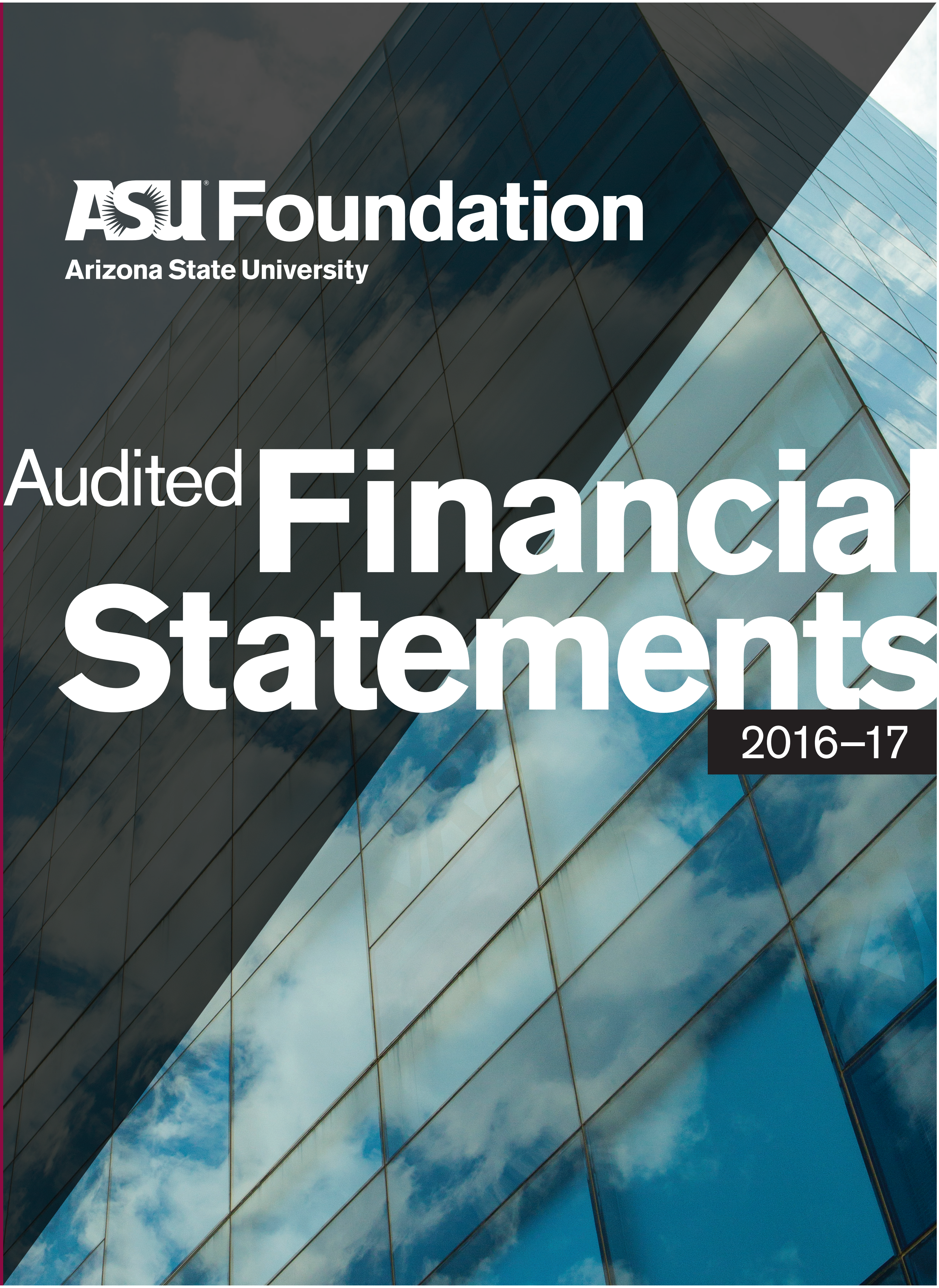
ASU Foundation

Arizona State University

Audited Financial Statements

2016–17



ARIZONA STATE UNIVERSITY FOUNDATION
for A New American University
AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

ARIZONA STATE UNIVERSITY FOUNDATION
for A New American University
AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

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 meet the demands of Arizona State University (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 sixth 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.

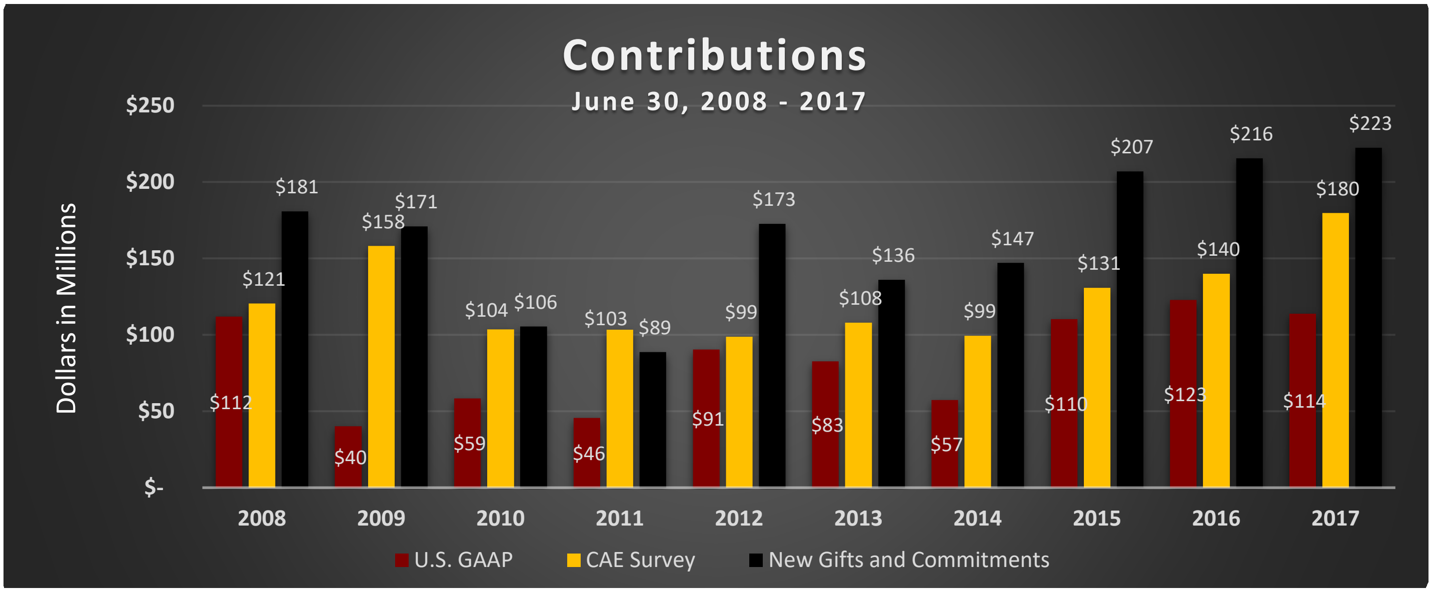
The Foundation is a membership organization with one member, ASU Enterprise Partners (EP). EP has organized its operations to focus on its business lines, which include philanthropy, technology, realty, research and global initiatives. The Foundation uses supporting services provided by EP that include human resources, communications, technology and data management, investment, legal, and financial services The Foundation's 2017 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.

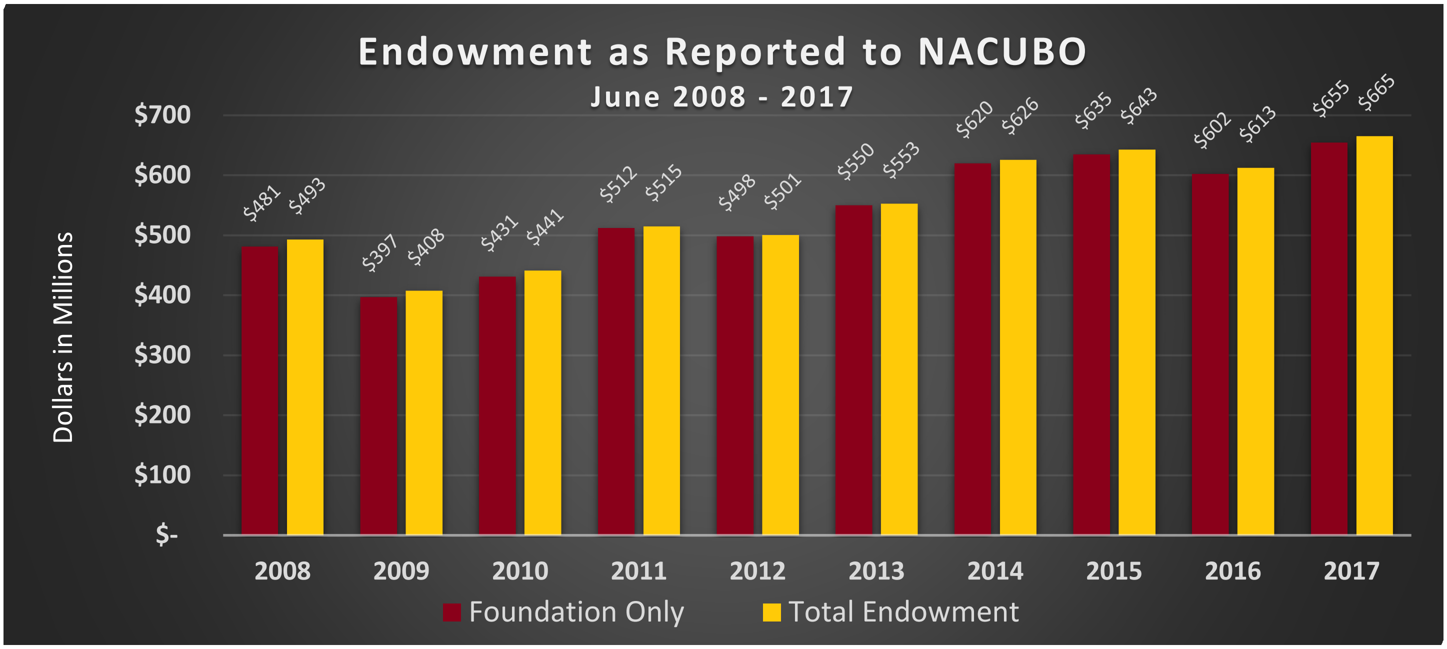
New Gifts and Commitments is an internal productivity measure that provides the broadest possible view of the Foundation fundraising progress. Its contribution total includes new pledges, advised bequests, in-kind gifts, and deferred gifts for the entire University community. Fiscal year 2017 was the third year in a row the Foundation achieved record fundraising in excess of $200 million. In fiscal year 2017, New Gifts and Commitments totaled approximately $223 million.



ENDOWMENT VALUE

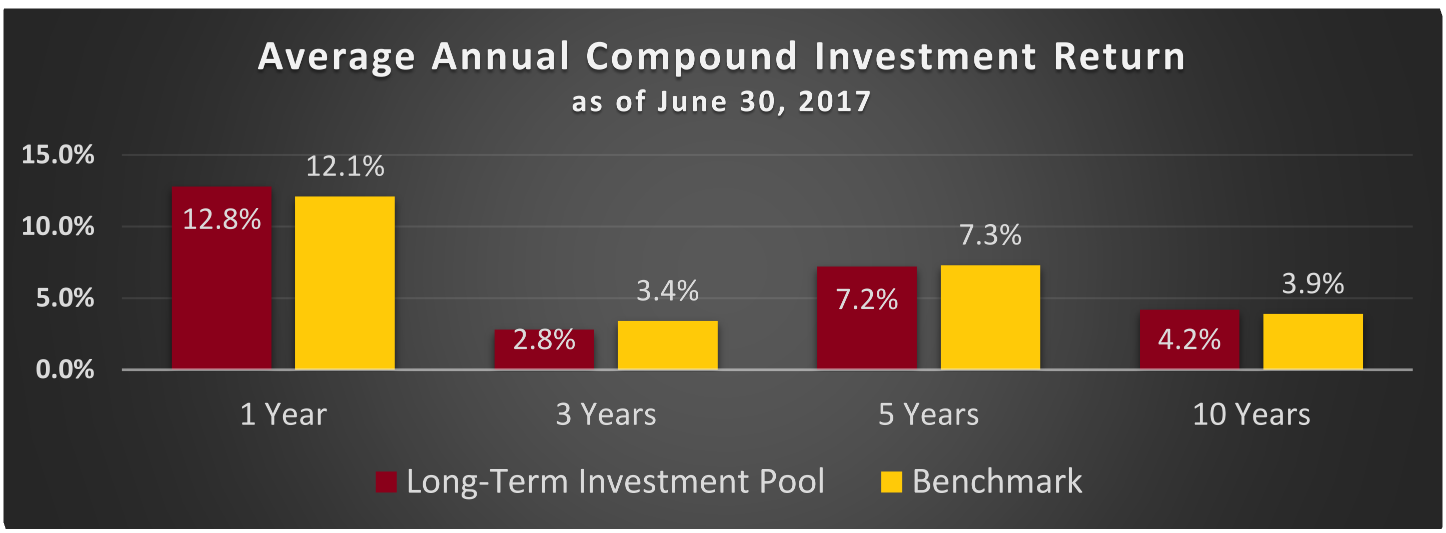
The Foundation reports its endowment value using two different measuring methods as well. The attached audited consolidated financial statements report the endowment value for assets held by the Foundation and include a liability for the assets held by the Foundation for other entities, such as the endowments held in trust for the University and others. The National Association of College and University Business Officers (NACUBO) along with Commonfund publishes the NACUBO-Commonfund Study of Endowments (NCSE) survey that counts the ASU endowment value for the entire University enterprise, including assets held by the Foundation, as well as other ASU affiliates. NACUBO 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.



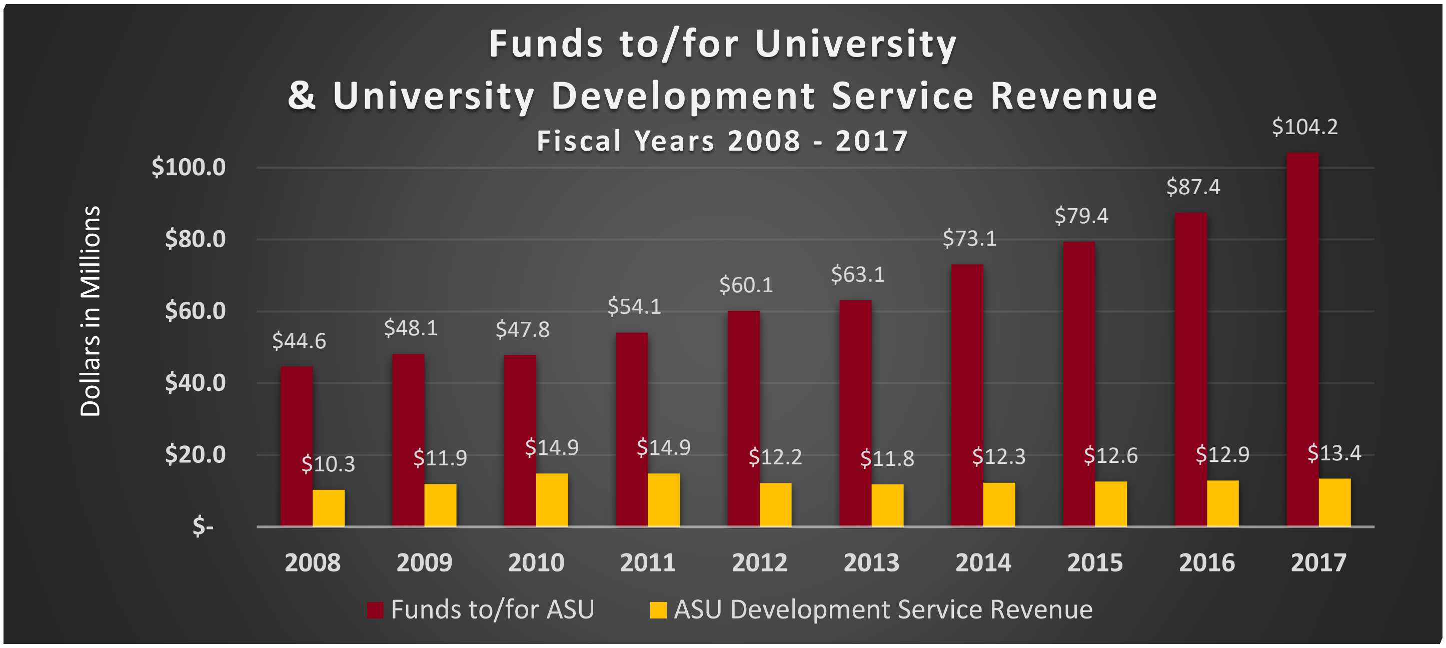
ENDOWMENT INVESTMENT

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. 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 $87.4 million in 2016 to approximately $104.2 million in 2017. 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) a development services contract with the University; 2) asset management fees on the endowment; 3) subsidy from the enterprise reserves; and 4) unrestricted gifts. Contributions measured according to U.S. GAAP remained high, investment returns increased greatly and payments for the benefit of the University increased greatly. The Foundation experienced only a slight increase 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

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

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

T 602.474.3400
F 602.474.3421X
www.GrantThornton.com

Report on the financial statements

We have audited the accompanying consolidated financial statements of Arizona State University Foundation for A New American University and Affiliates (*a nonprofit organization*) (the "Entity"), which comprise the consolidated statement of financial position as of June 30, 2017, 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 Entity'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 Entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 Affiliates as of June 30, 2017, 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 2016 summarized comparative information

We have previously audited the Entity's 2016 consolidated financial statements (not presented herein), and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 26, 2016. In our opinion, the accompanying summarized comparative information as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited statements from which it has been derived.

Grant Thornton LLP

Phoenix, Arizona
August 25, 2017

ARIZONA STATE UNIVERSITY FOUNDATION

for A New American University

AND AFFILIATES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2017
(with comparative totals at June 30, 2016)

A S S E T S

	June 30, 2017	June 30, 2016
ASSETS		
Cash and cash equivalents	$ 2,641,032	$ 18,604,737
Receivables		
Pledges receivable, net	137,596,808	132,491,744
Charitable trusts receivable	2,484,933	3,182,202
Other receivables, net	254,366	3,820,086
Total receivables	140,336,107	139,494,032
Investments	775,590,032	713,560,442
Land and buildings held for investment	679,341	60,869,421
Assets with limited use	-	24,617,460
Assets held under split-interest agreements	7,310,272	6,900,393
Net investment in direct financing lease	-	22,820,000
Property and equipment, net	169,496	12,793,465
Other assets	573,115	956,475
TOTAL ASSETS	$ 927,299,395	$1,000,616,425

L I A B I L I T I E S   A N D   N E T   A S S E T S

	June 30, 2017	June 30, 2016
LIABILITIES		
Accounts payable and other liabilities	$ 3,510,950	$ 9,608,786
Assets held for other entities	165,117,200	128,692,662
Obligations under split-interest agreements	3,372,440	3,458,564
Unrealized swap liability	-	10,394,594
Bonds payable, net	-	102,048,557
TOTAL LIABILITIES	172,000,590	254,203,163
NET ASSETS		
Unrestricted	(5,483,680)	24,655,400
Temporarily restricted	309,687,912	289,496,011
Permanently restricted	451,094,573	432,261,851
TOTAL NET ASSETS	755,298,805	746,413,262
TOTAL LIABILITIES AND NET ASSETS	$ 927,299,395	$1,000,616,425

See Notes to Consolidated Financial Statements

ARIZONA STATE UNIVERSITY FOUNDATION
for A New American University
AND AFFILIATES

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2017
(with comparative totals for year ended June 30, 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2017	Totals 2016
SUPPORT AND REVENUES					
Contributions	$ 4,147,653	$ 88,676,626	$ 21,062,042	$113,886,321	$122,930,409
Change in estimate for uncollectible pledges	1,000	(1,653,000)	(1,554,000)	(3,206,000)	(907,000)
Change in present value discount	-	(50,000)	(2,021,000)	(2,071,000)	(1,546,000)
Net investment return (loss)	9,920,404	46,921,586	892,246	57,734,236	(15,573,632)
Service agreement revenue	13,399,550	-	-	13,399,550	20,582,201
Asset management fees	1,695,554	-	-	1,695,554	1,712,504
Rent	243,145	-	-	243,145	1,605,982
Program revenue and memberships	75,413	-	-	75,413	298,870
Licensee legal expense reimbursements	-	-	-	-	1,204,692
Contract revenue	-	-	-	-	684,169
Royalty revenue	-	-	-	-	1,636,133
Other revenue	1,019,723	-	-	1,019,723	7,416,308
Reserves subsidy	2,063,243	-	-	2,063,243	-
Reclassification of donor intent and transfers	512,910	(966,344)	453,434	-	-
Net assets released from restrictions	109,895,398	(109,895,398)	-	-	-
TOTAL SUPPORT AND REVENUES	142,973,993	23,033,470	18,832,722	184,840,185	140,044,636
EXPENSES					
Payments for the benefit of the University:					
Directly to the University:					
Donations and reimbursements	80,746,817	-	-	80,746,817	69,010,325
Scholarships - ASU selected	8,523,088	-	-	8,523,088	7,425,875
To vendors on behalf of the University	12,787,537	-	-	12,787,537	10,176,008
Subtotal	102,057,442	-	-	102,057,442	86,612,208
Scholarships - Non ASU selected	114,932	-	-	114,932	153,884
Payments to other charitable entities	2,055,148	-	-	2,055,148	600,349
Total payments for the benefit of the University	104,227,522	-	-	104,227,522	87,366,441
Operating expenses:					
Salaries and benefits	10,203,900	-	-	10,203,900	23,667,333
Depreciation	62,369	-	-	62,369	668,582
Interest	-	-	-	-	1,562,875
Professional services	2,234,998	-	-	2,234,998	9,022,851
Other expense	4,349,699	-	-	4,349,699	7,496,055
Shared services	12,211,741	-	-	12,211,741	-
Total operating expenses	29,062,707	-	-	29,062,707	42,417,696
TOTAL EXPENSES	133,290,229	-	-	133,290,229	129,784,137
INCREASE/(DECREASE) IN NET ASSETS	9,683,764	23,033,470	18,832,722	51,549,956	10,260,499
Change in unrealized swap value	-	-	-	-	(2,097,434)
Restructure transfer	(39,822,844)	(2,841,569)	-	(42,664,413)	-
CHANGE IN NET ASSETS	(30,139,080)	20,191,901	18,832,722	8,885,543	8,163,065
NET ASSETS, BEGINNING OF PERIOD	24,655,400	289,496,011	432,261,851	746,413,262	738,250,197
NET ASSETS, END OF PERIOD	$ (5,483,680)	$309,687,912	$451,094,573	$755,298,805	$746,413,262

ARIZONA STATE UNIVERSITY FOUNDATION

for A New American University

AND AFFILIATES

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended June 30, 2017
(with comparative totals for year ended June 30, 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 8,885,543	$ 8,163,065
Adjustment to reconcile change in net assets to net cash provided by (used in) operating activities		
Change in present value discount on pledges receivable	2,071,000	1,546,000
Change in estimate for uncollectible pledges	3,206,000	907,000
Net realized and unrealized investment (gains) or losses	(57,733,275)	16,991,113
Net realized and unrealized investment (gains) or losses on land and buildings held for investment	(961)	(1,417,481)
Donated land and securities	-	(1,250,000)
Depreciation	62,369	642,061
Contributions restricted for long-term investment	(17,487,042)	(13,572,762)
Loss on disposal of property and equipment	21,836	-
(New) or terminated split-interest agreements	(225,197)	(385,136)
Change in present value of split-interest agreements	97,067	238,577
Amortization of bond issuance costs	-	81,409
Amortization of unearned interest income	-	(923,665)
Change in fair value of interest rate swap liability	-	2,097,434
Changes in operating assets and liabilities:		
(Increase) / decrease in:		
Pledges receivable	(5,314,539)	(17,368,350)
Charitable trusts receivable	600,000	600,000
Other receivables	1,665,476	(799,011)
Increase / (decrease) in:		
Accounts payable and other liabilities	(1,080,464)	506,109
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(65,232,187)	(3,943,637)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	951,068,346	880,400,667
Collections on investment in direct financing lease	-	1,793,665
Purchases of investments	(951,807,642)	(884,043,797)
Change in assets with limited use	-	8,173,777
Purchases of property and equipment	-	(118,904)
Purchases of land and buildings held for investment	-	(7,993,625)
Change in assets held for other entities	6,017,078	1,537,837
Change in other assets	(353,933)	309,457
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	4,923,849	59,077
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on bonds outstanding	-	(2,195,000)
Proceeds from contributions restricted for long-term investment	12,419,442	8,988,744
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	12,419,442	6,793,744
CURRENT YEAR CHANGE IN CASH AND CASH EQUIVALENTS	(47,888,896)	2,909,184
Restructure transfer	42,664,413	-
Cash from/(to) restructure	(10,739,222)	-
NET CHANGE IN CASH AND CASH EQUIVALENTS	(15,963,705)	2,909,184
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	18,604,737	15,695,553
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 2,641,032	$ 18,604,737
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ -	$ 1,577,325
Disposal of property and equipment	$ 356,391	$ -

See Notes to Consolidated Financial Statements

(1) Operations and summary of significant accounting policies

Operations – The **Arizona State University Foundation for A New American University (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)** 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 affiliated organizations described further below. 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 is 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.

Effective July 1, 2016 the Foundation assigned its interest in various assets and liabilities to EP or to an affiliate of EP. The four affiliates (along with their affiliated entities) were transferred to EP as follows.

ASU Research Enterprise (ASURE) was formed as an Arizona nonprofit organization to provide research services on behalf of the University on classified or unclassified governmental contracts and may act as a subcontractor or may subcontract out services related to these classified or unclassified contracts. ASURE provides the University with personnel and a secure facility to allow for this type of research to be conducted on its behalf. ASURE is recognized as a 501(c)(3) tax-exempt organization by the Internal Revenue Service (IRS).

Research Collaboratory at ASU (RCASU) was formed as an Arizona nonprofit organization to support emerging programs and global initiatives at the University. RCASU is recognized as a 501(c)(3) tax-exempt organization by the IRS. In its support of the University's global initiatives, RCASU has several subsidiary entities.

- **RCASU China, LLC** is an Arizona single member LLC with RCASU as its sole member, formed to hold and manage the University's activities in China.

- **RCASU Hong Kong, LLC** was formed as a wholly foreign owned entity (WFOE) in China to serve as the required Chinese entity for conducting business in China. This WFOE has elected dormant status, pending University programmatic decisions.

- **RCASU Germany Holdings LLC** is an Arizona single member LLC with RCASU as its sole member, formed to hold and manage the University's activities in Germany.

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

- **Teotihuacan Holdings, LLC (Teo Holdings)** is a Delaware single member LLC with RCASU as its sole member, formed to hold and manage the entities that would form a nonprofit organization in Mexico to manage the University's activities in Mexico.
  - **Global University Associate I, LLC and Global University Associate II, LLC** are each Delaware single member LLCs with Teo Holdings as their sole member. They were formed to serve as the entities to establish a Mexican nonprofit organization ('Asociación Civil' or Civil Association).
    - **Arizona State University Foundation Mexico, A.C.** is a Mexican nonprofit organization formed to hold and manage the University's activities in Mexico.

Arizona Science and Technology Enterprises, LLC (AzTE) was formed to provide technology transfer, intellectual property management and other services. AzTE has formed several subsidiary entities.

- **AzTE Ventures, Co. (Ventures),** a for-profit corporation, wholly-owned by AzTE, was formed in connection with a joint venture transaction to create a state-of-the-art facility for testing and certification of solar energy equipment. AzTE Ventures Co. holds a minority interest in the joint venture, which is recorded under the equity method. AzTE Ventures Co. will engage in certain ventures and activities relating to technology transfer and other activities in furtherance of AzTE's mission in support of the University.
- **RH Technologies, LLC** is an Arizona single member LLC with AzTE as its sole member and was formed to engage in scientific research and other activities to support the University.
- **ISW Technologies, LLC** is an Arizona single member LLC with AzTE as its sole member and was formed to commercialize the detection of bacterial pathogens in water wells.

The Foundation formed several real estate entities to develop or purchase real estate projects that are used to support activities of various University departments. These entities were combined together as Real Estate Affiliates on the Consolidating Statements of Financial Position and Activities in 2016, but the Foundation assigned its interest in all of them, except for ASUF Dupont, LLC, to University Realty, LLC as part of the restructure effective July 1, 2016.

University Realty LLC (UR) is an Arizona single member LLC with EP as its sole member and was formed as a real estate development holding entity to provide an organizational structure for housing real estate activities.

- **ASUF, LLC (Fulton Center)** is an Arizona single member LLC with UR as its sole member and was formed to provide for the operations of an office building and related facilities that serve as the Foundation's headquarters and to sublease office and classroom space to the University. This building is located on the University's campus in Tempe, Arizona, and is known as the ASU Fulton Center.
- **ASUF Brickyard, LLC (Brickyard)** is an Arizona single member LLC with UR as its sole member and was formed to purchase a series of buildings and a parking structure (Brickyard Facility) in downtown Tempe, Arizona, and to lease office and classroom facilities to the University.

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

- **ASUF DC, LLC (DC)** is an Arizona single member LLC with UR as its sole member and was formed to purchase and renovate a building in Washington, D.C. (DC Project), and to lease the entire building space to the University for several of its programs and research endeavors.

- **ASUF Realty, LLC (Realty)** is an Arizona single member LLC and was formed as a real estate development holding entity to provide an organizational structure for housing real estate activities. Realty was dissolved in 2017.

- **ASUF Scottsdale, LLC (Scottsdale)** is an Arizona single member LLC with UR as its sole member and was formed to lease approximately 37 acres from the City of Scottsdale and to construct facilities for research, office, residential and retail space for tenants which include the University. The property is located in Scottsdale, Arizona, near the University's Tempe campus and is known as the SkySong Development. Scottsdale has a 31% interest in Holualoa GV Shopping Plaza, LLC and a 50% interest in each of SkySong Office 3, LLC, SkySong Office 4, LLC and SkySong Residential I, LLC. Scottsdale accounts for these investments under the equity method.

    - **Holualoa GV Shopping Plaza, LLC** was formed to hold and manage the SkySong I and II office building projects.
    - **SkySong Office 3, LLC** was formed to develop, hold and manage the SkySong III office building project.
    - **SkySong Office 4, LLC** was formed to develop, hold and manage the SkySong IV office building project.
    - **SkySong Residential I, LLC** was formed to develop, hold and manage the SkySong apartment complex project. The project was sold in June 2015.

- **Mirabella ASU Tempe, LLC (MAT)** is an Arizona single member LLC with UR as its sole member and was formed to lease approximately 1.6 acres of land from the University in order to sublease the land and partner with Pacific Retirement Services (PRS) to construct a senior housing continuing care retirement center, called Mirabella at ASU (MASU), on the University's Tempe campus. The construction on the project is expected to be complete and operations to begin in 2020.

- **McDowell Warehouse, LLC** is an Arizona single member LLC with UR as its sole member and was formed to hold and lease a warehouse.

The Foundation and all of its affiliates prior to July 1, 2016 and the Foundation and ASUF Dupont, LLC, after July 1, 2016 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.

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

Restructure - As a result of the restructure, certain assets and liabilities were transferred to EP and other affiliates 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)

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. Certain unrestricted net assets were designated as quasi-endowments by the Board of Directors of the Foundation. The designation of these unrestricted net assets was dissolved through the assignment of the net assets to UR, whose board did not re-designate these net assets.

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.

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

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, 2016, from which the summarized information was derived.

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, unrealized swap liability, value of the DC Project and estimated useful lives for depreciation of property and equipment.

Reclassifications – Certain amounts have been reclassified in the 2016 consolidated financial statements to conform to the presentation of the 2017 consolidated financial statements. The reclassifications include separate disclosure of investments valued at net asset value from Level 3 investments, reclassifying bond issuance costs to bonds payable, net and presenting amortization of the cost of issuance to interest expense rather than amortization expense. These reclassifications resulted in no change in the total net assets or cash reported for in 2016.

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 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.

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

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 estimated value of the future cash 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 asset 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 restriction 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.

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.

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

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.

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.

Certain of the Organization's private venture investments are companies in the early stages of their life cycle and these companies are not actively marketing a product, have not had any recent financing with unrelated third parties and have not had any other circumstances that would indicate that the investment has a current value. In these situations, the Organization has valued the investment in these companies at zero.

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 restriction category in the consolidated statement of activities.

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

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, 2017 and 2016.

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.

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

Reserves subsidy – EP may provide a subsidy to its affiliates 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.

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

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 Organization has been classified as an organization that is a public charity.

AzTE, Realty, UR, Fulton Center, Brickyard, Scottsdale, Dupont and DC are treated as disregarded entities for income tax purposes, and accordingly, all income and expenses are reported through the Organization in the applicable year.

Ventures is not a tax-exempt organization and its income and expenses are not passed through to the Organization for tax purposes.

ASURE and RCASU have been classified as tax-exempt organizations under Section 501(c)(3) as described in Section 170(b)(1)(A)(vi) of the IRC, and accordingly, there is no provision for income taxes in the accompanying consolidated financial statements. ASURE and RCASU have been classified as organizations that are public charities.

Except for the Mexican activities, all sole member LLCs under RCASU are treated as disregarded entities for income tax purposes, and accordingly, all income and expenses are reported through RCASU. The Mexican activity LLCs, Teo Holdings and Global I & II, have elected to be treated as for-profit entities and will report their income and expenses separately from RCASU for tax purposes.

For tax purposes, income determined to be unrelated business income by any member of the group regarded as a tax-exempt organization 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, 2017, 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.

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. 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 April 2015, the FASB issued Accounting Standards Update 2015-03, *Interest — Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. Standard 2015-03 requires debt issuance costs to be presented in the statement of financial position as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount, and the related amortization charged to interest expense. Prior to the issuance of the standard, debt issuance costs were required to be presented in the statement of financial position as an asset, and the related amortization expense was charged to operations. The standard is effective for the first interim period within annual reporting periods beginning after December 15, 2015 and applied retrospectively. The Organization adopted this standard during the year ended June 30, 2017.

In May 2015, the FASB issued Accounting Standards Update 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. The guidance specifically clarifies how investments valued using the net asset value (NAV) practical expedient within the fair value hierarchy should be classified. This standard was issued in order to address diversity in practice. The amended standard's key provision exempts investments measured using the NAV practical expedient from categorization within the fair value hierarchy and related disclosures. This new guidance is effective for nonpublic entities for fiscal years beginning after December 15, 2016. The Organization adopted this standard during the year ended June 30, 2017.

In August 2015, the FASB issued Accounting Standards Update 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date.* The guidance defers the implementation date of Standard 2014-09, *Revenue from Contracts with Customers (Topic 606)* to reporting periods beginning after December 15, 2019. The Organization is in the process of evaluating the impact of this standard on its operations.

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 right to control if it receives both the 1) 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. 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:

	2017	2016
Gross pledges receivable	$ 196,283,808	$ 185,901,744
Present value discount	(15,165,000)	(13,094,000)
Allowance for uncollectible pledges	(43,522,000)	(40,316,000)
Pledges receivable, net	$ 137,596,808	$ 132,491,744

Gross pledges are receivable as follows:

	2017	2016
Receivable in one year	$ 47,096,639	$ 43,770,367
Receivable in two to five years	46,483,542	53,805,346
Receivable after five years	102,703,627	88,326,031
Total gross pledges receivable	$ 196,283,808	$ 185,901,744

The Organization had conditional pledges receivable totaling $46.6 million at June 30, 2017 and $46.6 million at June 30, 2016; 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:

	2017	2016
Accounts receivable, operations	$ 246,873	$ 2,824,466
Payroll and benefits receivable	5,714	57,407
Receivable from affiliates	1,779	-
Deferred rent revenue	-	1,068,114
Allowance for doubtful accounts	-	(129,901)
Total other receivables, net	$ 254,366	$ 3,820,086

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. Activities are reported net of the allowance for doubtful accounts.

(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:

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

2016	LTIP	STIP	Other Investments	Total
Global equities	$ 300,811,663	$ -	$ 11,476,138	$ 312,287,801
Global fixed income	79,460,495	68,858,599	1,030,880	149,349,974
Absolute return	87,862,857	-	-	87,862,857
Real assets	85,786,948	-	4,572,187	90,359,135
Private capital	51,608,511	-	1,192,534	52,801,045
Cash and cash equivalents	11,998,033	-	8,901,597	20,899,630
Total investments	$ 617,528,507	$ 68,858,599	$ 27,173,336	$ 713,560,442

Investment valuations are established and classified based on a variety of inputs. In accordance with Accounting Standards Update 2015-07, 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:

2017	Level 1	Level 2	Level 3	NAV	Total
Global equities	$ 217,940,912	$ -	$ 89,477,034	$ 36,609,270	$ 344,027,216
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	20,150,132	-	65,155,592	-	85,305,724
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)

2016	Level 1	Level 2	Level 3	NAV	Total
Global equities	$ 136,087,102	$ -	$ 130,498,964	$ 45,701,735	$ 312,287,801
Global fixed income	128,643,193	-	10,061,910	10,644,871	149,349,974
Absolute return	8,922,014	-	11,363,843	67,577,000	87,862,857
Real assets	19,655,164	-	69,721,106	982,865	90,359,135
Private capital	-	-	43,183,103	9,617,942	52,801,045
Cash and cash equivalents	20,863,150	-	36,480	-	20,899,630
Total investments	$ 314,170,623	$ -	$ 264,865,406	$ 134,524,413	$ 713,560,442

Certain investments are valued using NAV and are reported at the net asset values calculated by the investment manager. These investments, at June 30, 2017, 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	$ 36,609,270	$ -	Monthly to quarterly	6 - 30 days
Global fixed income	5,827,256	-	Monthly	60 days
Absolute return	76,629,548	-	Monthly to every 2 years	3 - 90 days
Real assets	-	-		
Private capital	8,264,404	-	Not available	
Total NAV investments	$ 127,330,478	$ -		

Level 3 investments have unfunded commitments of $58 million.

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

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)

2016	Beginning Balance	Restructure Transfer	Realized or Unrealized Gains or (Losses)	Purchases	Sales	Ending Balance
Global equities	$ 124,841,380	$ -	$ (2,046,985)	$ 10,291,354	$ (2,586,785)	$ 130,498,964
Global fixed income	13,520,417	-	642,895	30,989,378	(35,090,780)	10,061,910
Absolute return	11,668,197	-	(304,354)	-	-	11,363,843
Real assets	84,669,520	-	(2,905,602)	32,761,919	(44,804,731)	69,721,106
Private capital	35,717,892	-	(1,318,312)	14,862,555	(6,079,032)	43,183,103
Cash and cash equivalents	53,361	-	(16,112)	81,000	(81,769)	36,480
Total Level 3 investments	$ 270,470,767	$ -	$ (5,948,470)	$ 88,986,206	$ (88,643,097)	$ 264,865,406

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 not necessarily hedged. Investments will generally be publicly traded securities but may have restrictions from the investment strategy that may make the investment less liquid.

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:

	2017	2016
Gifted properties	$ 679,341	$ 678,380
Brickyard Facility	-	38,750,000
DC Project	-	17,962,812
McDowell Warehouse	-	3,478,229
Total land and buildings held for investment	$ 679,341	$ 60,869,421

(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:

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

2016	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowments	$ (16,867,488)	$ 21,770,091	$ 383,491,317	$ 388,393,920
Quasi-endowments	-	73,006,107	-	73,006,107
Board-designated endowments	12,000,000	-	-	12,000,000
Total funds	$ (4,867,488)	$ 94,776,198	$ 383,491,317	$ 473,400,027

(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.

Endowment assets held for other entities consist of:

	2017	2016
ASU Trust	$ 130,117,596	$ 113,659,358
ASU Alumni Association	16,639,466	15,032,994
Total assets held for other entities	$ 146,757,062	$ 128,692,352

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 2017 and 0.7% for 2016, and the cap and floor were based on 4.25% and 3.25% for 2017 and 2016. 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:

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

2016	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets				
June 30, 2015	$ 8,482,576	$ 117,997,292	$ 375,568,987	$ 502,048,855
Contributions and other additions	-	9,523,527	6,988,744	16,512,271
Investment return:				
Interest and dividends	-	6,243,424	360,074	6,603,498
Net realized and unrealized gains or (losses)	(13,350,064)	(26,153,970)	477,567	(39,026,467)
Change in assets due to other entities	-	7,158,705	-	7,158,705
Total investment return	(13,350,064)	(12,751,841)	837,641	(25,264,264)
Appropriation for expenditure	-	(17,044,659)	(428,202)	(17,472,861)
Reclassification of donor intent	-	(2,948,121)	524,147	(2,423,974)
Endowment net assets				
June 30, 2016	$ (4,867,488)	$ 94,776,198	$ 383,491,317	$ 473,400,027

(7) Assets with limited use

The terms of the bonds require the Organization to maintain bond funds on deposit with a trustee. The funds consist of money market funds and US Treasury obligations as follows:

	2017	2016
Brickyard Series 2004 A and B bonds		
Debt service reserve fund	$ -	$ 1,001,797
Revenue fund	-	559,906
Sinking fund	-	746,227
Project fund	-	7,836
Total Brickyard Series 2004 A and B bonds	-	2,315,766
Fulton Center Series 2014 A and B bonds		
Bond interest fund	-	813,347
Major maintenance funds	-	986,833
Tenant improvement fund	-	231,317
Operating costs and insurance principal fund	-	3,708
Principal fund	-	1,470,000
Total Fulton Center Series 2014 A and B bonds	-	3,505,205
DC Project Series 2014 A and B bonds		
Project fund	-	18,796,407
Bond fund	-	82
Total DC Project Series 2014 A and B bonds	-	18,796,489
Total assets with limited use	$ -	$ 24,617,460

(8) 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 2.4% for 2017 and 1.8% for 2016, and is based on mortality expectations found in the IRS Actuarial Valuations Publication.

(8) Assets held under split-interest agreements (continued)

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:

	2017	2016
Charitable gift annuities		
Equities	$ 3,829,808	$ 3,295,590
Fixed income	915,874	1,038,949
Other	58,045	67,953
	4,803,727	4,402,492
Charitable remainder trusts		
Equities	1,243,096	1,209,416
Fixed income	711,704	736,031
Other	17,799	70,923
	1,972,599	2,016,370
Life insurance	533,946	481,531
Total assets held under split-interest agreements	$ 7,310,272	$ 6,900,393

Obligations under split-interest agreements consist of:

	2017	2016
Charitable gift annuities	$ 2,503,408	$ 2,564,622
Charitable remainder trusts	869,032	893,942
Total obligations under split-interest agreements	$ 3,372,440	$ 3,458,564

(9) Net investment in direct financing lease

A portion of the Fulton Center building is leased to the University under a direct financing lease. The portion that is not leased to the University is represented as buildings and improvements. The lease with the University originated in fiscal year 2004 and has a 30-year term with two 5-year renewal periods. According to the terms of the lease, the Organization will donate the building to the University and the University will receive title to the building when the lease ends.

Net investment in direct financing lease consists of:

	2017	2016
Minimum lease receivable	$ -	$ 32,318,565
Unearned interest income	-	(9,498,565)
Net investment in direct financing lease	$ -	$ 22,820,000

The total amount of the Fulton Center lease payment receivable balance will be used by the Organization to pay the principal and interest payments required for the Fulton Center Series 2014 A and B bonds. Accordingly, unearned interest will be amortized to lease revenue using the nominal rate of the Fulton Center Series 2014 A and B bonds, which approximates the effective interest rate.

(10) Property and equipment, net

Property and equipment consist of:

	2017	2016
Cost:		
Buildings and improvements	$ 235,744	$ 17,396,938
Building fixtures	-	2,307,218
Equipment		
Information systems	3,492,374	3,492,374
Other equipment	668,991	959,490
Total cost	4,397,109	24,156,020
Accumulated depreciation	(4,227,613)	(11,362,555)
Total property and equipment, net	$ 169,496	$ 12,793,465

Depreciation expense charged to operations was $62,369 and $642,061 for the years ended 2017 and 2016, respectively.

(11) Accounts payable and other liabilities

Accounts payable and other liabilities consists of:

	2017	2016
Accrued expenses	$ 1,040,815	$ 3,828,095
General accounts payable	1,416,481	2,370,593
Payroll liabilities	1,053,654	2,099,313
Deferred revenue	-	1,310,785
Total accounts payable and other liabilities	$ 3,510,950	$ 9,608,786

(12) Unrealized swap liability

The interest rate swap agreement is recorded in the accompanying consolidated statement of financial position at its fair value, calculated based on the present value of the cash flows of the variable portion of the swap using forward rates derived from the yield curve.

The financing structure for the Brickyard Facility utilizes an interest-rate risk management strategy that uses derivative instruments to minimize significant, unanticipated earnings fluctuations caused by interest-rate volatility. The financing specific goals are: (1) to manage interest-rate sensitivity by modifying the re-pricing or maturity characteristics of certain debt instruments; and (2) to lower (where possible) the cost of its borrowed funds. Interest rate fluctuations create an unrealized appreciation or depreciation in the fair value of the outstanding debt when compared with its cost. The effect of this unrealized appreciation or depreciation in fair value may be offset by income or loss on derivative instruments linked to the debt.

Using a derivative financial instrument to hedge exposure to a change in interest rates exposes the financing to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the additional funds, which creates repayment risk for the financing. When the fair value of a derivative contract is negative, the counterparty is owed additional funds and therefore, there is no repayment risk. The financing minimizes the credit (or repayment) risk in derivative instruments by: (1) entering into transactions with high-quality counterparties; and (2) limiting the amount of exposure to the counterparty. These derivative contracts are governed by an International Swaps and Derivatives Association Master Agreement. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate contracts is managed by the establishment and monitoring of parameters that limit the types and degree of market risk that may be undertaken.

The Brickyard financing was constructed with an interest rate swap contract to convert its variable-rate bonds into fixed-rate debt at the date the debt was offered. Under interest rate swap contracts, the parties are required to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts as calculated by reference to an agreed-upon notional amount. The fixed interest rates are 4.85% and 5.46% on Brickyard Series 2004 A and B bonds, respectively.

(13) Bonds payable, net

The balance outstanding as of June 30, 2016 and the interest rates, final maturity dates, and associated unamortized bond issuance costs of the bonds are summarized as follows:

	2017	2016
Brickyard Series 2004:		
Series 2004 – A (tax-exempt), variable interest rate, due July 1, 2034	$ -	$ 22,420,000
Series 2004 – B (taxable), variable interest rate, due July 1, 2022	-	6,005,000
Fulton Center Series 2014:		
Series 2014 – A (tax-exempt), 3.95% interest rate, due July 1, 2034	-	39,050,000
Series 2014 – B (taxable), 2.00% interest rate, due July 1, 2016	-	1,020,000
DC Project Series 2014:		
Series 2014 – A (tax-exempt), 3.54% interest rate, due July 1, 2035	-	31,390,000
Series 2014 – B (taxable), 3.43% interest rate, due July 1, 2019	-	3,610,000
Subtotal	-	103,495,000
Less unamortized bond issuance costs	-	(1,446,443)
Total bonds payable, net	$ -	$ 102,048,557

Capitalized bond issuance costs consist of legal costs, underwriting fees, printing and other costs incurred to obtain, secure and rate the Brickyard Series 2004 A and B bonds, the Fulton Center Series 2014 A and B bonds and the DC Project Series 2014 A and B bonds. The issuance costs for the bonds are amortized over the life of the bonds using the straight-line method (which approximates the effective interest rate method). Amortization of the bond issuance costs charged to interest expense was $81,409 for 2016.

The estimated fair value of the Organization's bonds were approximately $0 at 2017 and $108.2 million at 2016. The estimated fair value of the bonds is based on quoted market prices for the same or similar issues (Level 2). The market prices utilized reflect the amounts a third-party would pay to purchase the bonds.

Brickyard Series 2004 A and B Bonds

In July 2004, the Brickyard issued, through the Industrial Development Authority (IDA) of the City of Tempe, Arizona, $22,420,000 of Tax-Exempt Series 2004 A Variable Rate Revenue Bonds and $12,075,000 of Taxable Series 2004 B Variable Rate Revenue Bonds. Interest is accrued based on a weekly per annum interest rate calculation determined by the remarketing agent based on prevailing market conditions and is payable on the first day of each calendar month. The Series 2004 A and B bonds are collateralized by the Brickyard Facility building and parking structure and by a Brickyard 15-year master lease with the University. In June 2009 and June 2015, the master lease with the University was extended for an additional 5 years and the reimbursement agreement was amended in 2009 to require the Organization to provide a guarantee to the bank for any and all indebtedness of the Brickyard. The current master lease extends through July 1, 2029. In June 2015, the reimbursement agreement was amended to extend the letter of credit expiration date to July 20, 2018. The master lease agreement includes a provision that would invoke a backup lease between the Organization and the Brickyard in the event of the termination of the master lease with the University whether from expiration of term, failure to appropriate funding by the University or default by the University.

(13) Bonds payable, net (continued)

These bonds are subject to optional and mandatory redemption prior to maturity at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the redemption date. Mandatory redemption of tax-exempt Series A is required if the bonds lose their tax-exempt status as determined by the IRS. Optional redemption for both Series A and B bonds is available prior to maturity without penalty.

Fulton Center Series 2014 A and B Bonds

In April 2014, Fulton Center issued, through the IDA of the City of Tempe, Arizona, $39,050,000 Tax-Exempt Series 2014 A and $4,360,000 Taxable Series 2014 B Lease Revenue Refunding Bonds. These bonds refunded the $47,600,000 Series 2003 Lease Revenue Bonds. Interest is payable semi-annually on January 1 and July 1 of each year, and commenced July 1, 2014. These bonds are collateralized by EP’s headquarters office building, which was completed and placed in service as of February 1, 2005, and by two 30-year master leases, one with the University and one with EP.

DC Project Series 2014 A and B Bonds

In December 2014, DC issued, through the IDA of the City of Tempe, Arizona, $31,390,000 Tax-Exempt Series 2014 A and $3,610,000 Taxable Series 2014 B Lease Revenue Bonds. Interest is payable semi-annually on January 1 and July 1 of each year, and commenced July 1, 2015. The DC Project Series 2014 Bonds are collateralized by the DC office building and a 20-year lease with the University. The building was purchased in December 2014 to provide space for program and research endeavors for the University in Washington, DC and is being renovated and is expected to be completed and placed in service in November 2017.

Bond Covenants

At June 30, 2016, the Organization was in compliance with all financial and non-financial bond covenants.

(14) Unrestricted net assets

Unrestricted net assets consist of:

	2017	2016
Undesignated Foundation	$ (5,483,937)	$ 1,318,573
Undesignated Dupont	257	11,336,827
Board designated	-	12,000,000
Total unrestricted net assets (deficit)	$ (5,483,680)	$ 24,655,400

At June 30, 2016, Board designated net assets consist of $12.0 million of the Brickyard unrestricted net assets designated by the Organization’s Board of Directors in April 2006 as a quasi-endowment. As the Brickyard was assigned to UR and as UR was assigned to EP, the designation dissolved and UR’s board did not redesignate.

(15) Restricted net assets

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

	2017 Temporarily Restricted	2017 Permanently Restricted	2016 Temporarily Restricted	2016 Permanently Restricted
Academic support	$ 59,229,247	$ 135,409,224	$ 62,770,000	$ 135,172,158
Athletics	14,260,951	3,850,737	16,074,535	7,606,723
Capital	23,929,436	-	23,057,903	24,500
Discretionary use for ASU	19,051,387	18,688,771	18,080,578	18,698,083
Faculty	32,304,174	111,423,020	25,592,783	106,222,329
Financial aid	59,373,848	145,536,995	47,763,989	128,303,286
Library	1,173,302	1,820,182	1,021,033	1,819,849
Miscellaneous	5,693,588	137,557	7,519,358	137,556
Operations and maintenance	591,911	-	581,768	-
Research	33,588,206	19,465,767	34,697,897	19,516,997
Specific programs	85,966,762	47,974,320	76,108,067	44,397,370
Pledge reserve and discount	(25,474,900)	(33,212,000)	(23,771,900)	(29,637,000)
Total restricted net assets	$ 309,687,912	$ 451,094,573	$ 289,496,011	$ 432,261,851

(16) Net investment return (loss)

Net investment return (loss) consists of:

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

2016	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest	$ 4,023,463	$ 6,732,674	$ 360,074	$ 11,116,211
Change in value of split-interest agreements	(5,847)	(156,163)	-	(162,010)
Net realized gains (losses)	(36,568)	(18,643,498)	299,139	(18,380,927)
Net unrealized gains (losses)	(14,148,727)	3,279,111	(219,249)	(11,088,865)
Change in assets due to other entities	-	5,513,136	-	5,513,136
Investment management fees	(15,093)	(2,525,558)	(30,526)	(2,571,177)
Total net investment return (loss)	$ (10,182,772)	$ (5,800,298)	$ 409,438	$ (15,573,632)

(17) Other revenue

Other revenue consists of:

	2017	2016
ASU program support	$ 698,424	$ 755,227
AzTE revenue	-	5,574,766
Miscellaneous	321,299	1,086,315
Total other revenue	$ 1,019,723	$ 7,416,308

(18) Net assets released from restrictions

Net assets were released from restriction for the following purposes:

	2017	2016
Academic support	$ 16,782,736	$ 19,019,951
Athletics	3,064,756	2,023,828
Capital	4,798,560	4,503,223
Discretionary use for ASU	1,693,975	952,252
Faculty	4,631,047	3,844,122
Financial aid	8,199,187	7,858,134
Library	72,703	91,269
Miscellaneous	10,568,323	8,999,740
Operations and maintenance	126,629	221,647
Research	20,963,216	13,095,873
Specific programs	38,994,266	31,914,675
Total net assets released from restrictions	$ 109,895,398	$ 92,524,714

(19) 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: eligibility 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.

(19) Retirement plan (continued)

The second component of the Plan is the employer discretionary matching of employee contributions by the Organization. The Organization matches 50% of the first 6% of the employee's contribution, not to exceed 3% of the employee's compensation. The Organization's matching contributions to the Plan were approximately $194,000 and $431,000 for the years ended June 30, 2017 and 2016, respectively.

The third component of the Plan provides for employer discretionary contributions by the Organization. The annual contribution for the years ended June 30, 2017 and 2016 was 4% of compensation for all eligible employees. The Organization's discretionary contributions were approximately $284,000 and $650,000 for the years ended June 30, 2017 and 2016, respectively.

Employer contributions vest evenly over five years.

(20) Functional expense allocation

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

	2017	2016
Program services	$ 106,077,676	$ 101,049,797
Fundraising	14,519,356	15,114,912
Management and general	12,693,197	13,619,428
Total expenses	$ 133,290,229	$ 129,784,137

(21) Related party transactions

From time to time, the Organization may transfer or receive cash to or from related affiliates. Contributions from affiliates are reflected in contributions and amount to $11,000. Donations to affiliates are reflected in other expense and amount to $1,706,402.

During fiscal years 2017 and 2016, the Organization recognized contribution revenue from the members of the Organization's Board of Directors of approximately $958,000 and $755,000, respectively. At June 30, 2017 and 2016, net unconditional pledges receivable from the members of the Foundation's Board of Directors were approximately $970,000 and $474,000, respectively.

(22) 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:

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 with limited use	-	-	-
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
Unrealized swap liability	-	-	-
Total liabilities at fair value	$ -	$ -	$ 165,117,200

2016	**Level 1**	**Level 2**	**Level 3**
Assets at fair value (recurring basis)			
Charitable trusts receivable	$ -	$ -	$ 3,182,202
Land and buildings held for investment	-	-	60,869,421
Assets with limited use	24,617,460	-	-
Assets held under split-interest agreements	6,900,393	-	-
Total assets at fair value	$ 31,517,853	$ -	$ 64,051,623
Liabilities at fair value (recurring basis)			
Assets held for other entities	$ -	$ -	$ 128,692,352
Unrealized swap liability	-	10,394,594	-
Total liabilities at fair value	$ -	$ 10,394,594	$ 128,692,352

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.

(22) 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:

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

2016	Beginning Balance	Restructure Transfer	Total Realized or Unrealized Gains or (Losses)	Sales	Ending Balance
Level 3 assets					
Charitable trusts receivable	$ 3,669,649	$ -	$ 112,553	$ (600,000)	$ 3,182,202
Land and Buildings held for investment	50,208,315	-	1,417,481	9,243,625	60,869,421
Total Level 3 assets	$ 53,877,964	$ -	$ 1,530,034	$ 8,643,625	$ 64,051,623
Level 3 liabilities					
Assets held for other entities	$ 132,667,962	$ -	$ (3,975,610)	$ -	$ 128,692,352
Total Level 3 liabilities	$ 132,667,962	$ -	$ (3,975,610)	$ -	$ 128,692,352

(23) Litigation

On June 6, 2016, Altela, Inc. (Altela), a former licensee of the AzTE, filed a complaint against the Organization 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, the Organization 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 AzTE and the Foundation. The Demand, like the previous district court complaint, asserts against AzTE 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, AzTE 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. At this time the Organization is unable to determine the ultimate outcome of the demand.

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 President and Chief Executive Officer (CEO) for the Foundation and the CEO, Chief Legal Officer and a member of the Board of Directors of AzTE. 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 AzTE. At this time the Organization is unable to determine the ultimate outcome of the demand.

(24) Subsequent events

The Foundation evaluated subsequent events through August 25, 2017, which is the date these consolidated financial statements were issued. No significant events were identified that required disclosure.