

American Pathways University

FINANCIAL STATEMENTS

With Independent Auditors' Report

August 31, 2011 and 2010

American Pathways University

FINANCIAL STATEMENTS

August 31, 2011 and 2010

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WAGNER
BARNES, PC

Certified Public Accountants & Business Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
American Pathways University

We have audited the accompanying statements of financial position of American Pathways University (a nonprofit organization) as of August 31, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of APU's management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Pathways University as of August 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2012 on our consideration of American Pathways University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audit was conducted for the purposes of forming an opinion of the basic financial statements taken as a whole. The accompanying Note 8 on the University's calculation of its Title IV 90/10 revenue test and Note 9 on related party transactions are required by the U.S. Department of Education and are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The accompanying supplemental information on pages 11 through 14 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

Wagner Barnes, PC

Lakewood, Colorado
January 20, 2012

American Pathways University
(a 501(c)(3) organization)
STATEMENTS OF FINANCIAL POSITION
August 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 1)	\$ 50,196	\$ 31,680
Accounts receivable (net allowance for doubtful accounts of \$4,434 and \$7,261, respectively) (Note 1)	15,064	23,516
Endowments receivable, net (Note 2)	<u>2,621,655</u>	<u>2,234,410</u>
Total current assets	<u>2,686,915</u>	<u>2,289,606</u>
PROPERTY AND EQUIPMENT (Note 3):		
Intellectual property	412,100	412,100
Library resources	<u>21,550</u>	<u>21,550</u>
Total property and equipment	<u>433,650</u>	<u>433,650</u>
OTHER ASSETS		
Endowments receivable, net (Note 2)	<u>10,729,898</u>	<u>9,365,603</u>
Total assets	<u><u>\$ 13,850,463</u></u>	<u><u>\$ 12,088,859</u></u>
LIABILITIES and NET ASSETS		
LIABILITIES	<u>\$ -</u>	<u>\$ -</u>
NET ASSETS		
Unrestricted	498,910	488,846
Temporarily restricted	13,351,553	11,600,013
Permanently restricted	<u>-</u>	<u>-</u>
Total net assets	<u>13,850,463</u>	<u>12,088,859</u>
Total liabilities and net assets	<u><u>\$ 13,850,463</u></u>	<u><u>\$ 12,088,859</u></u>

The accompanying Notes to Financial Statements are an integral part of these statements.

American Pathways University
(a 501(c)(3) organization)

STATEMENTS OF ACTIVITIES

For The Years Ended August 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUES		
Tuition and educational fees	\$ 133,493	\$ 122,630
Service endowment revenue (Note 4)	5,000	40,000
Intellectual property	-	346,100
Donations	15,200	12,425
Other income	2,018	2,610
Net assets released from restrictions:		
Satisfaction of usage restrictions	3,550,762	3,057,978
Total unrestricted revenues	<u>3,706,473</u>	<u>3,581,743</u>
EXPENSES		
Accreditation	9,103	17,586
Financial aid	102,574	92,202
Legal and audit	14,400	9,500
Bad debts	10,426	16,052
Other expense	9,144	6,127
Salary expense	-	35,000
Salary expense (Note 4):		
Executive	285,000	240,000
Administrative	85,000	85,000
Department and program directors	20,000	30,000
Faculty services	638,333	715,000
Facility expense (Note 4):		
Offices	77,440	72,737
Classrooms	432,233	220,050
Auditorium	489,930	421,302
Other	553,084	312,131
Curricula (Note 4)	858,300	858,300
Uncollectible service contracts	111,442	103,458
Total expenses	<u>3,696,409</u>	<u>3,234,445</u>
Increase in unrestricted net assets (Note 4)	<u>10,064</u>	<u>347,298</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Service endowment revenue (Note 4)	910,790	746,094
Facilities endowment revenue (Note 4)	4,198,575	312,191
Curricula endowment revenue (Note 4)	192,937	230,236
Net assets released from restrictions:		
Satisfaction of usage restrictions	(3,550,762)	(3,057,978)
Increase (decrease) in temporarily restricted assets (Note 4)	<u>1,751,540</u>	<u>(1,769,457)</u>
INCREASE (DECREASE) IN NET ASSETS	1,761,604	(1,422,159)
NET ASSETS - Beginning of year	<u>12,088,859</u>	<u>13,511,018</u>
NET ASSETS - End of year	<u><u>\$ 13,850,463</u></u>	<u><u>\$ 12,088,859</u></u>

The accompanying Notes to Financial Statements are an integral part of these statements.

American Pathways University
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STATEMENTS OF CASH FLOWS

For The Years Ended August 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from programs	\$ 30,963	\$ 15,038
Cash donations	15,200	12,425
Cash paid to suppliers	<u>(27,647)</u>	<u>(28,213)</u>
Net cash provided (used) by operating activities	<u>18,516</u>	<u>(750)</u>
NET INCREASE (DECREASE) IN CASH (Note 1)	18,516	(750)
CASH AND CASH EQUIVALENTS - Beginning of year	<u>31,680</u>	<u>32,430</u>
CASH AND CASH EQUIVALENTS - End of year (Note 1)	<u><u>\$ 50,196</u></u>	<u><u>\$ 31,680</u></u>
 CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Net increase (decrease) in net assets	<u>\$ 1,761,604</u>	<u>\$ (1,422,159)</u>
 Adjustments to reconcile increase (decrease) in net assets to cash provided (used) by operating activities:		
(Increase)/decrease in accounts receivable	8,452	(1,948)
(Increase)/decrease in developed intangible assets	-	(346,100)
(Increase)/decrease in endowments receivable	<u>(1,751,540)</u>	<u>1,769,457</u>
Total adjustments	<u>(1,743,088)</u>	<u>1,421,409</u>
 NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u><u>\$ 18,516</u></u>	<u><u>\$ (750)</u></u>

The accompanying Notes to Financial Statements are an integral part of these statements.

American Pathways University
(a 501 (c)(3) organization)
Notes to Financial Statements
August 31, 2011 and 2010

Note 1 - Nature of activities and summary of significant accounting policies

Nature of activities

American Pathways University (APU) is a nonprofit University established in 2001 and incorporated in 2003 to provide a program of accredited undergraduate and graduate degrees in higher education, primary for low-income urban and inner-city learners in Denver, Colorado. APU is organized to provide opportunity to learners who have been traditionally unreached and underserved by higher education institutions and is designed to facilitate immediate and long-term changes in cognitive (thinking), effective (doing), and affective (being) domains, as cornerstones of successful lives for the learners it serves. APU currently provides educational services to approximately 277 students in the Denver area, according to academic year 2010/2011 enrollment records.

Basis of accounting

APU uses the accrual method of accounting whereby support and revenue is recognized when earned and expenses are recognized when the obligation is incurred.

Basis of presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Codification 958-205, Presentation of Financial Statements. Under Codification 958-205, APU is required 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. Unrestricted net assets are free of donor-imposed restrictions. Temporarily restricted net assets are limited as to use by donor-imposed stipulations that expire with the passage of time or that can be satisfied by action of APU. Permanently restricted net assets are amounts required by donors to be held in perpetuity, generally permitting APU to use all or a portion of the income on related investments for general or specific purposes.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires APU 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.

Cash and cash equivalents

Cash and cash equivalents include all monies in banks and highly liquid investments with maturity date of less than three months.

American Pathways University
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Notes to Financial Statements
(continued)
August 31, 2011 and 2010

Cash and cash equivalents at August 31, 2011 and 2010 consisted of the following:

	<u>2011</u>	<u>2010</u>
Cash deposits	\$ 50,196	\$ 31,680

Accounts receivable

The allowance for doubtful accounts is based on management's evaluation of outstanding accounts receivable at the end of the year. As of August 31, 2011 and 2010, management estimates an allowance for doubtful accounts in the amount of \$4,434 and \$7,261, respectively.

Property and equipment

It is APU's policy to capitalize property and equipment over \$500. Lesser amounts are expensed. Purchased property and equipment are carried at cost and donated property and equipment are carried at the approximate fair value at the date of donation. Depreciation of equipment and amortization of intangible assets is computed using the straight-line method over the estimated useful lives of the assets. As of August 31, 2011 and 2010, APU had intangible assets consisting of \$412,100 in intellectual property (textbook development) and \$21,550 in library resources.

Liabilities

APU management has adopted a policy to operate APU without debt. During the years ended August 31, 2011 and 2010, all expenses were paid when incurred and no debt agreements existed. Therefore, no liabilities are reflected in the financial statements.

Revenue recognition

Student tuition and educational fees are recorded as gross revenues during the year the related academic services are rendered. Financial aid provided by APU for tuition and fees is reflected as an expense during the year in which related academic services are rendered.

APU enters into contractual agreements with all parties that promise to give services (service endowments) or facilities (facility endowments) to APU. APU management, based upon reliance on the opinion of APU's legal counsel, believes that the agreements are legally enforceable contracts with the donors. APU considers the obligations of the endowment contracts, whether monetary or nonmonetary, to be endowments to APU. Unconditional endowments for services or facility use are recognized as endowment revenue in the academic year in which the donor's contractual period commences. The estimated fair value of the entire contract is recognized as endowment revenue in the year of recognition. APU management assigns an estimated value to contracts to provide services and facilities based on values of similar services and facilities in the region.

Unconditional endowments promised for future periods are recorded as increases in unrestricted net assets at the estimated present value of future services, facility, or

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Notes to Financial Statements
(continued)
August 31, 2011 and 2010

curricula fair values. Present value is the estimated total endowment value discounted for the time value of money. The total discount amount is amortized (reduced) each year as services are received, based on remaining present value of future services to be received under the contract. The amount of annual amortization of the discount is recorded as additional endowments in years subsequent to the initial contract commencement.

Net assets

APU has \$13,351,553 in temporarily restricted assets. These net assets are for future services, facilities and curricula to be received.

Income taxes

APU is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code and is generally exempt from federal income taxes. APU is subject to federal and state income tax on unrelated business income when applicable. For the years ended August 31, 2011 and 2010, APU had no unrelated business income. In accordance with the Internal Revenue Code, contributed services, contributed facilities and contributed curriculum are not reported as income for income tax reporting purpose.

Note 2 – Endowment receivable

Endowments receivable consist of the following at August 31, 2011 and 2010:

	2011	2010
Services	\$ 1,036,668	\$ 1,575,000
Facilities	10,815,071	7,127,518
Curricula	4,628,100	5,486,400
Discount on future value	(3,128,286)	(2,588,905)
Net Endowments Receivable	<u>\$ 13,351,553</u>	<u>\$ 11,600,013</u>

Contracts previously recognized in revenue and subsequently later cancelled are recorded as uncollectible service contracts. Uncollectible amounts from cancelled contracts were \$111,442 and \$103,458 for the years ended 2011 and 2010, respectively.

Note 3 - Property and equipment

Property and equipment consists of intellectual property and library resources valued at \$412,100 and \$21,500, respectively.

	Balances August 31, 2010	Additions	Deletions	Balances August 31, 2011
Property, plant, and equipment				
Intellectual property	\$ 412,100	\$ -	\$ -	\$ 412,100
Library resources	21,550	-	-	21,550
Total property, plant and equipment	<u>\$ 433,650</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 433,650</u>

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Notes to Financial Statements
(continued)
August 31, 2011 and 2010

No amortization of these values was recognized for the years ended August 31, 2011 and 2010.

Note 4 - Operating revenues, expenses, and increase (decrease) in net assets

APU received contractual endowments that commenced in the fiscal years ending August 31, 2007, 2008, 2009, 2010 and 2011, per the fair value estimates in the following table. The remaining fair value receivable at August 31, 2011 and 2010 is discounted at the rate of 6% to the estimated present value.

	<u>Services</u>	<u>Facilities</u>	<u>Curricula</u>	<u>Total Remaining</u>	<u>Discount</u>	<u>Present Value</u>
Total	\$ 5,345,000	\$ 10,262,192	\$ 8,583,000	\$ 24,190,192		
Value received (2007 through 2011) or to be received (2011 through 2020) by fiscal year:						
2007	\$ 855,000	\$ 541,118	\$ 690,000	\$ 14,500,062	\$3,163,711	\$ 11,336,351
2008	855,000	541,118	690,000	12,413,944	2,483,530	9,930,414
2009	995,000	1,026,219	858,300	17,138,437	3,398,967	13,739,470
2010	1,065,000	1,026,219	858,300	14,188,918	2,588,905	11,600,013
2011	1,028,333	1,553,630	858,300	16,479,839	3,128,286	13,351,553
2012	320,000	1,553,630	858,300	13,747,909		
2013	320,000	1,553,630	858,300	11,015,979		
2014	220,000	1,553,630	858,300	8,384,049		
2015	120,000	1,553,630	858,300	5,852,119		
2016	56,667	1,543,285	858,300	3,393,867		
2017	-	1,006,867	168,300	2,218,700		
2018	-	1,006,867	168,300	1,043,533		
2019	-	521,767	-	521,766		
2020	-	521,766	-	-		

Operating revenues

Endowment revenue recognized for the year ending August 31, 2011 is as follows:

Service endowment	\$ 910,790
Facility endowment	4,198,575
Curricula endowment	192,937
Total endowments	<u>\$ 5,302,302</u>

Endowment revenue at August 31, 2011 consists of the present contractual value of future endowments receivable (\$1,278,191), and the value of the endowments received during the year (\$4,024,111).

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Notes to Financial Statements
(continued)
August 31, 2011 and 2010

The reduction in discount amount for August 31, 2011 is recorded as follows:

Service endowment	\$	203,438
Facility endowment		248,546
Curricula endowment		192,937
Total endowments	\$	<u>644,921</u>

Operating expenses

APU recorded the full current estimated value of endowments as salary, facility, and curricula expenses totaling \$3,439,320 and \$2,994,520 for the years ended August 31, 2011 and 2010, respectively.

APU recognizes the difference between temporarily restricted revenues and related expenses as the increase or decrease in temporarily restricted net assets. Pursuant to the requirements of *Financial Accounting Standard Board Codification 958-605-25-8, Unconditional Promises to Give*, APU recognizes the full fair value of contractual endowments in the year received. In years APU receives a large volume of contractual endowments, there is an unusually large increase in temporarily restricted net assets in that year. During subsequent years, only the present value discount amortization amount is recorded as endowment revenue, while the full value of services, facilities, and curricula is expensed during the year. This leads to a reduction in temporarily restricted net assets in each of the years subsequent to the receipt of the contractual endowments.

Note 5 - APU Endowment Body and concentration of risk

American Pathways University has created an endowment body by contractual agreement between APU and its supporting organizations. The contractual agreement between APU and the supporting organizations is referred to as the "Strategic Alliance Agreement (SAA) for Endowment of American Pathways University". Endowment Body members and other entities endow management and faculty personnel, physical facilities, and class curricula for the APU. These endowments are in the form of written contracts of personnel assignments, personal services, and use of facilities. APU incurs no payroll or facility cash expense, as these are provided for in the contracts. Management estimates the fair value placed on endowed personnel, facilities, and curricula and records such fair value as a period expense (Note 4). The initial membership of the Endowment Body was seven organizations and is currently eighteen organizations.

The resources of the Endowment Body allow APU to offer its students institutional scholarships up to 80% of tuition. Without this endowment APU would need to seek additional resources and revenues for its operations, such as increased tuition, fees, and external financial aid. APU has made application to be a Title IV Federal financial aid institution, which would decrease APU's dependence on the Endowment Body fulfilling its endowment obligations to APU for its operations. Such obligations are in the form of written contracts prepared by APU's legal counsel. Based upon reliance on counsel's legal opinion, management believes the contracts are legally

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Notes to Financial Statements
(continued)
August 31, 2011 and 2010

enforceable. Management calculates the expendable endowed resources of these contracts for the year ending August 31, 2011 are approximately 3.72 times greater than the annual operating expenses—see Note 2 and the Primary Reserve Ratio on page 11. The SAA authorizes APU to prepare annual statements of the endowment position and the net worth of the Endowment Body. The unaudited annual financial position statement and unaudited endowment report of the Endowment Body for the year ending August 31, 2011 are included in these statements on pages 13 and 14.

Note 6 - Evaluation of subsequent events

APU's management has evaluated subsequent events through January 20, 2012, the date which the financial statements were available to be issued.

Note 7 - Fair value measurement

APU uses fair value measurements to determine the value of the contributed services, facilities and curriculum. The value is determined using Level 1 valuation techniques, which use quoted prices in active markets for the identical services, facilities or curriculum.

Note 8 - Revenue from Title IV Student Financial Aid

In the years ended August 31, 2011 and August 31, 2010, neither APU nor the University's students received any Student Financial Aid from Title IV programs administered by the U.S. Department of Education pursuant to the Higher Education Act of 1965, as amended (HEA).

Note 9 - Related Party Transactions

The University had noncash transactions with family members of the University President. The noncash transactions are as follows:

	<u>8/31/2011</u>	<u>8/31/2010</u>
<u>Endowments receivable</u>		
Contributed services	<u>\$ 106,920</u>	<u>\$ 246,684</u>
<u>Revenue</u>		
Contributed services	40,565	211,376
Contributed intangible property	-	254,100
	<u>40,565</u>	<u>465,476</u>
<u>Expenses</u>		
Contributed services	<u>\$ 175,000</u>	<u>\$ 175,000</u>

* * * * *

Supplemental Information

**American Pathways University
(a 501(c)(3) organization)**

**FINANCIAL STRENGTH, STABILITY, AND SUSTAINABILITY RATIOS
(Unaudited)
For the Years Ended August 31, 2011, 2010, and 2009**

Financial ratios and scores constitute the Composite Financial Index (CFI), which is used to analyze the financial strength, stability, and sustainability of educational institutions. The CFI includes the three financial ratios used by Title IV of the U.S. Department of Education to determine a Composite Score that is indicative of an institution's financial responsibility.

Composite Score

The U.S. Department of Education (USDOE) Title IV rates the financial strength, stability, and sustainability of higher education institutions by utilizing the Composite Score of Reserves, Equity, and Income. The Composite Score of American Pathways University is computed by the Title IV calculator as follows:

Indicates the financial responsibility of the organization			
Composite Score	2011	2010	2009
•Primary Reserve Ratio	1.2000	1.2000	1.2000
•Equity Ratio	1.2000	1.2000	1.2000
•Net Income Ratio	0.2272	0.6000	0.3146
Total Composite Score	2.6	3.0	2.7

Note: The Composite Score of American Pathways University places the institution in the 75-100 percentile of the "Pass" range (1.5 to 3.0) of the USDOE for the last three years (average: 85.4 percentile), indicating **"Financially responsible without further oversight."**

Primary Reserve Ratio

A measurement used by APU, Title IV (USDOE), and accrediting agencies to analyze the institution's financial sustainability. Management's calculation of APU's Primary Reserve Ratio is shown below as the ratio of annual operating expenses to expendable net assets.

Indicates projected number of future operating years based on current resources			
	2011	2010	2009
Expendable Net Assets	\$ 13,416,813	\$ 11,655,209	\$ 13,423,468
Annual Operating Expenses	\$ 3,593,835	\$ 3,142,243	\$ 2,950,068
Ratio	3.7333	3.7092	4.5502

Note: Definition of Ratio Components

•*Expendable net assets* includes all resources available to APU in the normal course of business to satisfy ongoing business obligations. This includes net equity in property, plant and equipment and permanently restricted net assets.

•*Operating expense* is the total of all expenses incurred by the institution in the course of business. This would exclude expenses reflecting the cumulative effect of changes in accounting principles, extraordinary items, and discounted operations. Financial aid and scholarships representing tuition discounts are not included in annual operating expenses.

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FINANCIAL STRENGTH, STABILITY, AND SUSTAINABILITY RATIOS

(Unaudited)

For the Years Ended August 31, 2011, 2010, and 2009

Equity Ratio

A measurement used by APU, Title IV (USDOE), and accrediting agencies to analyze the institution's financial viability. Management's calculation of APU's Equity Ratio is shown below as the ratio of modified assets to modified net assets.

Indicates amount of resources unencumbered by debt: 1.0 = no debt obligation

	2011	2010	2009
Modified Net Assets	\$ 13,850,463	\$ 12,088,859	\$ 13,511,018
Modified Assets	\$ 13,850,463	\$ 12,088,859	\$ 13,511,018
Ratio	1.0000	1.0000	1.0000

Net Income Ratio

A measurement used by APU, Title IV (USDOE), and accrediting agencies to analyze the institution's financial efficiency employing the average dollar invested in assets. Management's calculation of APU's Net Income Ratio is shown below as the ratio of annual operating expenses to expendable net assets.

Indicates profitability or the ability to operate within available resources

	2011	2010	2009
Change in Unrestricted Assets	\$ 10,064	\$ 347,298	\$ 35,297
Total Unrestricted Revenue	\$ 3,706,473	\$ 3,581,743	\$ 3,081,077
Ratio	0.0027	0.0970	0.0115

**THE COMBINED FINANCIAL POSITION STATEMENTS
OF THE STRATEGIC ALLIANCE FOR THE ENDOWMENT OF
AMERICAN PATHWAYS UNIVERSITY
(Unaudited)**

August 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Unrestricted Assets:		
Cash (checking/savings)	\$ 7,237,132	\$ 7,611,200
Accounts receivable	1,500,711	1,963,011
Investments	3,880,823	3,253,563
Prepaid expenses & other assets	686,412	748,095
Gift-in-kind inventory	675,820	445,238
Fixed assets (property/equipment)	22,228,609	22,462,605
Less: accumulated depreciation	<u>(273,907)</u>	<u>(273,895)</u>
Total assets	<u><u>\$ 35,935,600</u></u>	<u><u>\$ 36,209,817</u></u>
LIABILITIES AND NET ASSETS		
Liabilities	<u>\$ 4,117,561</u>	<u>\$ 7,813,541</u>
Net assets	<u>31,818,039</u>	<u>28,396,276</u>
Total liabilities and net assets	<u><u>\$ 35,935,600</u></u>	<u><u>\$ 36,209,817</u></u>

NOTES:

- The Strategic Alliance Agreement (SAA) contractually creates the Endowment Body.
- The Endowment Body consists of the signatories of the SAA.
- SAA organizations severally execute endowment contracts with APU
- This statement shows the combined net worth of the SAA organizations.
 - Agape Christian Church
 - Aspen Center for Christian Studies
 - Center for Community Excellence & Social Justice
 - Colorado UpLift
 - Community Re-Entry Place: Inside/Out
 - Denver Institute of Urban Studies
 - Denver Rescue Mission
 - Denver Street Schools
 - Denver Urban Academy
 - Missions Door
 - New Life In Christ Church
 - Open Door Fellowship
 - Second Chances, LLC
 - Soloman Temple Baptist Church
 - Street School Network
 - 21stCentury Associates
 - Urban Pathways, Inc.
 - Zoubida Cole College
- Based on most recent available financial statements or audits of the organizations.

**ANNUAL ENDOWMENT REPORT
OF THE ENDOWMENT BODY
OF AMERICAN PATHWAYS UNIVERSITY
(Unaudited)**

August 31, 2011 and 2010

	2011 Annual Endowment	2010 Annual Endowment
ASSETS		
Facilities and equipment		
Auditoriums	\$ 354,998	\$ 239,120
Classrooms	359,909	258,857
Offices	98,196	98,137
Other Assets	760,340	455,504
	<u>1,573,443</u>	<u>1,051,618</u>
Personnel services		
Administrative personnel	450,000	405,000
Faculty/instructional personnel	575,000	645,000
Department directors	20,000	30,000
	<u>1,045,000</u>	<u>1,080,000</u>
Curriculum and courses	<u>860,300</u>	<u>858,300</u>
Cash donations	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u><u>\$ 3,478,743</u></u>	<u><u>\$ 2,989,918</u></u>
LIABILITIES	<u>\$ -</u>	<u>\$ -</u>
TOTAL LIABILITIES	<u>-</u>	<u>-</u>
NET ASSETS	<u>3,478,743</u>	<u>2,989,918</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 3,478,743</u></u>	<u><u>\$ 2,989,918</u></u>

VALUATION NOTES:

- Facilities are calculated at 50% of rental value per square foot of area.
- Equipment values are calculated at 50% of rental value.
- Personnel Services are calculated at 50% of market value.
- Curriculum is calculated at 50% of the market value.

Footnotes:

- Market values are researched and determined by the University.
- Facilities and services are secured and delineated by contractual agreements.

**Report on Internal Control over Financial Reporting
and on Compliance and Other Matters based on
an Audit of Financial Statements performed
in accordance with *Government Auditing Standards*
And
Schedule of Findings**



WAGNER
BARNES, PC

Certified Public Accountants & Business Consultants

REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
American Pathways University

We have audited the financial statements of American Pathways University (a nonprofit organization) as of and for the year ended August 31, 2011, and have issued our report thereon dated January 20, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered American Pathways University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of American Pathways University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiency in internal control over financial reporting that we consider to be a material weakness, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings that we consider to be a significant deficiency in the control over financial reporting, identified as Finding 2011-01. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether American Pathways University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of American Pathways University in a separate letter dated January 20, 2012.

American Pathways University's response to the findings identified in our audit is described in the accompanying schedule of findings. We did not audit American Pathways University's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the entity, the Board of Directors, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Wagner Barnes, PC". The signature is written in a cursive, flowing style.

Lakewood, CO
January 20, 2012

American Pathways University

SCHEDULE OF FINDINGS

Year Ended August 31, 2011

Section I - Summary of Auditor's Results

Financial Statements

1. An unqualified opinion was issued on American Pathways University's basic financial statements.
2. Internal control over financial reporting
Material weakness(es) identified? ☐ Yes ☒ No
a) Significant deficiencies identified that are not considered to be material weaknesses? ☒ Yes ☐ No
b) Noncompliance material to financial statements noted? ☐ Yes ☒ No

American Pathways University

SCHEDULE OF FINDINGS

Year Ended August 31, 2011

Section II - Financial Statement Findings

The following is a significant deficiency related to the audit of the University's basic financial statements that is required to be reported under *Government Auditing Standards*.

Finding 2011-01

Adequate segregation of duties.

Reporting
Significant Deficiency

Criteria or specific requirement: Adequate segregation of duties prevents fraud, encourages accountability, and aides in error prevention. For an internal control system to be effective, adequate segregation of duties or compensating control needs to be in place.

Condition: One person recorded most accounting transactions during the year ended August 31, 2011 and also maintained subsidiary records and the general ledger.

Context: APU relied on one individual to perform substantially all accounting duties. As a result, there was an increased risk that APU may not detect material misstatements.

Effect: Incorrect reporting could occur in the absence of adequate segregation.

Cause: APU is reliant on contributed services, and there was a lack of available volunteers to assist with the financial and accounting duties during the year ended August 31, 2011.

Recommendation: We recommend that APU develop a system of controls to incorporate other parties into the accounting system or develop other compensating controls.

Views of responsible officials and planned corrective action:

APU was incorporated in 2003 and since then has appropriately segregated the domains of oversight (the Board), operations (the Administration), and academics (the Faculty). Such domain segregation has been assessed and approved by accrediting agencies. Management of APU was first made aware of this finding in the Independent Auditor's Report for 2010 dated April 12, 2011. APU then conducted an internal assessment and sought external professional consultation regarding development of "other compensating controls" that would result in enhanced segregation of financial duties and personnel as needed. As a result, prior to August 31, 2011, APU developed policies and procedural controls for such segregation of duties and personnel, engaged additional personnel, and instituted a corrective action plan for implementation in fiscal year 2012. As of the date of this auditor's report, APU has implemented additional controls, including adding two people (one being a certified public accountant) to the accounting and reporting process to allow for adequate segregation of duties.

American Pathways University

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

Year Ended August 31, 2011

Finding 2010-01

Use generally accepted accounting procedures when recording contributions receivable, contributions revenue, and contributions expenses.

Summary

Promises to give and intangibles should be recorded according to the Financial Accounting Standards Board Codification 958-310-35.

Status

Effective for the year ending August 31, 2011, APU computes promises to give and intangibles in accordance with Financial Accounting Standards Board Codification 958-310-35. Finding has been resolved.

Finding 2010-02

Adequate segregation of duties.

Summary

One person had recorded most accounting transactions and also maintained subsidiary records and the general ledger.

Status

As of the date of the auditor's report, APU has implemented additional controls, including procedures for segregation of duties, adding two people to the accounting and reporting process, and engagement of a certified public accountant to allow adequate segregation of duties. Whereas, since Management of American Pathways University was first made aware of this finding in the Independent Auditor's Report for 2010 dated April 12, 2011, the corrective action was not fully taken prior to August 31, 2011. As a result, the finding has been reissued in the current year as Finding 2011-01.

Finding 2010-03

Bank statements and accounts receivable detail not reconciled to the general ledger.

Summary

APU's cash and accounts receivable were not reconciled to the supporting detail.

Status

APU has retained the services of an accountant to review and/or prepare reconciliations of general ledger accounts to supporting detail. Finding has been resolved.

Finding 2010-04

Reporting of revenue from contributed intangible assets on IRS Form 990-EZ.

Summary

APU did not report contributed tangible assets as revenue on IRS Form 990-EZ as a donation.

Status

APU consulted with a certified public accountant and an attorney as to whether it had properly reported the fair value of intangible assets that are work products or asset improvements, resulting from internal activity, as a change in net assets on Form 990-EZ, Part I, Line 20 and Part II, Line 24, rather than as revenues or donations. It has been determined that such reporting is appropriate based on contract language and agreements with contractors. Finding has been resolved.