:

	Without donor restrictions	With donor restrictions	Total
	<u> </u>	<u> </u>	<u> </u>
Endowment net assets, beginning of year	\$ 2,028,054	\$ 119,408,396	\$ 121,436,450
Contributions and gifts	-	9,717	9,717
Investment return, net	189,828	11,106,208	11,296,036
Appropriation of assets for expenditure	<u>(104,938)</u>	<u>(5,672,192)</u>	<u>(5,777,130)</u>
Endowment net assets, end of year	<u><u>\$ 2,112,944</u></u>	<u><u>\$ 124,852,129</u></u>	<u><u>\$ 126,965,073</u></u>

NOTE K - RELATED PARTY TRANSACTIONS

Employees and members of the board (related parties) provide direct financial assistance individually or through foundations with which they are associated. Such financial assistance is designated without donor restrictions or with donor restrictions and have been classified accordingly.

A board member of the College is a director of an entity that provides investment services to the College. The amount of the investment with this entity is \$61.7 million and \$58.3 million for the years ended May 31, 2019 and 2018, respectively.

THE ARMAND HAMMER UNITED WORLD COLLEGE OF THE AMERICAN WEST
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2019 AND 2018

NOTE L - OPERATING LEASES

The College leases office equipment and a housing rental under noncancelable operating leases with a term of one to five years. Lease expense for the years ended May 31, 2019 and 2018 was \$46,881 and \$18,806, respectively. The following is a schedule by years of future minimum rentals under the leases for the year ended May 31:

	2019
2020	12,771
2021	2,190
2022	-
2023	-
2025	-

NOTE M - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The College insures their property through an insurance company.

NOTE N - CONCENTRATIONS

For the year ended May 31, 2019, the College received 70% of its contributions and gifts from four donors.

For the year ended May 31, 2018, the College received 78% of its contributions and gifts from three donors.

THE ARMAND HAMMER UNITED WORLD COLLEGE OF THE AMERICAN WEST
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2019 AND 2018

NOTE O - AGENCY FUNDS AND CONDITIONAL CONTRIBUTIONS RECEIVED

The College administers funds on behalf of others in exchange for a nominal administrative fee. In addition, the College receives conditional contributions. Agency funds and conditional contributions, which are included on the statements of financial position, consist of the following at May 31,

	2019	2018
Agency funds held for distribution to other Colleges	\$ 117,009,974	\$ 90,217,508
Conditional contributions pending designation/use by donor	1,038,325	754,865
	\$ 118,048,299	\$ 90,972,373

NOTE P - COMMITMENTS

The College has the following commitments at year end:

Project	Total Cost	Amount Expended as of 5/31/2019	Percent Complete	Estimated Date of Completion
IB Workshop Conference Services	\$ 203,845	\$ -	0%	July 2019
CW & Hgraphics Wayfinding	16,625	-	0%	September 2019
Website Redesign	43,000	43,000	85%	July 2019
Total commitments	\$ 263,470	\$ 43,000		