ASU Foundation
Arizona State University

Audited Financial Statements

2017–18

ARIZONA STATE UNIVERSITY FOUNDATION
for A New American University
AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018

ARIZONA STATE UNIVERSITY FOUNDATION
for A New American University
AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018

CONTENTS

ASU Foundation
Arizona State University

Management's Discussion and Analysis (unaudited)

INTRODUCTION

The Arizona State University Foundation for A New American University (Foundation) was incorporated in 1955 to use philanthropy to help meet the needs of Arizona State University (ASU or University), the largest public university in the United States under a single administration, and one ranked as the most innovative by *U.S. News & World Report*. The University has established itself as the model for a New American University, whose charter describes it as a comprehensive public research university, measured not by whom it excludes, but rather by whom it includes and how they succeed, by advancing research and discovery of public value, and by assuming fundamental responsibility for the economic, social, cultural and overall health of the community it serves.

The mission of the Foundation is simple and direct: to advance the success of the University as a New American University. The Foundation does this by uniting the University and the community as a force for positive change through a variety of means:

- the Foundation's model of donor relations identifies each investor's passion and facilitates a sustainable affiliation between the investor and the University college or institute that shares that passion;
- the Foundation supports the activities of the University through fundraising activities and investment management services; and
- the Foundation encourages and enables individuals and organizations to partner with the University through volunteer opportunities, engagement activities, and financial gifts.

The Foundation continues to be recognized as a top-scoring nonprofit among the foundations related to universities, graduate schools and technological institutes ranked by Charity Navigator, the country's largest and most-utilized evaluator of charities. The Foundation maintains Charity Navigator's premier four-star rating for the seventh consecutive year.

The University continues to provide access to education for qualified students from all walks of life while addressing global challenges and improving the economic and educational endeavors in Arizona and the Foundation remains dedicated to supporting this mission by identifying and securing new partners to invest in these goals, while focusing on controlling costs and generating revenue.

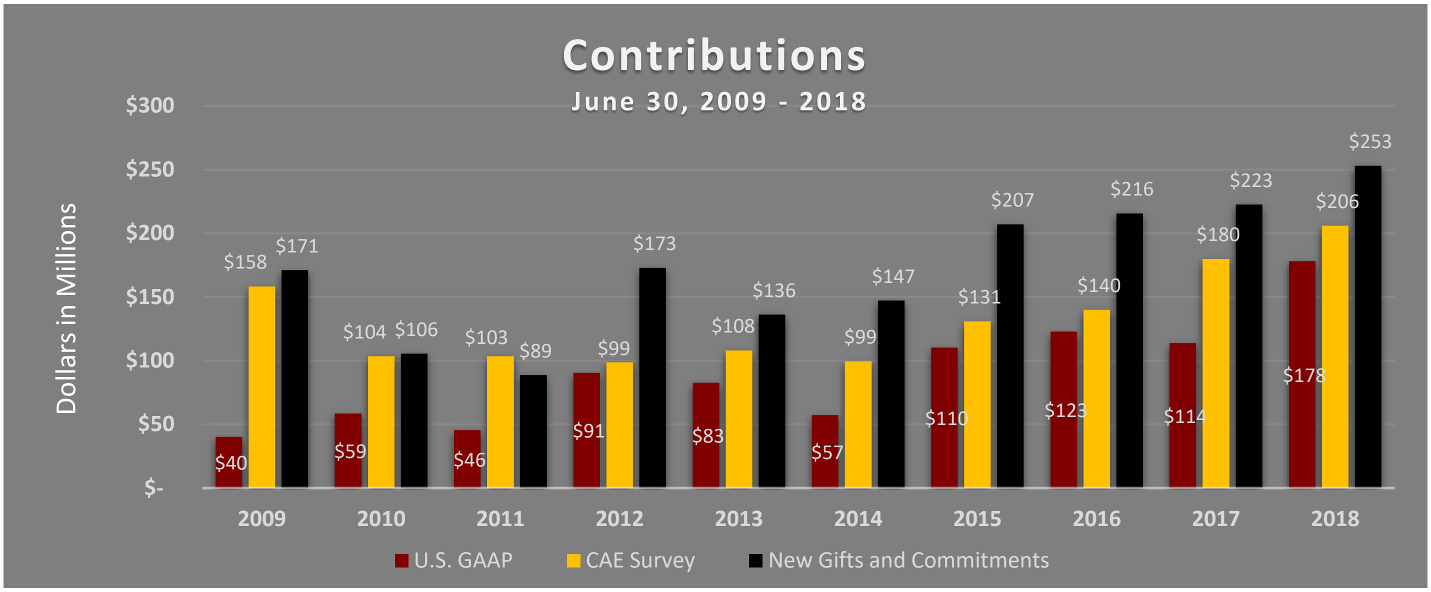
The Foundation is a membership organization with one member, ASU Enterprise Partners (EP). EP has organized its operations to focus on its business lines, which include philanthropy, technology, realty, research and global initiatives. The Foundation uses supporting services provided by EP that include human resources, communications, technology and data management, investment, legal, and financial services The Foundation's 2018 financial results are summarized in the graphs below.

FUNDRAISING PROGRESS

The Foundation reports its fundraising progress using a variety of measuring methodologies. The attached audited consolidated financial statements record contributions according to accounting principles generally accepted in the United States of America (U.S. GAAP). U.S. GAAP requires contribution revenue to be recorded using a full accrual methodology. This methodology includes new pledges in contribution revenue and does not include pledge payments in contribution revenue.

However, the Council for Aid to Education (CAE) publishes a widely used survey called Voluntary Support of Education (VSE) using a measuring methodology that counts dollars in the door. This includes pledge payments received in the contribution total, but not new pledges. Another difference in the measuring methodologies is that the CAE survey counts contributions for the entire University enterprise (i.e., the CAE total includes gifts to the Alumni Association, the University, the Foundation itself and Sun Angel Foundation) while the attached audited consolidated financial statements include only gifts made to the Foundation.

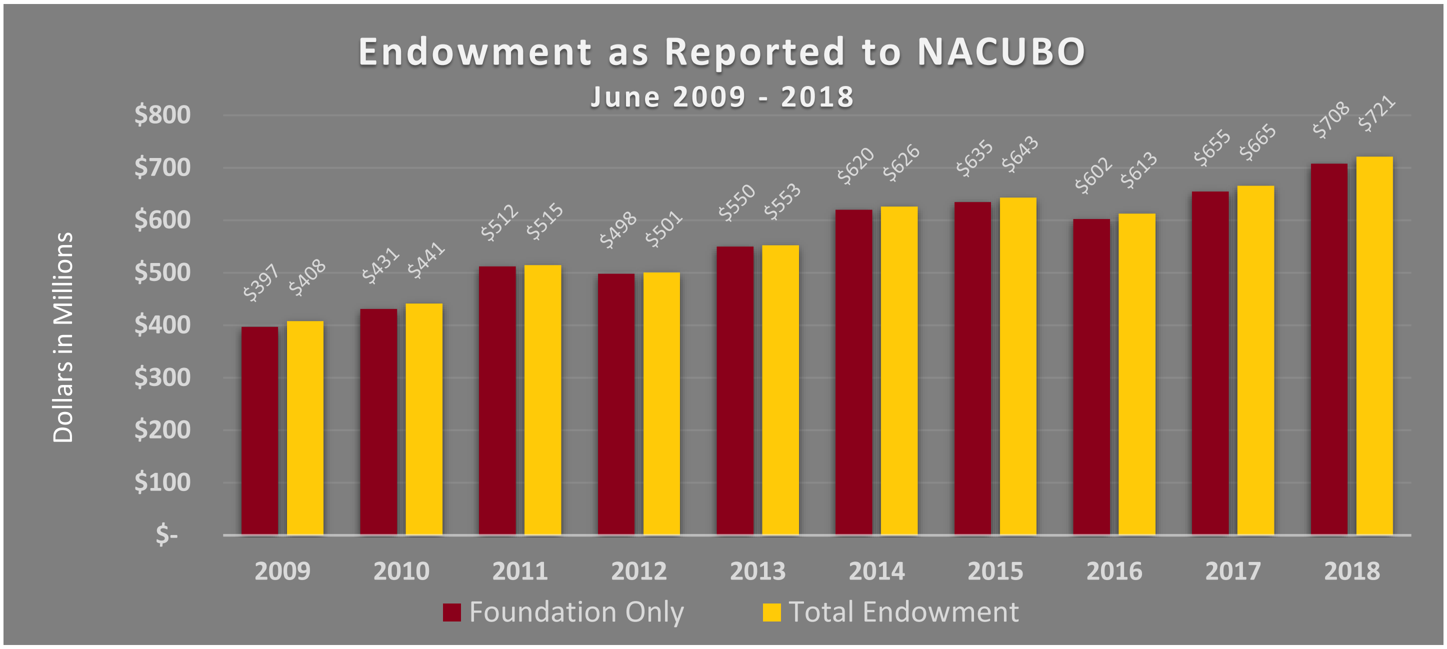
New Gifts and Commitments is an internal productivity measure that provides the broadest possible view of the Foundation fundraising progress. Its contribution total includes new pledges, advised bequests, in-kind gifts, and deferred gifts for the entire University community. Fiscal year 2018 was the fourth year in a row the Foundation achieved record fundraising in excess of $200 million. In fiscal year 2018, New Gifts and Commitments totaled approximately $253 million.



ENDOWMENT VALUE

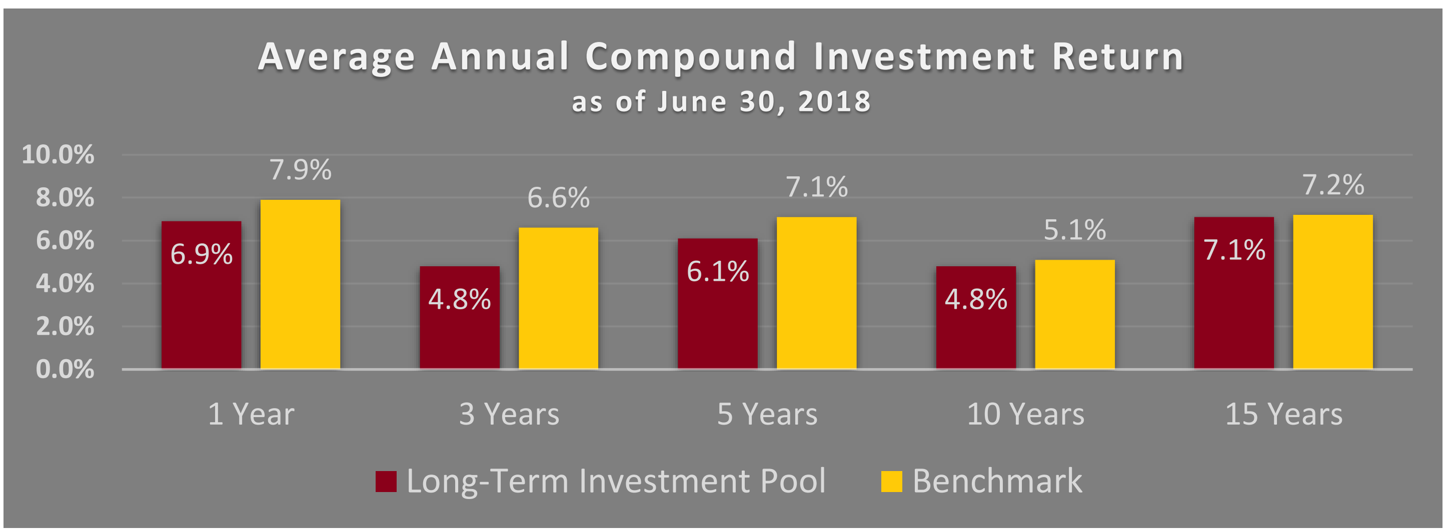
The Foundation reports its endowment value using two different measuring methods as well. The attached audited consolidated financial statements report the endowment value for assets held by the Foundation and include a liability for the assets held by the Foundation for other entities, such as the endowments held in trust for the University and others. Through fiscal year 2017, the National Association of College and University Business Officers (NACUBO) along with Commonfund published the NACUBO-Commonfund Study of Endowments (NCSE) survey. In fiscal 2018, NACUBO partnered with TIAA to publish the NACUBO-TIAA Study of Endowments (NTSE) survey. This survey counts the ASU endowment value for the entire University enterprise, including assets held by the Foundation, as well as other ASU affiliates. NCSE and NTSE totals do not reflect a reduction for the corresponding liability for assets held for others that is reported in the U.S. GAAP consolidated financial statements.

Endowment gifts are intended to be held in perpetuity with a portion of the income each year made available to spend on University needs. The Foundation's development staff continues to solicit endowment gifts to aid in the endowment's growth.



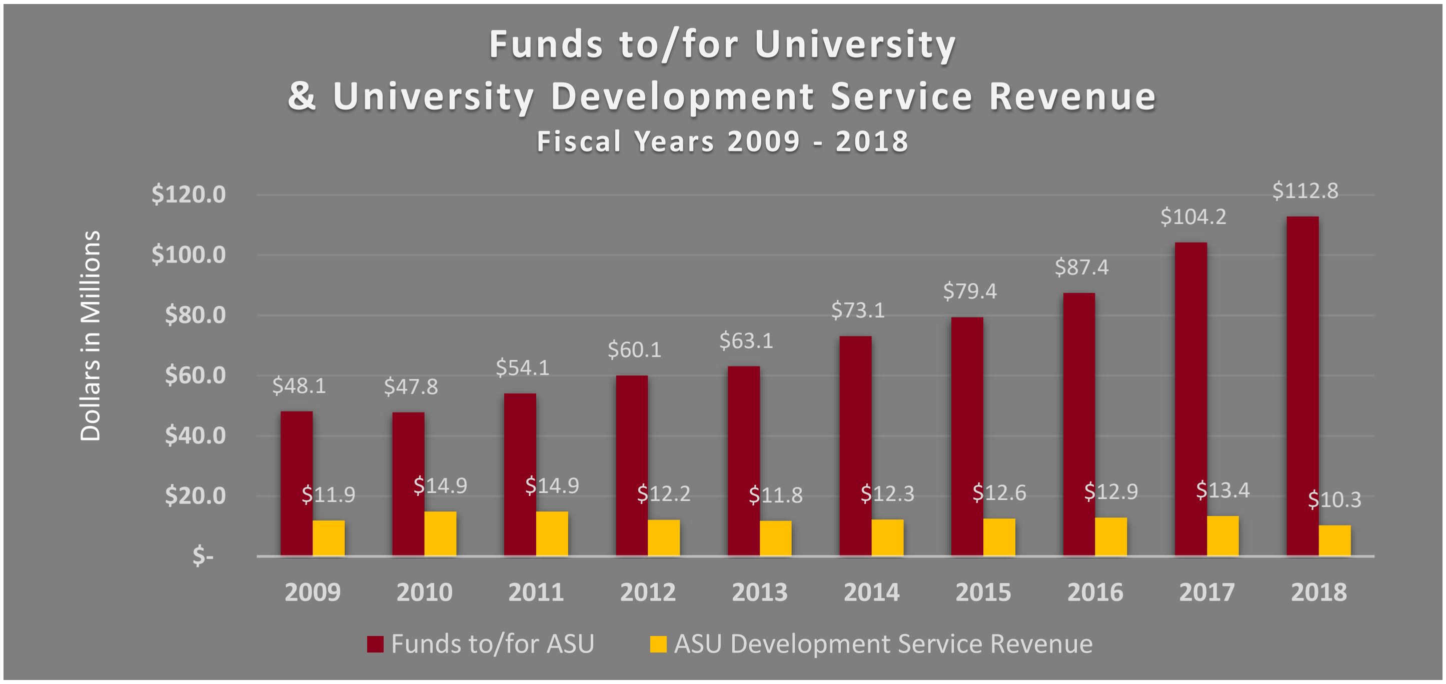
ENDOWMENT INVESTMENT

The Foundation invests the funds that it holds for the University under the direction of the Investment Committee of EP's Board of Directors and under the management of an Outsourced Chief Investment Officer in collaboration with the office of the EP Vice President for Investments. The endowment investment performance is compared to the performance of the benchmark, which is a custom formulated passive index reflecting a similar asset allocation.



SUPPORT TO AND FOR ASU AND ITS STUDENTS AND FACULTY

The main purpose of the Foundation is to provide funding for University programs and activities and to support students and faculty. The Foundation was able to increase that funding from $104.2 million in 2017 to approximately $112.8 million in 2018. The sources of these funds are primarily gifts restricted for a period of time or a specific purpose. Many are endowment gifts that provide a portion of the income from the total endowment for each year's spending. Others are gifts received this year, or in previous years, to provide funding for a specific purpose designated by the donor.



FOUNDATION OPERATIONS

The Foundation funds its operations from four sources: 1) EP's Master Services Agreement with the University for development services; 2) asset management fees on the endowment; 3) subsidy from the enterprise reserves; and 4) unrestricted gifts. Between fiscal year 2017 and 2018, contributions measured according to U.S. GAAP grew significantly, investment returns decreased somewhat, payments for the benefit of the University increased somewhat and the Foundation experienced a slight decrease in operating expenses.

CONCLUSION

The University has continued to increase the number of students enrolled, continues to create new knowledge to address global challenges and works to improve the economic and educational endeavors in Arizona. The Foundation remains dedicated to supporting this mission by identifying and securing new partners to invest in these goals, while focusing on controlling costs and generating revenue.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Grant Thornton LLP
2398 E Camelback Road, Suite 600
Phoenix, AZ 85016

T 602.474.3400
F 602.474.3421

www.GrantThornton.com

Board of Directors
ASU Enterprise Partners
and Arizona State University Foundation
for a New American Universityp

Report on the financial statements

We have audited the accompanying consolidated financial statements of Arizona State University Foundation for A New American University and Subsidiary (a nonprofit organization) (the “Organization”), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management’s responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization’s preparation and fair presentation of the consolidated 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 Organization’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the

Grant Thornton

reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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 Arizona State University Foundation for A New American University and Subsidiary as of June 30, 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.

Other matters

Other information

The management's discussion and analysis on pages 3 through 6, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Report on 2017 summarized comparative information

We have previously audited the Organization's 2017 consolidated financial statements (not presented herein), and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 25, 2017. In our opinion, the accompanying summarized comparative information as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited statements from which it has been derived.

Grant Thornton LLP

Phoenix, Arizona
August 30, 2018

ARIZONA STATE UNIVERSITY FOUNDATION

for A New American University

AND SUBSIDIARY

STATEMENT OF FINANCIAL POSITION

June 30, 2018
(with comparative totals at June 30, 2017)

ASSETS

	June 30, 2018	June 30, 2017
ASSETS		
Cash and cash equivalents	$ 2,562,541	$ 2,641,032
Receivables		
Pledges receivable, net	156,336,595	137,596,808
Charitable trusts receivable	1,723,252	2,484,933
Other receivables, net	313,654	254,366
Total receivables	158,373,501	140,336,107
Investments	840,998,057	775,590,032
Land and buildings held for investment	679,478	679,341
Assets held under split-interest agreements	7,467,798	7,310,272
Property and equipment, net	8,707	169,496
Other assets	140,749	573,115
TOTAL ASSETS	$ 1,010,230,831	$ 927,299,395

LIABILITIES AND NET ASSETS

	June 30, 2018	June 30, 2017
LIABILITIES		
Accounts payable and other liabilities	$ 1,947,948	$ 3,510,950
Assets held for other entities	166,490,065	165,117,200
Obligations under split-interest agreements	3,209,187	3,372,440
TOTAL LIABILITIES	171,647,200	172,000,590
NET ASSETS		
Unrestricted	(2,074,779)	(5,483,680)
Temporarily restricted	355,734,754	309,687,912
Permanently restricted	484,923,656	451,094,573
TOTAL NET ASSETS	838,583,631	755,298,805
TOTAL LIABILITIES AND NET ASSETS	$ 1,010,230,831	$ 927,299,395

See Notes to Financial Statements

ARIZONA STATE UNIVERSITY FOUNDATION

for A New American University

AND SUBSIDIARY

STATEMENT OF ACTIVITIES

Year Ended June 30, 2018

(with comparative totals for year ended June 30, 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2018	Totals 2017
SUPPORT AND REVENUES					
Contributions	$ 7,393,570	$136,536,238	$ 34,458,151	$178,387,959	$ 113,886,321
Change in estimate for uncollectible pledges	-	(3,205,000)	(2,412,000)	(5,617,000)	(3,206,000)
Change in present value discount	-	(1,131,000)	360,000	(771,000)	(2,071,000)
Net investment return (loss)	1,027,428	33,169,963	924,537	35,121,928	57,734,236
Service agreement revenue	10,258,068	-	-	10,258,068	13,399,550
Asset management fees	1,808,127	-	-	1,808,127	1,695,554
Rent	145,725	-	-	145,725	243,145
Program revenue and memberships	35,290	-	-	35,290	75,413
Other revenue	967,204	-	-	967,204	1,019,723
Reserves subsidy	552,617	-	-	552,617	2,063,243
Reclassification of donor intent and transfers	35,238	(533,633)	498,395	-	-
Net assets released from restrictions	118,789,726	(118,789,726)	-	-	-
TOTAL SUPPORT AND REVENUES	141,012,993	46,046,842	33,829,083	220,888,918	184,840,185
EXPENSES					
Payments for the benefit of the University:					
Directly to the University:					
Donations and reimbursements	91,959,712	-	-	91,959,712	80,746,817
Scholarships - ASU selected	8,957,661	-	-	8,957,661	8,523,088
To vendors on behalf of the University	8,976,019	-	-	8,976,019	12,787,537
Subtotal	109,893,392	-	-	109,893,392	102,057,442
Scholarships - Non ASU selected	126,345	-	-	126,345	114,932
Payments to other charitable entities	2,776,968	-	-	2,776,968	2,055,148
Total payments for the benefit of the University	112,796,705	-	-	112,796,705	104,227,522
Operating expenses:					
Salaries and benefits	10,593,706	-	-	10,593,706	10,203,900
Depreciation	15,624	-	-	15,624	62,369
Professional services	1,713,098	-	-	1,713,098	2,234,998
Other expense	3,597,246	-	-	3,597,246	4,349,699
Shared services	8,887,713	-	-	8,887,713	12,211,741
Total operating expenses	24,807,387	-	-	24,807,387	29,062,707
TOTAL EXPENSES	137,604,092	-	-	137,604,092	133,290,229
INCREASE/(DECREASE) IN NET ASSETS	3,408,901	46,046,842	33,829,083	83,284,826	51,549,956
Restructure transfer	-	-	-	-	(42,664,413)
CHANGE IN NET ASSETS	3,408,901	46,046,842	33,829,083	83,284,826	8,885,543
NET ASSETS, BEGINNING OF PERIOD	(5,483,680)	309,687,912	451,094,573	755,298,805	746,413,262
NET ASSETS, END OF PERIOD	$ (2,074,779)	$355,734,754	$484,923,656	$838,583,631	$ 755,298,805

See Notes to Financial Statements

ARIZONA STATE UNIVERSITY FOUNDATION
for A New American University
AND SUBSIDIARY

STATEMENT OF CASH FLOWS

Year Ended June 30, 2018
(with comparative totals for year ended June 30, 2017)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 83,284,826	$ 8,885,543
Adjustment to reconcile change in net assets to net cash provided by (used in) operating activities		
Change in present value discount on pledges receivable	771,000	2,071,000
Change in estimate for uncollectible pledges	5,617,000	3,206,000
Net realized and unrealized investment (gains) or losses	(35,121,791)	(57,733,275)
Net realized and unrealized investment (gains) or losses on land and buildings held for investment	(137)	(961)
Depreciation	15,624	62,369
Contributions restricted for long-term investment	(32,406,151)	(17,487,042)
Loss on disposal of property and equipment	45,166	21,836
(New) or terminated split-interest agreements	(174,126)	(225,197)
Change in present value of split-interest agreements	131,295	97,067
Changes in operating assets and liabilities:		
(Increase) / decrease in:		
Pledges receivable	(28,600,524)	(5,314,539)
Charitable trusts receivable	-	600,000
Other receivables	540,712	1,665,476
Increase / (decrease) in:		
Accounts payable and other liabilities	(1,563,002)	(1,080,464)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(7,460,108)	(65,232,187)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	615,024,382	951,068,346
Purchases of investments	(636,001,216)	(951,807,642)
Purchases of property and equipment	100,000	-
Change in assets held for other entities	(8,052,803)	6,017,078
Change in other assets	432,366	(353,933)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(28,497,271)	4,923,849
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for long-term investment	35,878,888	12,419,442
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	35,878,888	12,419,442
CURRENT YEAR CHANGE IN CASH AND CASH EQUIVALENTS	(78,491)	(47,888,896)
Restructure transfer	-	42,664,413
Cash from restructure	-	(10,739,222)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(78,491)	(15,963,705)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,641,032	18,604,737
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 2,562,541	$ 2,641,032
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Disposal of property and equipment	$ 146,740	$ 356,391

See Notes to Financial Statements

(1) Operations and summary of significant accounting policies

Operations – **The Arizona State University Foundation for A New American University (ASUF or Foundation)** was incorporated in 1955 by community volunteers and is an Arizona nonprofit corporation and a 501(c)(3) tax-exempt organization. The Foundation supports **Arizona State University (University or ASU)** through raising, investing and managing private philanthropic gifts and serving as an advisor to the University President.

In September 2015, the Foundation's board of directors approved a corporate entity restructure, where a new entity, **ASU Enterprise Partners (EP)**, was created to be the parent and holding company of the Foundation and four other subsidiary organizations. EP began operations on July 1, 2016, and is the sole member of each of these five entities. EP is an Arizona nonprofit corporation and a 501(c)(3) tax-exempt organization.

The restructure was designed to enable the various activities of the Foundation to have better focus on each entity's individual activities and to be structured for efficient on-boarding of new initiatives. Additionally, this restructure was intended to protect the purity of philanthropy and allow the Foundation to more easily compare itself to its peers.

This corporate restructure did not add or remove any net assets from the consolidated view of the Foundation compared to the consolidated view of EP.

Restructure - As a result of the restructure, certain assets and liabilities were transferred to EP and other subsidiaries by the Foundation as of July 1, 2016 as follows:

Assets transferred	
Cash and cash equivalents	$ (10,739,219)
Pledges receivable, net	(75)
Other receivables, net	(1,900,244)
Investments	(12,242,094)
Land and buildings held for investment	(60,191,041)
Assets with limited use	(24,617,460)
Net investment in direct financing lease	(22,820,000)
Property and equipment, net	(12,539,768)
Other assets	(737,293)
Total assets transferred	$ (145,787,194)
Liabilities transferred	
Accounts payable and other liabilities	$ 5,017,371
Line of credit	-
Assets held for other entities	(14,337,741)
Unrealized swap liability	10,394,594
Bonds payable, net	102,048,557
Total liabilities transferred	103,122,781
Net assets transferred	$ (42,664,413)

(1) Operations and summary of significant accounting policies (continued)

The Foundation and its subsidiary, ASUF Dupont, LLC, are collectively referred to in these consolidated financial statements as the “the Organization”.

- **ASUF Dupont, LLC (Dupont)** is an Arizona single member LLC with the Foundation as its sole member and was formed to lease a building in Washington, D.C., for sublease of office and classroom space to the University. Dupont was dissolved in May, 2018.

The significant accounting policies followed by the Organization are summarized below.

Basis of presentation – The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting according to the accounting principles generally accepted in the United States of America (U.S. GAAP). The Organization reports 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.

Net assets – Net assets and changes therein are classified and reported as follows.

a. *Unrestricted net assets* - Includes unrestricted amounts associated with the operating activities of the Organization.

b. *Temporarily restricted net assets* - Includes amounts for which donor-imposed purpose or time restrictions have not been met. Donor-restricted contributions for which restrictions are met within the same fiscal year as they are received are reported as temporarily restricted net assets. Expenditures that fulfill the temporary restriction are shown as expenses in unrestricted net assets and a reduction in temporarily restricted revenue as a release from restriction.

c. *Permanently restricted net assets* - Includes amounts for which the donor-imposed restrictions state that the corpus is to be invested in perpetuity with the income to be made available for specified programs or uses. With the exception of certain permanently restricted contributions that the donor requires to be separately invested, all permanently restricted contributions are invested in a long-term investment pool. Appreciation, depreciation, income and expense relative to the pooled investments are allocated to each endowment based upon the ratio of that endowment’s investment balance to the total investment pool, and are shown as a change in temporarily restricted net assets or permanently restricted net assets, as governed by the terms of the endowment.

Consolidated financial statements – The consolidated financial statements include the accounts of the Organization described above. All of the financial activities and balances of the Organization are included in the consolidated financial statements. All significant inter-company balances and transactions have been eliminated in consolidation.

Comparative financial information – The consolidated financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Since prior-year information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP, such information should be read in conjunction with the Organization’s audited consolidated financial statements as of and for the year ended June 30, 2017, from which the summarized information was derived.

(1) Operations and summary of significant accounting policies (continued)

Management's use of estimates – The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from the estimates. Significant estimates include allowance for uncollectible pledges, present value discount on pledges receivable, value of Level 3 investments, obligations under split-interest agreements, and estimated useful lives for depreciation of property and equipment.

Reclassifications – There were no reclassifications made to the 2017 consolidated financial statements to conform to the presentation of the 2018 consolidated financial statements.

Cash and cash equivalents – For purposes of reporting cash flows and cash balances, cash and cash equivalents include liquid accounts with original maturities of three months or less that are not designated for investment purposes. Cash deposits in qualifying financial institutions are insured up to the limits of the Federal Deposit Insurance Corporation (FDIC) and may at times exceed those limits.

Pledges receivable – Unconditional promises to give (pledges) are recognized as assets and contribution revenue in the period the pledges are received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Pledges that are to be collected within one year are recorded at net realizable value. Pledges that are expected to be collected in future years are initially recorded at the fair value of their estimated future cash flows as of the date of the promise to give through the use of an expected present value calculation that discounts the risk-adjusted cash flows by an estimated risk-free interest rate. In periods subsequent to initial recognition, pledges are reported at the amount management expects to collect and are discounted over the collection period using the same interest rate determined at the time of initial recognition. The change in present value discounts is recorded as a change on the statement of activities and the estimate is adjusted up or down as the estimate changes each year.

An allowance for uncollectible pledges is estimated based on the Organization's collection history and is presented as a component of net pledges receivable. The change in estimate for uncollectible pledges is recorded as a change on the consolidated statement of activities and the allowance is adjusted up or down as the estimate changes each year.

Charitable trusts receivable – Periodically, the Organization learns it is the beneficiary of charitable trusts for which the Organization is not the trustee and the trust is held by others, such as banks, trust companies, or investment firms. In accordance with U.S. GAAP, the Organization records the fair value of the assets and the related gift income when the Organization is notified of its existence and the value can be reasonably determined. Gains or losses resulting from changes in actuarial assumptions and amortization of discounts are recorded as gains or losses in the appropriate net asset category in the consolidated statement of activities.

Investments – Investments are recorded at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. U.S. GAAP establishes a framework for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and enhances disclosure requirements for fair value measurements. This guidance maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available.

(1) Operations and summary of significant accounting policies (continued)

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows.

- **Level 1 -** Quoted prices are available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.
- **Level 2 -** Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. The nature of these securities include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed.
- **Level 3 -** Securities that have little to no pricing observability as of the report date. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

Investments measured using a Net Asset Value (NAV) per share, or its equivalent, are not classified in the fair value hierarchy above because they may or may not be redeemed at the NAV or because redemption at NAV is uncertain due to lock-up periods or other investment restrictions.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the Organization. The Organization considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Organization's perceived risk of that instrument.

The fair values of publicly traded securities are based on quoted market prices. The fair value of securities related to investments in limited partnerships is measured using the NAV per share of the investment. Certain of the Organization's investments consist of equity interests in private venture companies. These companies are not publicly traded or do not have readily available fair values. These investments are initially evaluated to determine whether they are required to be consolidated or to be accounted for under the equity method of accounting. Investments that are not required to be consolidated or accounted for under the equity method are valued using the option pricing model. The option pricing model establishes a total equity value for the company and simultaneously allocates that total equity value among the company's various equity classes. The fair value of securities related to investments in commingled investment vehicles (Level 3) is generally based on price quotations for marketable securities or fair market value as determined by the external investment managers for non-marketable securities. Investment income is recorded on an accrual basis and purchases and sales of investment securities are reflected on a trade-date basis. Realized gains and losses are calculated using the average cost for securities sold.

(1) Operations and summary of significant accounting policies (continued)

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

The Organization has ownership of certain cash and cash equivalents held, along with other marketable securities, by outside investment managers for the benefit of the Organization. Although these cash and cash equivalents are readily available, it is the intent of the Organization to hold these cash and cash equivalents for investment purposes, and accordingly, these cash and cash equivalents are classified as investment assets in the accompanying consolidated financial statements.

Split-interest agreements – The Organization is the trustee for two types of split-interest agreements: charitable remainder trusts and charitable gift annuities. Assets held in trust are invested in common trust funds. Contribution revenue is reported as the difference between the assets related to split-interest agreements and the related liabilities, and is classified as changes in temporarily restricted net assets. Liabilities associated with split-interest agreements represent the present value of the expected payments to the beneficiaries over the terms of the agreements. Gains or losses resulting from changes in actuarial assumptions and amortization of discounts are recorded as changes in the value of split-interest agreements in the appropriate net asset category in the consolidated statement of activities.

Property and equipment and related depreciation – Purchased property and equipment are recorded at cost. Donated property and equipment are recorded at the fair value as of the date of donation to the Organization. Betterments or renewals in excess of $5,000 for the Organization are capitalized. Depreciation is computed using the straight-line method over the following estimated useful lives of the assets.

	Estimated Useful Lives
Buildings and improvements	40 years
Building fixtures	3 - 7 years
Equipment	3 - 7 years

Impairment of long-lived assets – The Organization reviews the carrying value of their long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of assets to be held and used may not be recoverable. Upon determining that an asset is impaired, the Organization reports the asset at the lower of the carrying amount or fair value less the costs to sell. Management does not believe there are any indications of impairment of any long-lived assets at June 30, 2018 and 2017.

Contributions – Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support and net assets depending on the existence and/or nature of any donor restrictions.

Contributed assets and services – Donations of securities, land, buildings and other non-monetary assets, which can be objectively measured, are recorded at fair value on the date of contribution. Assets that cannot be objectively measured are not included in the accompanying consolidated financial statements. Donated services of volunteers are not recorded in the accompanying consolidated financial statements since they do not meet the recognition criteria.

Revenue recognition – Revenue from exchange transactions, investment activities, rental and property management activities, management fees, other fees and other non-contribution revenue are recognized as earned.

(1) Operations and summary of significant accounting policies (continued)

Shared services - EP provides various supporting services to each of the subsidiaries and charges a proportionate share of its actual costs to each subsidiary. This is reflected as shared services in the statement of activities.

Reserves subsidy – EP may provide a subsidy to its subsidiaries to help fund operations and for strategic new initiatives. These subsidies are determined annually through the budgeting process. This is reflected as reserves subsidy in the statement of activities.

Functional expense allocation – Expenses are charged to program services, fundraising and management and general categories based on direct expenditures incurred. Any expenditure not directly chargeable to a functional expense category is allocated based on appropriate allocation methods, such as percentage of time spent or percentage of space used.

Reclassification of donor intent – From time to time, the Organization receives requests by donors or their designees to change the use for which the donor's original gift was intended. These donor requests are considered by the Organization, and if approved, may result in the reclassification of net assets between unrestricted, temporarily restricted, or permanently restricted net assets. These reclassifications are reflected in the consolidated statement of activities as reclassification of donor intent and transfers.

Income taxes – The Organization accounts for income taxes using the asset and liability approach, which can result in recording tax provisions or benefits in periods different than the periods in which such taxes are paid or benefits realized. Deferred income taxes are recorded for the difference between the book and tax basis of various assets and liabilities, which can provide for current recognition of expected tax benefits from temporary differences that will result in deductible amounts in future years.

It has been determined by the IRS that the Foundation qualifies as a tax-exempt organization under Section 501(c)(3) as described in Sections 509(a)(1) and 170(b)(1)(A)(iv) of the Internal Revenue Code (IRC), and accordingly, there is no provision for income taxes in the accompanying consolidated financial statements. The Foundation has been classified as an organization that is a public charity.

Dupont was treated as a disregarded entity under the Foundation for income tax purposes, and accordingly, all income and expenses were reported through the Foundation for the years ended June 30, 2018 and 2017.

For tax purposes, income determined to be unrelated business income would be taxable.

Tax positions taken related to the Organization's tax-exempt status and other miscellaneous tax positions have been reviewed. Management is of the opinion that material positions taken by the Organization would be upheld under examination. Accordingly, the Organization has not recorded an income tax liability for uncertain tax positions as of June 30, 2018, and does not anticipate a significant change for the following twelve months. The Organization is subject to tax examination by the federal and Arizona state jurisdictions, which generally remain open for three and four years, respectively.

(1) Operations and summary of significant accounting policies (continued)

Recent accounting pronouncements:

In December 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This standard eliminates the transaction- and industry-specific revenue recognition guidance. This standard creates a single, principle-based revenue recognition framework that requires entities to shift away from primarily rules-based U.S. GAAP and to apply significantly more judgment. With that increase in judgment, Topic 606 requires expanded disclosures surrounding revenue recognition. This new guidance is effective for nonpublic entities for fiscal years beginning after December 15, 2017 and can be early adopted in certain circumstances. In August 2015, the FASB issued Accounting Standards Update 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date.* This guidance defers the implementation date of Standard 2014-09, *Revenue from Contracts with Customers (Topic 606)* to reporting periods beginning after December 15, 2018 for public entities. The Organization has nearly completed its evaluation of the impact of this standard and does not expect it to have a material impact on the financial statements.

In February 2016, the FASB issued Accounting Standards Update 2016-02, *Leases (Topic 842).* The guidance redefines the term "lease" to mean "conveys the right to control the use of identified property, plant and equipment for a period of time in exchange for consideration." The customer has the right to control if it receives both 1) the right to obtain substantially all economic benefits from using an asset and 2) the right to direct the use of that asset.

- Lessee Impact: The key impact to lessees is the requirement to show operating leases on the statement of financial position through recognizing a Right of Use (ROU) asset and liability, with the lease liability measured at the present value of the future lease payments and the asset measured at the lease liability adjusted for payments made before lease commencement and initial indirect costs. The leases would be classified into financing leases (recognize interest expense and amortization based on the interest method) and operating leases (recognize rent expense on a straight-line basis over the lease term).
- Lessor Impact: The impact to lessors is minimal, remaining similar to today's standards. For direct financing leases, recognize any loss up front, defer profit and account for investment in lease using the interest method and for operating leases, recognize an asset sale and account for investment in the lease using the interest method of the lease term.

The new guidance is effective for annual reporting periods beginning after December 15, 2018. The Organization is in the process of evaluating the impact of this standard on its operations.

(1) Operations and summary of significant accounting policies (continued)

In August 2016, the FASB issued Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958).* The guidance is intended to simplify and improve how a not-for-profit organization (NFP) classifies its net assets, as well as the information it presents in financial statements about its liquidity, financial performance and cash flows. The main provisions of this update require an NFP to do the following.

- Present net assets in two classes instead of three – net assets with donor restrictions and net assets without donor restrictions.
- Continue to present the statement of cash flows using either direct or indirect methods but no longer require the presentation of the indirect method (reconciliation) if using the direct method.
- Provide enhanced disclosure about:
  - Amounts and purposes of governing board designations;
  - Composition of net assets with donor restrictions and how the restrictions affect the use of resources;
  - Qualitative information about how an NFP manages its liquid resources;
  - Qualitative information about the availability of financial assets;
  - Expenses in both their natural and functional classes;
  - Description of cost allocation methods; and
  - Information about underwater endowments disclosing the NFP's policy, aggregate fair value of the funds, aggregate value of the original gift amount and aggregate amount by which the funds are underwater.
- Report investment return net of external and direct internal investment expenses without disclosure of the netted expenses.
- Use of the "placed-in-service" approach for reporting restriction releases for gifts used to acquire or construct long-lived assets.

The new guidance is effective for annual reporting periods beginning after December 15, 2017. The Organization is in the process of evaluating the impact of this standard on its operations.

(2) Pledges receivable, net

Pledges receivable, discounted using rates ranging from 1.2% to 10.9%, consist of the following unconditional promises to give:

	2018	2017
Gross pledges receivable	$ 221,411,595	$ 196,283,808
Present value discount	(15,936,000)	(15,165,000)
Allowance for uncollectible pledges	(49,139,000)	(43,522,000)
Pledges receivable, net	$ 156,336,595	$ 137,596,808

Gross pledges are receivable as follows:

	2018	2017
Receivable in one year	$ 56,917,333	$ 47,096,639
Receivable in two to five years	60,888,134	46,483,542
Receivable after five years	103,606,128	102,703,627
Total gross pledges receivable	$ 221,411,595	$ 196,283,808

(2) Pledges receivable, net (continued)

The Organization had conditional pledges receivable totaling $38.3 million and $46.6 million at June 30, 2018 and 2017; no amounts are included in the above pledges receivable balance. Conditional pledges receivable are recorded when the conditions are substantially met.

(3) Other receivables, net

Other receivables include operating receivables generated through a variety of activities and are stated at the amount management expects to collect.

Other receivables relate to the following activities:

	2018	2017
Accounts receivable, operations	$ 304,005	$ 246,873
Payroll and benefits receivable	6,687	5,714
Receivable from affiliates	2,962	1,779
Total other receivables, net	$ 313,654	$ 254,366

Management provides for uncollectible amounts through a charge to earnings and a credit to the allowance for doubtful accounts based on its assessment of the current status of individual receivables. Management has determined that no allowance for uncollectible receivables as of June 30, 2018 and 2017 is needed.

(4) Investments

The Organization holds investment funds in the Long-Term Investment Pool (LTIP), the Short-Term Investment Pool (STIP) and Other Investments.

Investments consist of:

2018	LTIP	STIP	Other Investments	Total
Global equities	$ 351,464,775	$ -	$ 14,021,429	$ 365,486,204
Global fixed income	122,926,603	75,024,489	1,330,552	199,281,644
Absolute return	111,233,098	-	-	111,233,098
Real assets	88,019,746	-	240,732	88,260,478
Private capital	61,723,481	-	-	61,723,481
Cash and cash equivalents	5,950,849	7,299,735	1,762,568	15,013,152
Total investments	$ 741,318,552	$ 82,324,224	$ 17,355,281	$ 840,998,057

(4) Investments (continued)

2017	LTIP	STIP	Other Investments	Total
Global equities	$ 330,638,271	$ -	$ 13,388,944	$ 344,027,215
Global fixed income	96,092,808	42,608,980	953,101	139,654,889
Absolute return	101,034,483	-	-	101,034,483
Real assets	85,047,059	-	258,666	85,305,725
Private capital	56,313,810	-	-	56,313,810
Cash and cash equivalents	22,267,641	25,752,615	1,233,654	49,253,910
Total investments	$ 691,394,072	$ 68,361,595	$ 15,834,365	$ 775,590,032

Investment valuations are established and classified based on a variety of inputs. In accordance with Accounting Standards Codification (ASC) Topic 820, certain investments that are measured at fair value using the NAV per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in the following tables are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position. The input classifications or levels by investment category are shown in the following tables:

2018	Level 1	Level 2	Level 3	NAV	Total
Global equities	$240,388,513	$ -	$ 99,074,393	$ 26,023,298	$ 365,486,204
Global fixed income	153,555,314	11,203,035	9,388,468	25,134,827	199,281,644
Absolute return	19,456,834	-	3,782,497	87,993,767	111,233,098
Real assets	25,504,358	-	62,756,120	-	88,260,478
Private capital	3,931,163	-	51,372,368	6,419,950	61,723,481
Cash and cash equivalents	14,967,567	-	45,585	-	15,013,152
Total investments	$457,803,749	$ 11,203,035	$ 226,419,431	$ 145,571,842	$ 840,998,057

2017	Level 1	Level 2	Level 3	NAV	Total
Global equities	$ 217,940,911	$ -	$ 89,477,034	$ 36,609,270	$ 344,027,215
Global fixed income	125,895,639	-	7,931,994	5,827,256	139,654,889
Absolute return	11,103,176	-	13,301,759	76,629,548	101,034,483
Real assets	20,150,133	-	65,155,592	-	85,305,725
Private capital	-	-	48,049,406	8,264,404	56,313,810
Cash and cash equivalents	49,225,797	-	28,113	-	49,253,910
Total investments	$ 424,315,656	$ -	$ 223,943,898	$ 127,330,478	$ 775,590,032

(4) Investments (continued)

Certain investments are valued using NAV and are reported at the net asset values calculated by the investment manager. These investments, at June 30, 2018, detailed in the following table, are subject to capital calls and specific redemption terms:

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Global equities	$ 26,023,298	$ -	Monthly to quarterly	Daily - 30 days
Global fixed income	25,134,827	-	Monthly	Daily - 60 days
Absolute return	87,993,767	-	Monthly to every 2 years	3 - 90 days
Private capital	6,419,950	-	Not available	
Total NAV investments	$ 145,571,842	$ -		

Level 3 investments have unfunded commitments of $121 million.

The following table summarizes the change in value of the Organization's Level 3 investments:

2018	Beginning Balance	Realized or Unrealized Gains or (Losses)	Purchases	Sales	Ending Balance
Global equities	$ 89,477,034	$ 10,632,196	$ 7,988	$ (1,042,825)	$ 99,074,393
Global fixed income	7,931,994	77,043	2,452,296	(1,072,865)	9,388,468
Absolute return	13,301,759	1,147,130	358,944	(11,025,336)	3,782,497
Real assets	65,155,592	2,352,181	12,344,054	(17,095,707)	62,756,120
Private capital	48,049,406	2,818,838	9,389,642	(8,885,518)	51,372,368
Cash and cash equivalents	28,113	(36,788)	125,000	(70,740)	45,585
Total Level 3 investments	$ 223,943,898	$ 16,990,600	$ 24,677,924	$ (39,192,991)	$ 226,419,431

2017	Beginning Balance	Restructure Transfer	Realized or Unrealized Gains or (Losses)	Purchases	Sales	Ending Balance
Global equities	$ 130,498,964	$ -	$ 21,372,067	$ 572,675	$ (62,966,672)	$ 89,477,034
Global fixed income	10,061,910	-	288,341	1,136,385	(3,554,642)	7,931,994
Absolute return	11,363,843	-	1,937,884	42	(10)	13,301,759
Real assets	69,721,106	(3,242,302)	6,355,650	15,850,361	(23,529,223)	65,155,592
Private capital	43,183,103	(1,192,534)	4,009,676	18,655,136	(16,605,975)	48,049,406
Cash and cash equivalents	36,480	-	(8,531)	93,000	(92,836)	28,113
Total Level 3 investments	$ 264,865,406	$ (4,434,836)	$ 33,955,087	$ 36,307,599	$ (106,749,358)	$ 223,943,898

(4) Investments (continued)

The investments are diversified both by asset class and within asset classes. As a general practice, investments of the Organization are managed by external investment management firms.

The global equities include domestic and international equities, including emerging market investments, which are invested in either publicly traded equities listed on national exchanges or in limited partnerships or commingled formats.

The global fixed income investments include US treasuries, securitized debt, agency and corporate bonds, as well as sovereign debt from other nationalities.

Absolute return investments typically include hedge funds, but may include other absolute return-oriented investments that are more liquid than private capital investments. These absolute return strategies are meant to diversify in order to supplement traditional portfolios and are usually offered through partnership structures. Hedge funds may combine long positions with short positions to reduce overall market exposure, though, not all hedge funds "hedge" against market exposure. They also include diverse strategies that attempt to identify or exploit pricing inefficiencies between related securities or involve transaction-based strategies that tend to have lower statistical correlations to traditional equity and fixed income markets. Examples of these strategies are convertible arbitrage, event-driven arbitrage, fixed income arbitrage, distressed securities, and equity market-neutral. Investments in the underlying funds may include publicly traded securities, but may also include less liquid investments.

Real assets investments include global energy, natural resource, real estate and inflation-linked bond investments. Real assets may be publicly traded or illiquid, private investments.

Private capital includes investments in private equity, venture capital, opportunistic credit and distressed credit limited partnerships.

(5) Land and buildings held for investment

Land and buildings held for investment are recorded at the fair value on the date of receipt and are periodically revalued through the use of a third-party appraiser, comparable market analysis, or property tax valuation statement. Changes in value are included in net investment return on the consolidated statement of activities.

Land and buildings held for investment include:

	2018	2017
Copper mine	$ 633,000	$ 633,000
Other gifted properties	46,478	46,341
Total land and buildings held for investment	$ 679,478	$ 679,341

(6) Endowment and net asset classifications

Management of the Organization's endowment is governed by laws in the state of Arizona based on the Uniform Prudent Management of Institutional Funds Act. The Organization has interpreted the statute as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets: (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. From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level required to be held in perpetuity. For these funds, the change in value is shown as unrestricted net investment return and is reported in unrestricted net assets. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted or unrestricted net assets is classified as temporarily restricted net assets.

The Organization's endowments by net asset category are shown in the following table:

2018	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowments	$ (6,025,263)	$ 43,516,814	$ 434,558,258	$ 472,049,809
Quasi-endowments	-	81,154,169	-	81,154,169
Total funds	$ (6,025,263)	$ 124,670,983	$ 434,558,258	$ 553,203,978

2017	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowments	$ (7,012,802)	$ 38,368,255	$ 397,256,437	$ 428,611,890
Quasi-endowments	-	79,286,649	-	79,286,649
Total funds	$ (7,012,802)	$ 117,654,904	$ 397,256,437	$ 507,898,539

(6) Endowment and net asset classifications (continued)

Included in the Organization's endowments are the ASU Trust (Trust) assets held under a trust agreement with the University and the ASU Alumni Association's (Alumni) assets held under an investment management agreement with Alumni. The Trust's and the Alumni's funds are maintained separately on the financial system of the Organization and receive a proportional share of the activity of the LTIP. As such, the Organization owns the assets of the LTIP and the Trust and the Alumni have a financial interest in the LTIP but do not own any of the underlying assets. The Organization has recorded a liability at fair value to the Trust and the Alumni.

Endowed assets held for other entities consist of:

	2018	2017
ASU Trust	$ 137,372,341	$ 130,117,596
ASU Alumni Association	17,500,031	16,639,466
Total endowed assets held for other entities	$ 154,872,372	$ 146,757,062

The Organization's endowment is invested in the LTIP. The Organization's investment policies for the LTIP are reviewed periodically. The long-term financial objectives are to produce a relatively predictable and stable payout stream that increases over time, at least as fast as the general rate of inflation, and to preserve inter-generational equity by achieving a growth rate that at least keeps pace with the general rate of inflation, net of spending.

The spending policy for the endowment follows the objectives of the investment policy and establishes the amount made available for spending from the endowment. The spending policy is based on a constant growth formula, in which the amount available for spending is based on the prior-year spending amount plus a current year inflation factor measured at mid-fiscal year, collared by a cap and floor based on a percentage of a 12-quarter moving average. The inflation rate used was 2.1% for both 2018 and 2017, and the cap and floor were based on 4.25% and 3.25% for both 2018 and 2017. In the event the current market value of the endowment is less than the historical gift value, spending will continue unless the gift agreement does not permit spending in this circumstance.

(6) Endowment and net asset classifications (continued)

Changes in endowment net assets are shown in the following table:

2018	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets June 30, 2017	$ (7,012,802)	$ 117,654,904	$ 397,256,437	$ 507,898,539
Contributions and other additions	-	5,779,790	35,878,888	41,658,678
Investment return:				
Interest and dividends	-	7,443,318	424,205	7,867,523
Net realized and unrealized gains or (losses)	987,539	30,777,806	1,026,945	32,792,290
Change in assets due to other entities	-	(12,895,779)	-	(12,895,779)
Total investment return	987,539	25,325,345	1,451,150	27,764,034
Appropriation for expenditure	-	(25,010,722)	(526,612)	(25,537,334)
Reclassification of donor intent	-	921,666	498,395	1,420,061
Endowment net assets June 30, 2018	$ (6,025,263)	$ 124,670,983	$ 434,558,258	$ 553,203,978

2017	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets June 30, 2016	$ (4,867,488)	$ 94,776,198	$ 383,491,317	$ 473,400,027
Brickyard quasi undesignated	(12,000,000)	-	-	(12,000,000)
Contributions and other additions	-	4,505,615	12,419,442	16,925,057
Investment return:				
Interest and dividends	-	7,085,706	411,725	7,497,431
Net realized and unrealized gains or (losses)	9,854,686	53,831,601	922,495	64,608,782
Change in assets due to other entities	-	(21,667,402)	-	(21,667,402)
Total investment return	9,854,686	39,249,905	1,334,220	50,438,811
Appropriation for expenditure	-	(21,413,295)	(441,974)	(21,855,269)
Reclassification of donor intent	-	536,481	453,432	989,913
Endowment net assets June 30, 2017	$ (7,012,802)	$ 117,654,904	$ 397,256,437	$ 507,898,539

(7) Assets held under split-interest agreements

The Organization is currently the beneficiary of certain charitable remainder trusts (CRT) where the Organization is the trustee. The Organization currently administers certain charitable gift annuities (CGA). The CRT's and CGA's provide for the payment of distributions to the grantor or other designated beneficiaries over the trust's or annuity's term (usually the designated beneficiary's lifetime). At the end of the CRT's or CGA's term, the remaining assets are available for use by the Organization as specified by the grantor. The portion of the trust attributable to the present value of the future benefits to be received by the Organization is recorded as a temporarily restricted contribution in the period the trust is established.

Investments held in the trusts and annuities are invested in equities and bonds and reported at fair value. On an annual basis, the Foundation revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. Adjustments to reflect the present value of the estimated annuity payments and changes in actuarial assumptions are included as a component of net investment return in the consolidated statement of activities. The present value of the estimated payments for the trusts and annuities, shown below, is calculated using discount rates of 3.4% for 2018 and 2.4% for 2017, and is based on mortality expectations found in the IRS Actuarial Valuations Publication.

The Organization is the beneficiary of certain life insurance instruments. The assets contributed under the life insurance policies are carried at fair value, approximated by the cash surrender value of the policy, and are shown in the table below.

Assets held under split-interest agreements consist of:

	2018	2017
Charitable gift annuities		
Equities	$ 3,787,338	$ 3,829,808
Fixed income	1,253,543	915,874
Other	96,653	58,045
	5,137,534	4,803,727
Charitable remainder trusts		
Equities	962,456	1,243,096
Fixed income	743,662	711,704
Other	40,829	17,799
	1,746,947	1,972,599
Life insurance	583,317	533,946
Total assets held under split-interest agreements	$ 7,467,798	$ 7,310,272

Obligations under split-interest agreements consist of:

	2018	2017
Charitable gift annuities	$ 2,392,838	$ 2,503,408
Charitable remainder trusts	816,349	869,032
Total obligations under split-interest agreements	$ 3,209,187	$ 3,372,440

(8) Property and equipment, net

Property and equipment consist of:

Cost:	2018	2017
Equipment		
Information systems	$ 3,492,374	$ 3,492,374
Other equipment	619,532	668,991
Buildings and improvements	-	235,744
Building fixtures	38,464	-
Total cost	4,150,370	4,397,109
Accumulated depreciation	(4,141,663)	(4,227,613)
Total property and equipment, net	$ 8,707	$ 169,496

Depreciation expense charged to operations was $15,624 and $62,369 for the years ended 2018 and 2017, respectively.

(9) Accounts payable and other liabilities

Accounts payable and other liabilities consists of:

	2018	2017
Accrued expenses	$ 979,127	$ 1,040,815
General accounts payable	(25,744)	1,416,481
Payroll liabilities	994,565	1,053,654
Total accounts payable and other liabilities	$ 1,947,948	$ 3,510,950

(10) Restricted net assets

Temporarily and permanently restricted net assets are available for the following purposes:

	2018		2017	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Academic support	$ 60,394,061	$ 137,705,406	$ 59,229,247	$ 135,409,224
Athletics	14,473,504	4,370,662	14,260,951	3,850,737
Capital	24,011,106	-	23,929,436	-
Discretionary use for ASU	18,446,463	18,663,675	19,051,387	18,688,771
Faculty	34,498,775	114,231,580	32,304,174	111,423,020
Financial aid	64,100,884	155,927,224	59,373,848	145,536,995
Library	1,225,362	1,820,467	1,173,302	1,820,182
Miscellaneous	6,442,812	137,557	5,693,588	137,557
Operations and maintenance	1,064,899	-	591,911	-
Research	57,567,681	19,477,294	33,588,206	19,465,767
Specific programs	103,320,207	67,853,791	85,966,762	47,974,320
Pledge reserve and discount	(29,811,000)	(35,264,000)	(25,474,900)	(33,212,000)
Total restricted net assets	$ 355,734,754	$ 484,923,656	$ 309,687,912	$ 451,094,573

(11) Net investment return (loss)

Net investment return (loss) consists of:

2018	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest	$ 46	$ 9,053,903	$ 424,205	$ 9,478,154
Change in value of split-interest agreements	39,968	116,267	-	156,235
Net realized gains (losses)	-	15,098,377	854,429	15,952,806
Net unrealized gains (losses)	987,414	21,104,353	(316,527)	21,775,240
Change in assets due to other entities	-	(9,425,668)	-	(9,425,668)
Investment management fees	-	(2,777,269)	(37,570)	(2,814,839)
Total net investment return (loss)	$ 1,027,428	$ 33,169,963	$ 924,537	$ 35,121,928

(11) Net investment return (loss) (continued)

2017	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest	$ 1	$ 8,220,385	$ 411,725	$ 8,632,111
Change in value of split-interest agreements	65,533	270,605	-	336,138
Net realized gains (losses)	-	30,545,782	27,708	30,573,490
Net unrealized gains (losses)	9,854,870	28,339,177	485,549	38,679,596
Change in assets due to other entities	-	(16,069,718)	-	(16,069,718)
Investment management fees	-	(4,384,645)	(32,736)	(4,417,381)
Total net investment return (loss)	$ 9,920,404	$ 46,921,586	$ 892,246	$ 57,734,236

(12) Other revenue

Other revenue consists of:

	2018	2017
ASU program support	$ 429,941	$ 698,424
Miscellaneous	357,547	321,299
Insurance proceeds	179,716	-
Total other revenue	$ 967,204	$ 1,019,723

(13) Net assets released from restrictions

Net assets were released from restriction for the following purposes:

	2018	2017
Academic support	$ 12,430,894	$ 16,782,736
Athletics	4,348,834	3,064,756
Capital	6,186,801	4,798,560
Discretionary use for ASU	1,672,860	1,693,975
Faculty	4,658,308	4,631,047
Financial aid	9,040,910	8,199,187
Library	73,252	72,703
Miscellaneous	8,174,627	10,568,323
Operations and maintenance	374,146	126,629
Research	32,056,843	20,963,216
Specific programs	39,772,251	38,994,266
Total net assets released from restrictions	$ 118,789,726	$ 109,895,398

(14) Retirement plan

The Organization's parent, EP, sponsors a 401(k) savings plan (Plan) that provides retirement benefits for employees who meet the following eligibility criteria: eligible for medical and dental insurance and a minimum age of 18 years.

There are three components to the Plan: employee contributions, discretionary matching of employee contributions by the employer and employer discretionary contributions.

The first component of the Plan is employee contributions made through payroll deduction in accordance with requirements of the Plan. An employee may contribute part of his or her annual compensation to the Plan, limited to a maximum annual amount as set periodically by the IRS. Employee contributions to the Plan are immediately vested.

The second component of the Plan is the employer discretionary matching of employee contributions by the Organization. The Organization matches 50% of the employee's contribution, not to exceed 3% of the employee's compensation. The Organization's matching contributions to the Plan were approximately $207,000 and $194,000 for the years ended June 30, 2018 and 2017.

The third component of the Plan provides for employer discretionary contributions by the Organization. The annual contribution for the years ended June 30, 2018 and 2017 was 4% of compensation for all eligible employees. The Organization's discretionary contributions were approximately $301,000 and $284,000 for the years ended June 30, 2018 and 2017, respectively.

Employer contributions vest evenly over five years.

(15) Functional expense allocation

Functional expenses are charged to program services, fundraising and management and general as follows:

	2018	2017
Program services	$ 113,489,100	$ 106,077,676
Fundraising	14,597,513	14,519,356
Management and general	9,517,479	12,693,197
Total expenses	$ 137,604,092	$ 133,290,229

(16) Related party transactions

From time to time, the Organization may transfer or receive cash to or from related entities. Contributions from these entities are reflected in contributions and were $268,786 and $11,000 in fiscal years ended 2018 and 2017, respectively. Donations to related entities are reflected in other expense and were $1,239,000 and $1,706,402 in 2018 and 2017, respectively. Services provided by a related entity were $250,000 in 2018.

During fiscal years 2018 and 2017, the Organization recognized contribution revenue from the members of the Organization's Board of Directors of approximately $272,000 and $958,000, respectively. At June 30, 2018 and 2017, net unconditional pledges receivable from the members of the Foundation's Board of Directors were approximately $875,000 and $970,000, respectively.

(17) Fair value of financial instruments and fair value measurements

For the financial and non-financial instruments, except for investments, noted throughout the accompanying consolidated financial statements and notes that are measured at fair value on a recurring basis, the following table summarizes the valuation based on the fair value hierarchy level detailed in Note 1:

2018	Level 1	Level 2	Level 3
Assets at fair value (recurring basis)			
Charitable trusts receivable	$ -	$ -	$ 1,723,252
Land and buildings held for investment	-	-	679,478
Assets held under split-interest agreements	7,467,798	-	-
Total assets at fair value	$ 7,467,798	$ -	$ 2,402,730
Liabilities at fair value (recurring basis)			
Assets held for other entities	$ -	$ -	$ 166,490,065
Total liabilities at fair value	$ -	$ -	$ 166,490,065

2017	Level 1	Level 2	Level 3
Assets at fair value (recurring basis)			
Charitable trusts receivable	$ -	$ -	$ 2,484,933
Land and buildings held for investment	-	-	679,341
Assets held under split-interest agreements	7,310,272	-	-
Total assets at fair value	$ 7,310,272	$ -	$ 3,164,274
Liabilities at fair value (recurring basis)			
Assets held for other entities	$ -	$ -	$ 165,117,200
Total liabilities at fair value	$ -	$ -	$ 165,117,200

Disclosure related to the fair value hierarchy for investments can be found in the earlier investments footnote.

For all financial instruments not addressed previously and not reported at fair value, the carrying amounts approximate fair value due to the following factors:

- Cash and cash equivalents, other receivables, accounts payable and other liabilities because of the short-term maturities of these instruments;
- Pledges receivable and obligations under split-interest agreements because the risk-adjusted cash flows are discounted using applicable risk free rates; and
- Leases receivable and related unearned interest liability because the future cash flows are discounted using rates at which similar leases would be made to borrowers with similar credit ratings and for the same remaining maturities.

(17) Fair value of financial instruments and fair value measurements (continued)

The change in value of the assets and liabilities measured using Level 3 inputs is shown in the following table:

2018	Beginning Balance	Total Realized or Unrealized Gains or (Losses)	Purchases	Sales	Ending Balance
Level 3 assets					
Charitable trusts receivable	$ 2,484,933	$ (161,681)	$ -	$ (600,000)	$ 1,723,252
Land and Buildings held for investment	679,341	137	-	-	679,478
Total Level 3 assets	$ 3,164,274	$ (161,544)	$ -	$ (600,000)	$ 2,402,730
Level 3 liabilities					
Assets held for other entities	$ 165,117,200	$ 1,372,865	$ -	$ -	$ 166,490,065
Total Level 3 liabilities	$ 165,117,200	$ 1,372,865	$ -	$ -	$ 166,490,065

2017	Beginning Balance	Restructure Transfer	Total Realized or Unrealized Gains or (Losses)	Purchases or (Sales)	Ending Balance
Level 3 assets					
Charitable trusts receivable	$ 3,182,202	$ -	$ (97,269)	$ (600,000)	$ 2,484,933
Land and Buildings held for investment	60,869,421	(60,191,041)	961	-	679,341
Total Level 3 assets	$ 64,051,623	$ (60,191,041)	$ (96,308)	$ (600,000)	$ 3,164,274
Level 3 liabilities					
Assets held for other entities	$ 128,692,662	$ 14,337,741	$ 22,086,797	$ -	$ 165,117,200
Total Level 3 liabilities	$ 128,692,662	$ 14,337,741	$ 22,086,797	$ -	$ 165,117,200

(18) Litigation

On June 6, 2016, Altela, Inc. (Altela), a former licensee of Skysong Innovations (SI), filed a complaint against the SI and the Foundation in Arizona District Court. Altela's complaint alleged claims for breach of the license agreement (Agreement), breach of the covenant of good faith and fair dealing, interference with contract/business relationships/business expectancies, and unjust enrichment, and sought damages, including punitive damages, costs, interest, and attorneys' fees. On July 14, 2016, SI and the Foundation filed motions to compel compliance by Altela with the alternate dispute resolution procedure provided in the Agreement. On August 31, 2016, the district court granted the motions, finding that the dispute was subject to mandatory arbitration, and entered a Judgment of Dismissal.

On January 17, 2017, Altela brought a Demand for Arbitration (Demand) with the American Arbitration Association against SI and the Foundation. The Demand, like the previous district court complaint, asserts against SI causes of action for breach of the Agreement, breach of the implied covenant of good faith and fair dealing, interference with contract/business relationships/business expectancies, and unjust enrichment, and seeks damages, including punitive damages, costs, interest, and attorneys' fees. On February 14, 2017, SI filed an Answering Statement and Counterclaims for breach of the Agreement and breach of the covenant of good faith and fair dealing. On July 24, 2017, the three-arbitrator panel issued a scheduling order setting, among other things, a fact discovery deadline of February 23, 2018, an expert discovery deadline of May 4, 2018, and a final hearing to be conducted on June 18-22, 2018. On April 16, 2018, the arbitration panel issued an order of dismissal that dismissed Altela's claims against the Foundation.

On February 29, 2016, a University professor filed a lawsuit in Maricopa County Superior Court against the Arizona Board of Regents (ABOR) and thirteen individual defendants. The professor's lawsuit focuses principally on what she considers to be a demotion in stature of her position assignment and reduction in her funding and her office space after she "blew the whistle" in June 2014, complaining of alleged gross waste, mismanagement and unethical practices, among other things. The professor named the then President and Chief Executive Officer (CEO) for the Foundation and the CEO, Chief Legal Officer and a member of the Board of Directors of SI. The professor alleges that the individually named defendants acted in their personal capacities to breach her contract with ABOR and retaliate against her with respect to her employment with ABOR/the University. On August 3, 2017, the Court dismissed all the individual defendants from the professor's complaint for failure to state a claim upon which relief may be granted. However, the Court granted the professor the right to amend her complaint to assert a couple of new claims against the individual defendants as well as SI. On July 7, 2018, the Court again dismissed, without prejudice, all defendants from the lawsuit. At this time, it is not known if the Plaintiff intends to try to file a third complaint. At this time the Organization is unable to determine the ultimate outcome of the demand.

(19) Subsequent events

The Foundation evaluated subsequent events through August 30, 2018, which is the date these consolidated financial statements were issued. No significant events were identified that required disclosure.