Audited Financial Statements 2015-16

ASU Foundation *for* A NEW AMERICAN UNIVERSITY

ARIZONA STATE UNIVERSITY

ARIZONA STATE UNIVERSITY FOUNDATION
for A New American University
AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION

June 30, 2016

ARIZONA STATE UNIVERSITY FOUNDATION
for A New American University
AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016
(with comparative totals for June 30, 2015)

CONTENTS

Management's Discussion and Analysis (unaudited)

The ASU Foundation was incorporated in 1955 to meet the demands of Arizona's fastest-growing university Arizona State University (ASU or University), the largest public university in the United States under a single administration. ASU 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; advancing research and discovery of public value; and assuming fundamental responsibility for the economic, social, cultural and overall health of the community it serves.

The mission of the ASU Foundation for A New American University (Foundation) is simple and direct: to advance the success of ASU 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, then facilitates a sustainable affiliation between the investor and the ASU college or institute that shares their passion.

- The Foundation supports the activities of ASU through fundraising activities, investment, and asset management services.

- The Foundation encourages and enables individuals and organizations to partner with ASU through volunteer opportunities, engagement activities, and through financial gifts.

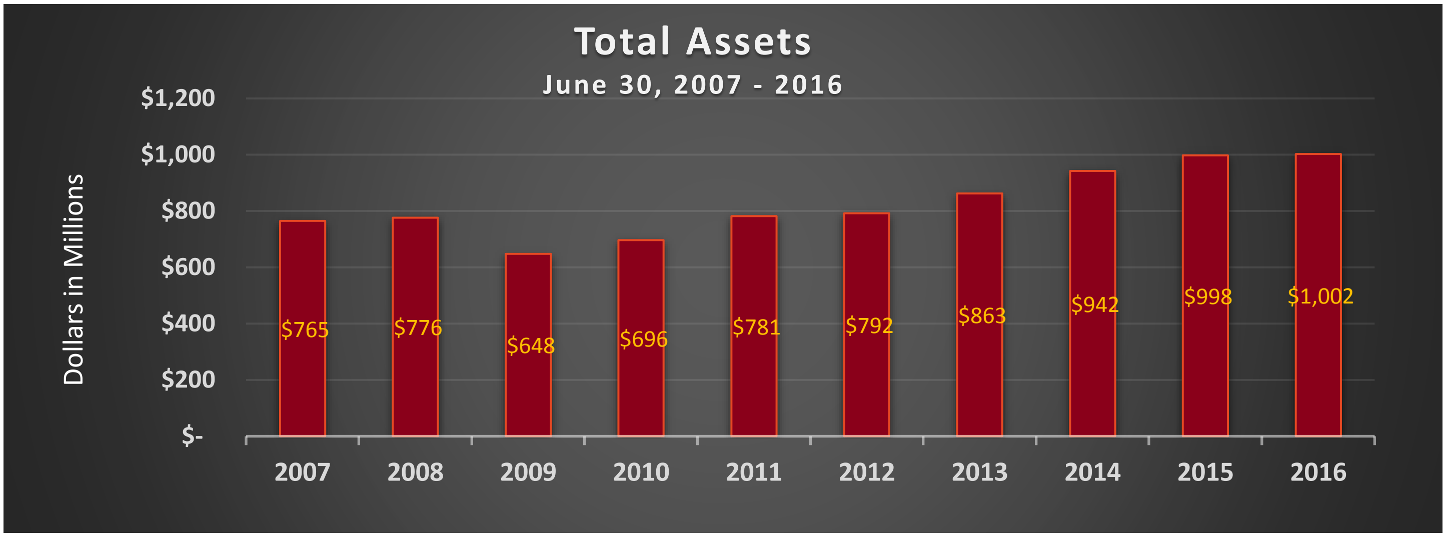
The Foundation continues to be recognized as a top-scoring nonprofit among the universities, graduate schools and technological institutes ranked by Charity Navigator, the country's largest and most-utilized evaluator of charities. The Foundation maintains the premier four-star rating for the fifth year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

While ASU continues to provide access to qualified students from all walks of life while addressing global challenges and improving 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.

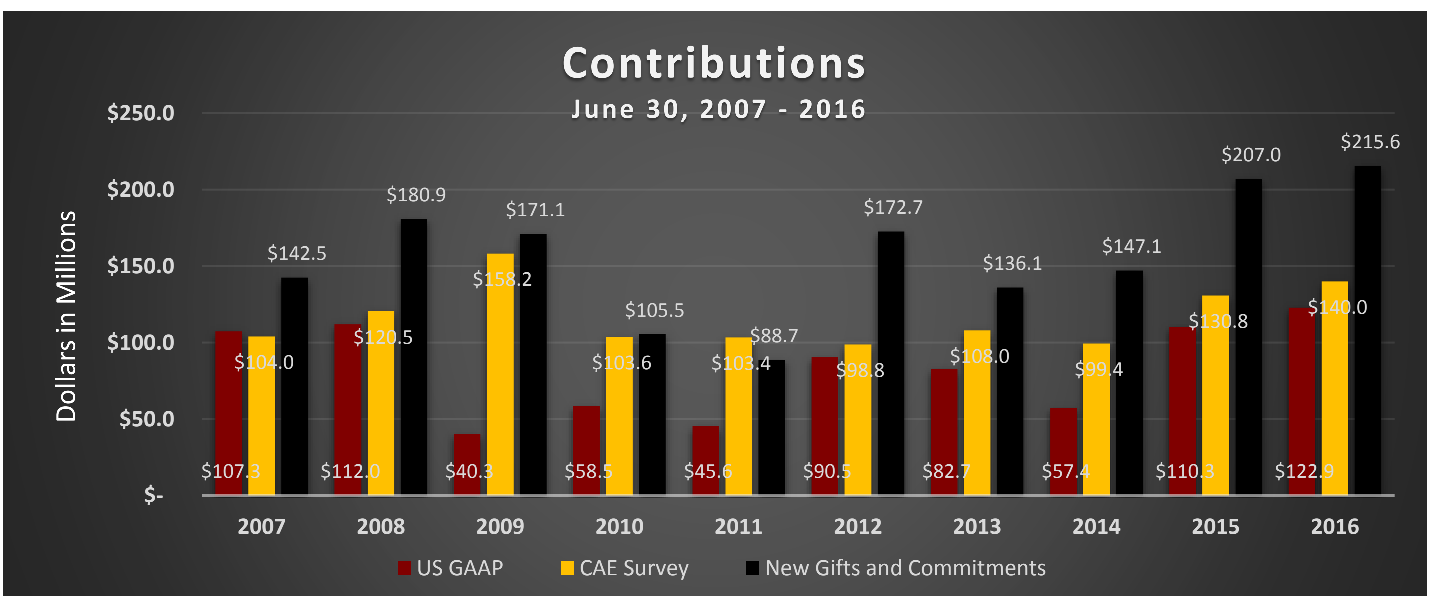
The Foundation's total assets have continued to grow amid market and economic volatility. The Foundation closely manages its spending and continues to control costs to provide for maximum use of its revenue streams and to allow for asset recovery or growth.

The Foundation has organized its operations to focus on its business lines, which include Philanthropy, Technology, Assets, Investments and Ventures. The Foundation's supporting services provide support to the Foundation business lines and University units through the Communications, Legal, Human Resources, Operations & Services, and Finance departments. The Foundation's 2016 financial results are summarized in the graphs below.

The Foundation's combined statement of financial position exhibits asset growth during fiscal year 2016. With an asset base of approximately $1.002 billion, the Foundation is well poised to sustain its support of ASU's mission and programs.

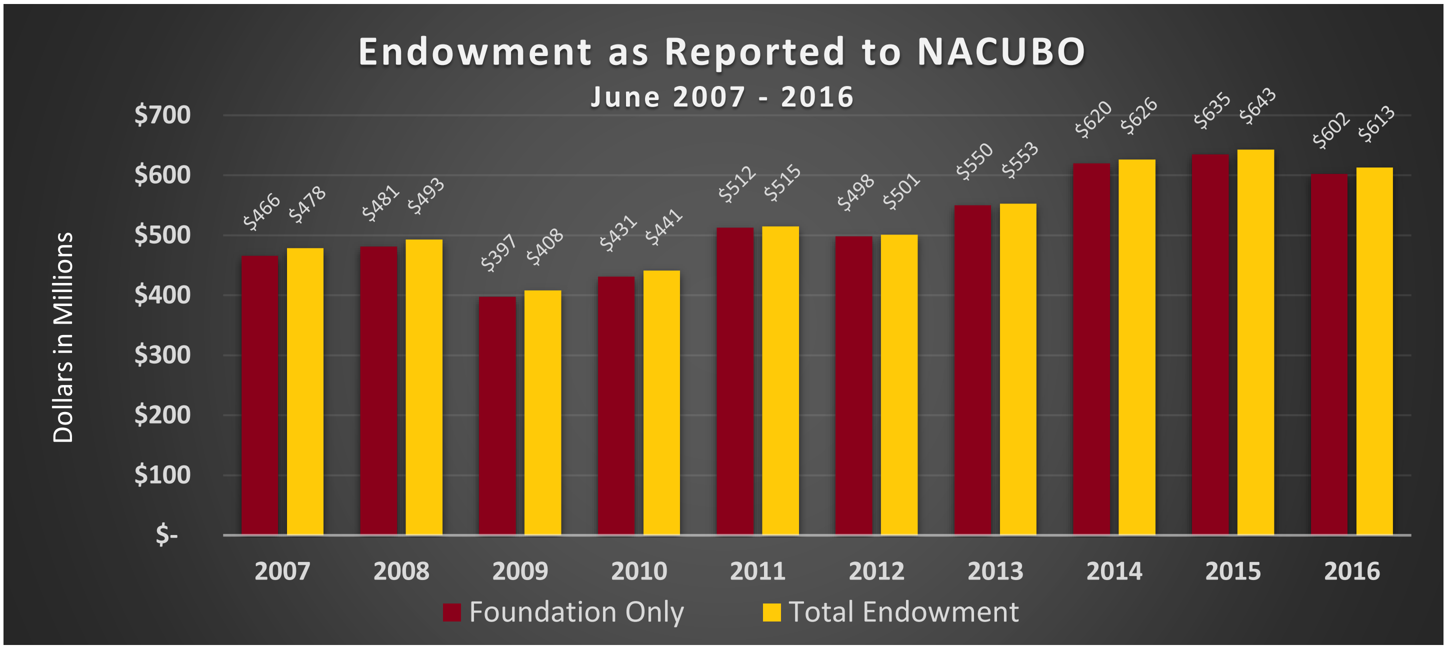


The Foundation reports its fundraising progress using a variety of measuring methodologies. The attached audited consolidated financial statements record contributions according to accounting principles generally accepted in the United States of America (US GAAP). US GAAP requires contribution revenue 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's fundraising progress. Its contribution total includes new pledges, advised bequests, in-kind gifts, and deferred gifts for the entire University community. Fiscal year 2016 has been the historically highest year for the Foundation at approximately $215 million, keeping the New Gifts and Commitments count at over $200 million for the second year in a row.

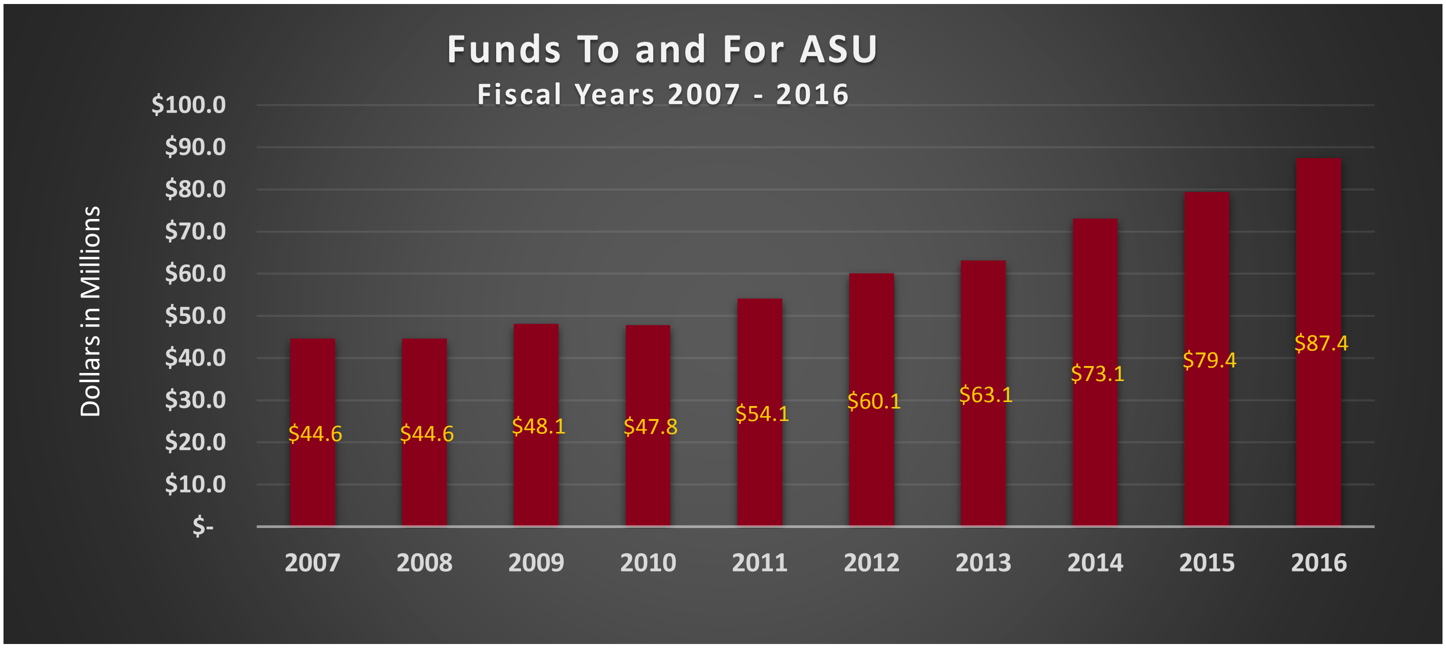


The Foundation reports its endowment value using two different measuring methods as well. The attached audited consolidated financial statements report the endowment value for assets held only by the Foundation and include a liability for the assets held by the Foundation for other entities, such as the endowments held in trust for ASU 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 ASU 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 US GAAP consolidated financial statements.

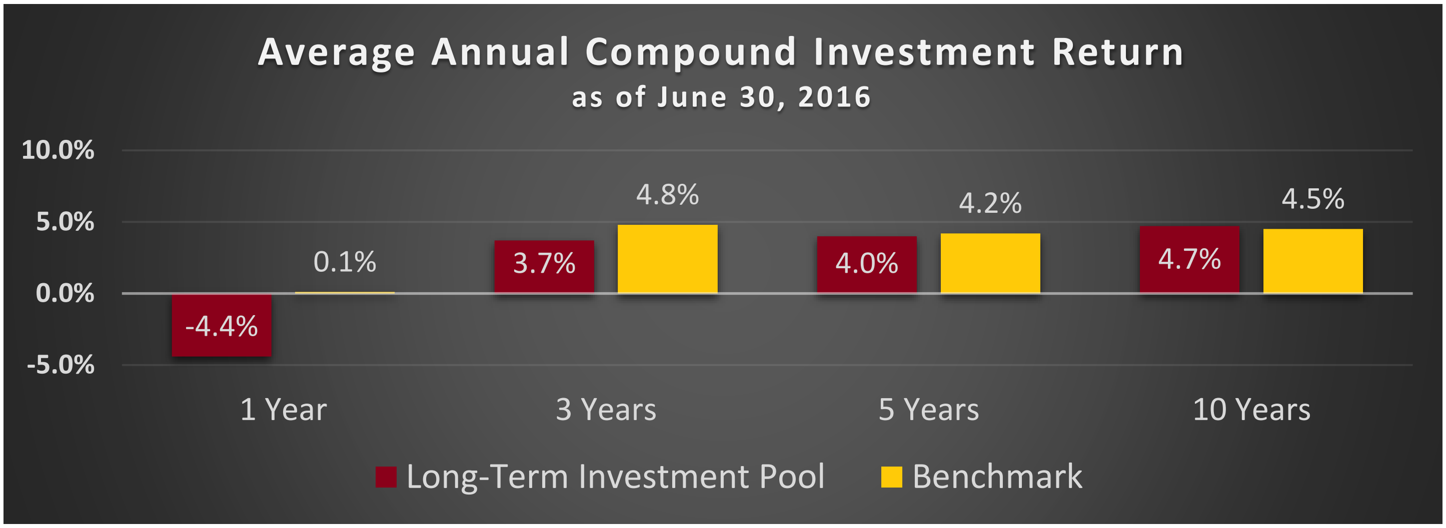
Endowment gifts are intended to be held in perpetuity with a portion of the income each year made available to spend on University needs. The Foundation's development staff continues to solicit endowment gifts to aid in the endowment's growth.



One of the main purposes of the Foundation is to provide funding for ASU programs and activities and to support students and faculty. The Foundation was able to increase that funding from $79.4 million in 2015 to approximately $87.4 million in 2016. 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.



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



The Foundation funds its operations from four sources: 1) a development services contract with the University; 2) asset management fees on the endowment; 3) the investment return on non-endowed funds and 4) unrestricted gifts. Contributions increased significantly for the fiscal year, creating increases in unrestricted gifts for the Foundation's operating budget, while the development services contract revenue increased only slightly. The Foundation experienced only a slight increase in operating expenses.

The Foundation also owns or controls several subsidiary companies whose legal names and structures are described in Note 1 of the attached consolidated financial statements. Additionally, the Foundation has created two nonprofit organizations, also described in Note 1 of the attached consolidated financial statements, to provide additional services to ASU in the form of research, nonprofit entrepreneurship and global initiatives.

ASU 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.

GrantThornton

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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Report on the financial statements

We have audited the accompanying consolidated financial statements of the 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, 2016, 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Arizona State University Foundation for A New American University and Affiliates as of June 30, 2016, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Supplementary information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statement of financial position and the consolidating statement of activities on pages 42 and 43, respectively, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

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 2015 summarized comparative information

We have previously audited the Entity's 2015 consolidated financial statements (not presented herein), and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated August 28, 2015. In our opinion, the accompanying summarized comparative information as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Grant Thornton LLP

Phoenix, Arizona
August 26, 2016

ARIZONA STATE UNIVERSITY FOUNDATION

for A New American University

AND AFFILIATES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2016
(with comparative totals at June 30, 2015)

A S S E T S

	June 30, 2016	June 30, 2015
ASSETS		
Cash and cash equivalents	$ 18,604,737	$ 15,695,553
Receivables		
Pledges receivable, net	132,491,744	112,992,376
Charitable trusts receivable	3,182,202	3,669,649
Other receivables, net	3,820,086	3,021,075
Total receivables	139,494,032	119,683,100
Investments	713,560,442	736,433,100
Land and buildings held for investment	60,869,421	50,208,315
Assets with limited use	24,617,460	28,817,592
Assets held under split-interest agreements	6,900,393	7,019,938
Net investment in direct financing lease	22,820,000	23,690,000
Capitalized bond issuance costs, net	1,446,443	1,527,852
Property and equipment, net	12,793,465	13,316,623
Other assets	956,475	1,265,933
TOTAL ASSETS	$ 1,002,062,868	$ 997,658,006

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, 2016	June 30, 2015
LIABILITIES		
Accounts payable and other liabilities	$ 9,608,786	$ 9,296,734
Assets held for other entities	128,692,662	132,667,962
Obligations under split-interest agreements	3,458,564	3,455,953
Unrealized swap liability	10,394,594	8,297,160
Bonds payable	103,495,000	105,690,000
TOTAL LIABILITIES	255,649,606	259,407,809
NET ASSETS		
Unrestricted	24,655,400	32,556,514
Temporarily restricted	289,496,011	287,938,179
Permanently restricted	432,261,851	417,755,504
TOTAL NET ASSETS	746,413,262	738,250,197
TOTAL LIABILITIES AND NET ASSETS	$ 1,002,062,868	$ 997,658,006

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, 2016
(with comparative totals for year ended June 30, 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2016	Totals 2015
SUPPORT AND REVENUES					
Contributions	$ 6,837,687	$ 99,888,960	$ 16,203,762	$ 122,930,409	$ 110,250,801
Change in estimate for uncollectible pledges	(1,000)	1,023,000	(1,929,000)	(907,000)	399,000
Change in present value discount	-	(844,000)	(702,000)	(1,546,000)	(1,259,000)
Net investment return (loss)	(10,182,772)	(5,800,298)	409,438	(15,573,632)	10,743,955
Asset management fees	1,712,504	-	-	1,712,504	1,531,255
Service agreement revenue	20,582,201	-	-	20,582,201	20,225,550
Rent	1,605,982	-	-	1,605,982	1,429,932
Other revenue	11,240,172	-	-	11,240,172	3,766,308
Reclassification of donor intent and transfers	(339,031)	(185,116)	524,147	-	-
Net assets released from restrictions	92,524,714	(92,524,714)	-	-	-
TOTAL SUPPORT AND REVENUES	123,980,457	1,557,832	14,506,347	140,044,636	147,087,801
EXPENSES					
Payments for the benefit of the University:					
Directly to the University:					
Donations and reimbursements	69,010,325	-	-	69,010,325	63,866,813
Scholarships - ASU selected	7,425,875	-	-	7,425,875	6,479,893
To vendors on behalf of the University	10,176,008	-	-	10,176,008	8,008,090
Subtotal	86,612,208	-	-	86,612,208	78,354,796
Scholarships - Non ASU selected	153,884	-	-	153,884	248,740
Payments to other charitable entities	600,349	-	-	600,349	764,053
Total payments for the benefit of the University	87,366,441	-	-	87,366,441	79,367,589
Operating expenses:					
Salaries and benefits	23,667,333	-	-	23,667,333	21,421,359
Depreciation/Amortization	668,582	-	-	668,582	763,423
Interest expense	1,562,875	-	-	1,562,875	1,591,775
Professional services	9,022,851	-	-	9,022,851	11,518,917
All other expenses	7,496,055	-	-	7,496,055	6,919,949
Total operating expenses	42,417,696	-	-	42,417,696	42,215,423
TOTAL EXPENSES	129,784,137	-	-	129,784,137	121,583,012
INCREASE/(DECREASE) IN NET ASSETS	(5,803,680)	1,557,832	14,506,347	10,260,499	25,504,789
Change in unrealized swap value	(2,097,434)	-	-	(2,097,434)	(723,382)
CHANGE IN NET ASSETS	(7,901,114)	1,557,832	14,506,347	8,163,065	24,781,407
NET ASSETS, BEGINNING OF PERIOD	32,556,514	287,938,179	417,755,504	738,250,197	713,468,790
NET ASSETS, END OF PERIOD	$ 24,655,400	$ 289,496,011	$ 432,261,851	$ 746,413,262	$ 738,250,197

See Notes to Consolidated Financial Statements

ARIZONA STATE UNIVERSITY FOUNDATION

for A New American University

AND AFFILIATES

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended June 30, 2016
(with comparative totals for year ended June 30, 2015)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 8,163,065	$ 24,781,407
Adjustment to reconcile change in net assets to net cash provided by (used in) operating activities		
Change in present value discount on pledges receivable	1,546,000	1,259,000
Change in estimate for uncollectible pledges	907,000	(399,000)
Net realized and unrealized investment (gains) or losses	16,991,113	(10,980,003)
Net realized and unrealized investment (gains) or losses on land and buildings held for investment	(1,417,481)	236,048
Donated land and securities	(1,250,000)	(88,000)
Depreciation	642,061	736,902
Contributions restricted for long-term investment	(13,572,762)	(20,373,777)
(New) or terminated split-interest agreements	(385,136)	9,664,590
Change in present value of split-interest agreements	238,577	(9,035,234)
Amortization of bond issuance costs	81,409	73,915
Amortization of unearned interest income	(923,665)	(940,765)
Change in fair value of interest rate swap liability	2,097,434	723,382
Changes in operating assets and liabilities:		
(Increase) / decrease in:		
Pledges receivable	(17,368,350)	(3,603,982)
Charitable trusts receivable	600,000	-
Other receivables	(799,011)	(1,173,002)
Increase / (decrease) in:		
Accounts payable and other liabilities	506,109	3,528,631
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(3,943,637)	(5,589,888)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	880,400,667	991,930,266
Proceeds from sales of land and buildings held for investment	-	7,679,494
Collections on investment in direct financing lease	1,793,665	1,795,765
Purchases of investments	(884,043,797)	(1,003,719,310)
Change in assets with limited use	8,173,777	(21,387,119)
Purchases of property and equipment	(118,904)	5,578
Purchases of land and buildings held for investment	(7,993,625)	(12,197,416)
Change in assets held for other entities	1,537,837	954,473
Change in other assets	309,457	(781,216)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	59,077	(35,719,485)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bond issuance	-	35,000,000
Payments on bonds outstanding	(2,195,000)	(2,600,000)
Payments of bond issuance costs	-	(370,190)
Proceeds from contributions restricted for long-term investment	8,988,744	15,648,891
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	6,793,744	47,678,701
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,909,184	6,369,328
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	15,695,553	9,326,225
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 18,604,737	$ 15,695,553
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 1,577,325	$ 1,108,242

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES

A portion of the headquarters office building is leased to Arizona State University under a direct financing lease. As of June 30, 2016 and 2015, respectively, the balance of the minimum lease payments receivable was $32,318,565 and $34,112,230 and unearned interest income was $9,498,565 and $10,422,230 (Note 9).

See Notes to Consolidated Financial Statements

(1) Foundation operations and summary of significant accounting policies

Foundation operations – The Arizona State University Foundation for A New American University (Foundation or ASUF) was incorporated in 1955 by community volunteers and is an Arizona nonprofit corporation and a 501(c)(3) tax-exempt organization. The Foundation is committed to supporting and assisting Arizona State University (ASU or University) in achieving its goals through raising, investing and managing private gifts, initiating entrepreneurial activities and serving as an advisor to the University President.

The Foundation has affiliates which are described below. Some are Arizona nonprofit corporations that are controlled by the Foundation through a majority of their respective board members who are also Foundation board members. Others are formed as limited liability companies (LLCs) with the Foundation as the sole member.

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 will provide 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) 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 ASU. RCASU is recognized as a 501(c)(3) organization by the IRS. In its support of the University's global initiatives, RCASU has formed several subsidiary entities.

- **RCASU China, LLC** was formed as an Arizona sole member LLC, 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 ASU programmatic decisions.
- **Teotihuacan Holdings, LLC** was formed as a Delaware sole member LLC, 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** 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.** was formed as a Mexican nonprofit organization to hold and manage the University's activities in Mexico.
- **RCASU Germany Holdings LLC** was formed as an Arizona sole member LLC, to hold and manage the University's activities in Germany.

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**., a for-profit, wholly-owned corporation of 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 ASU.
- **RH Technologies, LLC** was formed to engage in scientific research and other activities to support the University.
- **ISW Technologies, LLC** was formed to commercialize the detection of bacterial pathogens in water wells.

(1) Foundation operations and summary of significant accounting policies (continued)

The Foundation has formed several real estate entities to develop or purchase real estate projects that are used to support activities of various ASU departments. These entities are combined together as Real Estate Affiliates on the Consolidating Statements of Financial Position and Activities.

ASUF Realty, LLC (Realty) and University Realty, LLC (UR) were formed as real estate development holding entities to provide the Foundation with an organizational structure for housing real estate activities.

- **McDowell Warehouse, LLC** was formed to hold and lease a warehouse. UR is the sole member of McDowell Warehouse, LLC.
- **Mirabella ASU Tempe, LLC** was formed to lease approximately 1.6 acres from ASU to construct a senior housing center on the Tempe campus. The project is currently in its due diligence phase, conducting market and feasibility studies.

ASUF, LLC (Fulton Center) 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 ASU's campus in Tempe, Arizona, and is known as the ASU Fulton Center.

ASUF Brickyard, LLC (Brickyard) 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.

ASUF Scottsdale, LLC (Scottsdale) 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. This property is located in Scottsdale, Arizona, near ASU'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 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 Residential I, LLC** was formed to develop, hold and manage the SkySong apartment complex project. This project was sold in June 2015 and the Foundation is awaiting dissolution of this entity, pending final resolution of the City of Scottsdale audit.
- **SkySong Office 4, LLC** was formed to develop, hold and manage the SkySong IV office building project.

ASUF Dupont, LLC (Dupont) was formed to lease a building in Washington, D.C., for sublease of office and classroom space to the University.

ASUF DC, LLC (DC) 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.

The significant accounting policies followed by the Foundation and its affiliates, collectively referred to in these consolidated financial statements as the "Foundation and Affiliates", are summarized below.

(1) Foundation operations and summary of significant accounting policies (continued)

Basis of presentation – The consolidated financial statements of the Foundation and Affiliates have been prepared on the accrual basis of accounting according to the accounting principles generally accepted in the United States of America (US GAAP). The Foundation and Affiliates report information regarding their 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 Foundation and Affiliates. Certain unrestricted net assets have been designated as quasi-endowments by the Board of Directors of the Foundation.

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. The Foundation's Board of Directors has, through agreements between Foundation management and University representatives, designated certain temporarily restricted gifts as quasi-endowments.

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 Foundation and the affiliates described above. All of the financial activities and balances of these organizations 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 US GAAP, such information should be read in conjunction with the Foundation's audited consolidated financial statements as of and for the year ended June 30, 2015, from which the summarized information was derived.

Management's use of estimates – The preparation of consolidated financial statements in conformity with US 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.

(1) Foundation operations and summary of significant accounting policies (continued)

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). Cash and cash equivalents in excess of FDIC insurance limits were approximately $18.6 million and $12.9 million at June 30, 2016 and 2015, respectively.

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

Pledges that are to be collected within one year are recorded at net realizable value. Pledges that are expected to be collected in future years are initially recorded at the fair value of their estimated future cash flows as of the date of the promise to give through the use of an expected present value calculation that discounts the risk-adjusted cash flows by an estimated risk-free interest rate. In periods subsequent to initial recognition, pledges are reported at the amount management expects to collect and are discounted over the collection period using the same interest rate determined at the time of initial recognition. The change in 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 Foundation and Affiliates' 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 Foundation learns it is the beneficiary of charitable trusts for which the Foundation is not the trustee and the trust is held by others, such as banks, trust companies, or investment firms. In accordance with US GAAP, the Foundation records the fair value of the asset and the related gift income when the Foundation 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. US 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.

(1) Foundation operations and summary of significant accounting policies (continued)

- **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. Also included in Level 3 are investments measured using a Net Asset Valuation (NAV) per share, or its equivalent, that can never be redeemed at the NAV or for which redemption at NAV is uncertain due to lock-up periods or other investment restrictions.

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

The fair values of publicly traded securities are based on quoted market prices. The fair value of securities related to investments in limited partnerships (Level 3) is measured using the net asset value per share of the investment. 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.

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 Foundation has ownership of certain cash and cash equivalents held, along with other marketable securities, by outside investment managers for the benefit of the Foundation. Although these cash and cash equivalents are readily available, it is the intent of the Foundation 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.

(1) Foundation operations and summary of significant accounting policies (continued)

Split-interest agreements – The Foundation 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.

Property and equipment and related depreciation and amortization – 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 Foundation. Betterments or renewals in excess of $5,000 for the Foundation and AzTE and $1,000 for ASURE and RCASU are capitalized. Depreciation and amortization are 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 Foundation and Affiliates review 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 Foundation and Affiliates report 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, 2016 and 2015.

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.

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 Foundation 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 Foundation, 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) Foundation operations and summary of significant accounting policies (continued)

Income taxes – The Foundation 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, and accordingly, there is no provision for income taxes in the accompanying consolidated financial statements. The Foundation has been classified as an organization that is a public charity.

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 Foundation.

ASURE has been classified as a tax-exempt organization under Section 501(c)(3) as described in Section 170(b)(1)(A)(vi) of the Internal Revenue Code, and accordingly, there is no provision for income taxes in the accompanying consolidated financial statements. ASURE has been classified as an organization that is a public charity.

RCASU has been classified as a tax-exempt organization under Section 501(c)(3) as described in Section 170(b)(1)(A)(vi) of the Internal Revenue Code, and accordingly, there is no provision for income taxes in the accompanying consolidated financial statements. RCASU has been classified as an organization that is a public charity.

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

Tax positions taken related to the Foundation's tax-exempt status and other miscellaneous tax positions have been reviewed. Management is of the opinion that material positions taken by the Foundation would be upheld under examination. Accordingly, the Foundation has not recorded an income tax liability for uncertain tax positions as of June 30, 2016, and does not anticipate a significant change for the following twelve months. As of June 30, 2016, the Foundation's fiscal years 2012 through 2015 for the federal and 2011 through 2015 for Arizona tax jurisdictions remain open to examination.

Recent accounting pronouncements:

In December 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (ASC 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 US GAAP and to apply significantly more judgment. With that increase in judgment, ASC 606 requires expanded disclosures surrounding revenue recognition. This new guidance is effective for nonpublic entities for fiscal years beginning after December 15, 2018, and can be early adopted in certain circumstances. The Foundation is in the process of evaluating the impact of this standard on its operations.

(1) <u>Foundation operations and summary of significant accounting policies (continued)</u>

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 balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. Prior to the issuance of the standard, debt issuance costs were required to be presented in the balance sheet as an asset. The standard will be effective for the first interim period within annual reporting periods beginning after December 15, 2015. The Foundation is in the process of evaluating the impact of this standard on its operations.

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 Foundation is in the process of evaluating the impact of this standard on its operations.

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 Foundation 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 balance sheet 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, direct financing lease (recognize any loss up front, defer profit and account for investment in lease using the interest method) or operating lease (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, 2019. The Foundation is in the process of evaluating the impact of this standard on its operations.

(1) Foundation 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 Foundation 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:

	2016	2015
Gross pledges receivable	$ 185,901,744	$ 163,949,376
Present value discount	(13,094,000)	(11,548,000)
Allowance for uncollectible pledges	(40,316,000)	(39,409,000)
Pledges receivable, net	$ 132,491,744	$ 112,992,376

Gross pledges are receivable as follows:

	2016	2015
Receivable in one year	$ 43,770,367	$ 43,247,194
Receivable in two to five years	53,805,346	39,069,492
Receivable after five years	88,326,031	81,632,690
Total gross pledges receivable	$ 185,901,744	$ 163,949,376

(2) Pledges receivable, net (continued)

The Foundation had conditional pledges receivable totaling $46.6 million at June 30, 2016 and $32.6 million at June 30, 2015; 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:

	2016	2015
Real estate subsidiary activities	$ 1,608,818	$ 932,231
Foundation activities	1,372,684	1,264,432
AzTE activities	473,429	440,510
ASURE activities	253,628	383,902
RCASU activities	111,527	-
Total other receivables, net	$ 3,820,086	$ 3,021,075

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 which was $129,901 at June 30, 2016 and $34,167 at June 30, 2015.

(4) Investments

The Foundation defines its investment funds as the Long-Term Investment Pool (LTIP) and Short-Term Investment Pool (STIP).

Investments consist of:

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

(4) Investments (continued)

2015	LTIP	STIP	Other Investments	Total
Global equities	$ 318,099,821	$ -	$ 11,613,294	$ 329,713,115
Global fixed income	62,552,421	51,991,211	826,687	115,370,319
Absolute return	110,017,089	-	-	110,017,089
Real assets	104,098,734	-	5,525,332	109,624,066
Private capital	39,548,712	-	1,855,302	41,404,014
Cash and cash equivalents	14,303,896	12,172,936	3,827,665	30,304,497
Total investments	$ 648,620,673	$ 64,164,147	$ 23,648,280	$ 736,433,100

Investment valuations are established and classified based on a variety of inputs. The input classifications or levels by investment category are shown in the following table:

2016	Level 1	Level 2	Level 3	Total
Global equities	$ 136,087,102	$ -	$ 176,200,699	$ 312,287,801
Global fixed income	128,643,193	-	20,706,781	149,349,974
Absolute return	8,922,014	-	78,940,843	87,862,857
Real assets	19,655,164	-	70,703,971	90,359,135
Private capital	-	-	52,801,045	52,801,045
Cash and cash equivalents	20,863,150	-	36,480	20,899,630
Total investments	$ 314,170,623	$ -	$ 399,389,819	$ 713,560,442

2015	Level 1	Level 2	Level 3	Total
Global equities	$ 191,683,826	$ -	$ 138,029,289	$ 329,713,115
Global fixed income	83,571,092	-	31,799,227	115,370,319
Absolute return	12,125,226	-	97,891,863	110,017,089
Real assets	23,948,644	-	85,675,422	109,624,066
Private capital	-	-	41,404,014	41,404,014
Cash and cash equivalents	30,251,136	-	53,361	30,304,497
Total investments	$ 341,579,924	$ -	$ 394,853,176	$ 736,433,100

(4) Investments (continued)

Certain investments valued using Level 3 category inputs are reported at the net asset values calculated by the investment manager. These investments, at June 30, 2016, 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	$ 176,200,699	$ -	Monthly to not available	6 - 60 days
Global fixed income	20,706,781	-	Monthly to not available	60 days
Absolute return	78,940,843	-	Monthly to every 2 years	3 - 90 days
Real assets	70,703,971	40,732,425	Not available	
Private capital	52,801,045	30,249,587	Not available	
Cash and cash equivalents	36,480	-	Not available	
Total	$ 399,389,819	$ 70,982,012		

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

2016	Beginning Balance	Realized or Unrealized Gains or (Losses)	Purchases	Sales	Ending Balance
Global equities	$ 138,029,289	$ (3,423,201)	$ 44,295,675	$ (2,701,064)	$ 176,200,699
Global fixed income	31,799,227	1,077,941	40,989,378	(53,159,765)	20,706,781
Absolute return	97,891,863	(9,329,219)	24,920,036	(34,541,837)	78,940,843
Real assets	85,675,422	(2,938,893)	32,832,383	(44,864,941)	70,703,971
Private capital	41,404,014	(1,726,119)	19,202,181	(6,079,031)	52,801,045
Cash and cash equivalents	53,361	(16,112)	81,000	(81,769)	36,480
Total Level 3 investments	$ 394,853,176	$ (16,355,603)	$ 162,320,653	$ (141,428,407)	$ 399,389,819

2015	Beginning Balance	Realized or Unrealized Gains or (Losses)	Purchases	Sales	Ending Balance
Global equities	$ 114,083,985	$ 8,194,229	$ 46,435,335	$ (30,684,260)	$ 138,029,289
Global fixed income	-	(2,139,735)	35,483,466	(1,544,504)	31,799,227
Absolute return	101,265,045	1,610,185	16,821,341	(21,804,708)	97,891,863
Real assets	78,917,560	(306,608)	20,864,608	(13,800,138)	85,675,422
Private capital	23,950,268	2,973,067	19,104,815	(4,624,136)	41,404,014
Cash and cash equivalents	-	(49,543)	158,694	(55,790)	53,361
Total Level 3 investments	$ 318,216,858	$ 10,281,595	$ 138,868,259	$ (72,513,536)	$ 394,853,176

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

(4) Investments (continued)

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. During the renovation period for the DC Project, the cost of the building and the renovations to date serve as an estimate of the fair value of the property. Changes in value are included in net investment return on the consolidated statement of activities.

Land and buildings held for investment include:

	2016	2015
Brickyard Facility	$ 38,750,000	$ 37,400,000
DC Project	17,962,812	12,197,416
Other real properties	4,156,609	610,899
Total land and buildings held for investment	$ 60,869,421	$ 50,208,315

(6) Foundation endowment and net asset classifications

Management of the Foundation's endowment is governed by laws in the state of Arizona based on the Uniform Prudent Management of Institutional Funds Act. The Foundation 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 Foundation 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. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets.

(6) Foundation endowment and net asset classifications (continued)

The Foundation endowments by net asset category are shown in the following table:

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

2015	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowments	$ (3,517,424)	$ 44,375,431	$ 375,568,987	$ 416,426,994
Quasi-endowments	-	73,621,861	-	73,621,861
Board-designated endowments	12,000,000	-	-	12,000,000
Total funds	$ 8,482,576	$ 117,997,292	$ 375,568,987	$ 502,048,855

Included in the Foundation's endowments are the ASU Trust (Trust) assets held under a trust agreement with ASU 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 Foundation and receive a proportional share of the activity of the LTIP, described in Note 4. As such, the Foundation owns the assets of the LTIP; the Trust and the Alumni have a financial interest in the LTIP but do not own any of the underlying assets. The Foundation has recorded a liability at fair value to the Trust and the Alumni.

Assets held for other entities consist of:	2016	2015
ASU	$ 113,659,358	$ 116,254,211
ASU Alumni Association	15,032,994	16,413,751
Total assets held for other entities	$ 128,692,352	$ 132,667,962

The Foundation's endowment is invested in the LTIP. The Foundation'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.

(6) Foundation endowment and net asset classifications (continued)

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 calculated mid-fiscal year. The inflation rate used was 0.7% for 2016 and 0.8% for 2015, and the cap and floor were based on 4.25% and 3.25% for 2016 and 4.0% and 3.0% for 2015. 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.

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. Deficits of this nature are reported in unrestricted net assets.

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

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

(6) Foundation endowment and net asset classifications (continued)

2015	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2014	$ 11,050,994	$ 116,580,742	$ 361,413,959	$ 489,045,695
Contributions and other additions	-	15,306,131	15,648,891	30,955,022
Investment return:				
Interest and dividends	-	7,200,001	389,301	7,589,302
Net realized and unrealized gains or (losses)	(2,568,418)	(3,020,530)	(201,826)	(5,790,774)
Change in assets due to other entities	-	(1,894,153)	-	(1,894,153)
Total investment return	(2,568,418)	2,285,318	187,475	(95,625)
Appropriation for expenditure	-	(16,025,531)	(451,747)	(16,477,278)
Reclassification of donor intent	-	(149,368)	(1,229,591)	(1,378,959)
Endowment net assets, June 30, 2015	$ 8,482,576	$ 117,997,292	$ 375,568,987	$ 502,048,855

(7) Assets with limited use

The terms of the Brickyard Series 2004 A and B bonds, Fulton Center Series 2014 A and B bonds and the DC Project Series 2014 A and B bonds described in Note 15 require the Foundation and Affiliates to maintain bond funds on deposit with a trustee.

The funds consist of money market funds and US Treasury obligations valued at fair value as follows:

	2016	2015
Brickyard Series 2004 A and B bonds		
Debt service reserve fund	$ 1,001,797	$ 1,000,019
Revenue fund	559,906	511,682
Sinking fund	746,227	691,283
Project fund	7,836	7,867
Total Brickyard Series 2004 A and B bonds	2,315,766	2,210,851
Fulton Center Series 2014 A and B bonds		
Bond interest fund	813,347	2,272,797
Major maintenance funds	986,833	899,218
Tenant improvement fund	231,317	211,790
Operating costs and insurance principal fund	3,708	3,708
Principal fund	1,470,000	-
Total Fulton Center Series 2014 A and B bonds	3,505,205	3,387,513
DC Project Series 2014 A and B bonds		
Project fund	18,796,407	22,543,393
Bond fund	82	675,835
Total DC Project Series 2014 A and B bonds	18,796,489	23,219,228
Total assets with limited use	$ 24,617,460	$ 28,817,592

(8) Assets held under split-interest agreements

The Foundation is currently the beneficiary of certain charitable remainder trusts (CRT) where the Foundation is the trustee. The Foundation 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 Foundation as specified by the grantor. The portion of the trust attributable to the present value of the future benefits to be received by the Foundation 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 1.8% for 2016 and 2.0% for 2015, and is based on mortality expectations found in the IRS Actuarial Valuations Publication.

The Foundation 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:

	2016	2015
Charitable gift annuities		
Equities	$ 3,295,590	$ 3,635,235
Fixed income	1,038,949	837,625
Other	67,953	55,033
	4,402,492	4,527,893
Charitable remainder trusts		
Equities	1,209,416	1,278,077
Fixed income	736,031	737,478
Other	70,923	37,834
	2,016,370	2,053,389
Life insurance	481,531	438,656
Total assets held under split-interest agreements	$ 6,900,393	$ 7,019,938

Obligations under split-interest agreements consist of:

	2016	2015
Charitable gift annuities	$ 2,564,622	$ 2,523,977
Charitable remainder trusts	893,942	931,976
Total obligations under split-interest agreements	$ 3,458,564	$ 3,455,953

(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 in Note 11. 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 Foundation and Affiliates 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:

	2016	2015
Minimum lease receivable - Fulton Center	$ 32,318,565	$ 34,112,230
Unearned interest income - Fulton Center	(9,498,565)	(10,422,230)
Net investment in direct financing lease	$ 22,820,000	$ 23,690,000

The total amount of the Fulton Center lease payment receivable balance will be used by the Foundation and Affiliates 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.

Minimum future lease receipts as of June 30, 2016, are as follows:

Years Ending June 30,	
2017	$ 1,791,390
2018	1,791,235
2019	1,799,698
2020	1,796,382
2021	1,791,685
Thereafter	23,348,175
Total minimum future lease receipts	$ 32,318,565

(10) Capitalized bond issuance costs, net

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 (Note 15). The issuance costs for the bonds are amortized over the following terms of the bonds using the straight-line method (which approximates the effective interest rate method):

	Term	2016	2015
Original costs:			
Brickyard Series 2004 A and B bonds		$ 1,070,186	$ 1,070,186
Fulton Center Series 2014 A and B bonds		534,841	534,841
DC Project Series 2014 A and B bonds		370,190	370,190
Total original costs		1,975,217	1,975,217
Accumulated amortization:			
Brickyard Series 2004 A and B bonds	30 years	(442,836)	(405,933)
Fulton Center Series 2014 A and B bonds	30 years	(57,462)	(30,941)
DC Project Series 2014 A and B bonds	30 years	(28,476)	(10,491)
Total accumulated amortization		(528,774)	(447,365)
Total capitalized bond issuance costs, net		$ 1,446,443	$ 1,527,852

Amortization expense charged to operations was $81,409 for 2016 and $73,915 for 2015.

(11) Property and equipment, net

Property and equipment consist of:

	2016	2015
Cost:		
Buildings and improvements	$ 17,396,938	$ 17,396,938
Building fixtures	2,307,218	2,210,625
Equipment		
Information systems	3,492,374	4,669,116
Other equipment	959,490	971,649
Total cost	24,156,020	25,248,328
Accumulated depreciation and amortization	(11,362,555)	(11,931,705)
Total property and equipment, net	$ 12,793,465	$ 13,316,623

Depreciation expense charged to operations was $642,061 for 2016 and $736,902 for 2015.

The Fulton Center building is located on land leased to the Foundation and Affiliates by the University. The lease obligation is $10 per year. The lease originated in fiscal year 2004 and has a term of 30 years with the option to extend for up to two consecutive periods of 5 years each.

(12) Accounts payable and other liabilities

Accounts payable and other liabilities consists of:

		2016		2015
Accrued expenses	$	3,828,095	$	4,157,567
General accounts payable		2,370,593		2,398,896
Payroll liabilities		2,099,313		1,716,770
Deferred revenue		1,310,785		1,023,501
Total accounts payable and other liabilities	$	9,608,786	$	9,296,734

The Foundation has a line of credit agreement with Wells Fargo Bank, NA, initiated in February 2007 and most recently amended in March 2014. At June 30, 2016 and 2015, the outstanding balance on the line of credit was zero.

Under the terms of the line of credit agreement, the Foundation can borrow up to a maximum of $8.0 million for general corporate purposes. The interest rate is set at 90 basis points (0.90%) above the London Inter-Bank Offered Rate (LIBOR) in effect on the first day of the applicable term and can be fixed for a 1, 3, or 6 month period. Under the amended line of credit agreement, the Foundation is required to maintain a minimum net asset balance of not less than $375.0 million and not less than $5.0 million of unpledged and unrestricted cash and marketable securities. At June 30, 2016 and 2015, the Foundation was in compliance with both of the covenants. The line of credit agreement expires on January 30, 2017.

(13) Operating lease

Scottsdale is a party to a ground lease with the City of Scottsdale for land for the SkySong Development. The lease term is 99 years, renewable for 99 years, and commenced August 9, 2004. There were rent payments on the property of approximately $201,523 and $138,955 for the years ended June 30, 2016 and June 30, 2015, respectively.

Future minimum lease payments under the non-cancellable operating lease are as follows:

Years Ending June 30,		
2017	$	201,523
2018		269,715
2019		332,867
2020		332,867
2021		332,867
Thereafter		74,855,268
Total minimum future lease payments	$	76,325,107

(14) Unrealized swap liability

The interest rate swap agreement, related to the bonds issued in connection with the purchase of the Brickyard Facility, 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.

(14) Unrealized swap liability (continued)

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 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.

(15) Bonds payable

The balance outstanding, interest rates and final maturity dates of the bonds are summarized as follows:

	2016	2015	Interest Rates	Maturity Date
Brickyard Series 2004:				
Series 2004 – A (tax-exempt)	$ 22,420,000	$ 22,420,000	varies	July 1, 2034
Series 2004 – B (taxable)	6,005,000	6,755,000	varies	July 1, 2022
Fulton Center Series 2014:				
Series 2014 – A (tax-exempt)	39,050,000	39,050,000	3.95%	July 1, 2034
Series 2014 – B (taxable)	1,020,000	2,465,000	2.00%	July 1, 2016
DC Project Series 2014:				
Series 2014 – A (tax-exempt)	31,390,000	31,390,000	3.54%	July 1, 2035
Series 2014 – B (taxable)	3,610,000	3,610,000	3.43%	July 1, 2019
Total bonds payable	$ 103,495,000	$ 105,690,000		

The estimated fair value of the Foundation's bonds are approximately $108.2 million and $105.0 million at June 30, 2016 and 2015, respectively. 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.

(15) Bonds payable (continued)

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. At June 30, 2016, the interest rates were 0.42% for Series A and 0.43% for Series B. The Series 2004 A and B bonds are collateralized by the Brickyard Facility building and parking structure and by an ASUF Brickyard, LLC 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 Foundation 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 Foundation and the Brickyard in the event of the termination of the master lease with ASU whether from expiration of term, failure to appropriate funding by ASU or default by ASU.

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, ASUF, LLC 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 the Foundation’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 the Foundation.

DC Project Series 2014 A and B Bonds

In December 2014, ASUF DC, LLC 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 ASU in Washington, DC and is being renovated and is expected to be completed and placed in service in August 2017.

(15) Bonds payable (continued)

Future Maturities

Principal payments due for all of the obligations are shown in the following table:

Years Ending June 30	Brickyard Series 2004 A	Brickyard Series 2004 B	Fulton Center Series 2014 A	Fulton Center Series 2014 B	DC Project Series 2014 A	DC Project Series 2014 B	Total
2017	$ -	$ 805,000	$ 450,000	$ 1,020,000	$ -	$ -	$ 2,275,000
2018	-	855,000	1,510,000	-	-	1,315,000	3,680,000
2019	-	915,000	1,565,000	-	-	1,365,000	3,845,000
2020	-	975,000	1,640,000	-	490,000	930,000	4,035,000
2021	-	1,045,000	1,700,000	-	1,470,000	-	4,215,000
Thereafter	22,420,000	1,410,000	32,185,000	-	29,430,000	-	85,445,000
Total principal payments	$ 22,420,000	$ 6,005,000	$ 39,050,000	$ 1,020,000	$ 31,390,000	$ 3,610,000	$ 103,495,000

Bond Covenants

The Foundation is required to be in compliance with the debt service coverage ratio covenant imposed by the bank on the Brickyard Series 2004 A and B bonds. This covenant is measured on the last day of the fiscal year and requires that the "debt service coverage ratio", as defined by the Brickyard Series 2004 A and B bonds, be no less than 1.15 on the measurement date. At June 30, 2016 and 2015, the Foundation was in compliance with the debt service coverage ratio requirement.

(16) Unrestricted net assets

Unrestricted net assets consist of:

	2016	2015
Undesignated Foundation	$ 1,318,573	$ 19,228,920
Undesignated Affiliates	11,336,827	1,327,594
Board designated	12,000,000	12,000,000
Total unrestricted net assets (deficit)	$ 24,655,400	$ 32,556,514

Board designated net assets consist of $12.0 million of the Brickyard unrestricted net assets designated by the Foundation's Board of Directors in April 2006 as a quasi-endowment. Board designations are revocable with board resolution.

(17) Restricted net assets

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

	2016		2015	
	Temporarily Restricted	**Permanently Restricted**	**Temporarily Restricted**	**Permanently Restricted**
Academic support	$ 62,770,000	$ 135,172,158	$ 60,543,267	$ 138,517,694
Athletics	16,074,535	7,606,723	13,647,629	2,547,796
Capital	23,057,903	24,500	25,965,725	24,750
Discretionary use for ASU	18,080,578	18,698,083	17,847,521	18,608,513
Faculty	25,592,783	106,222,329	31,592,506	100,547,662
Financial aid	47,763,989	128,303,286	50,431,827	121,297,128
Library	1,021,033	1,819,849	1,229,794	1,719,564
Miscellaneous	7,519,358	137,556	4,733,500	137,557
Operations and maintenance	581,768	-	316,843	-
Research	34,697,897	19,516,997	31,201,360	19,156,877
Specific programs	76,108,067	44,397,370	74,361,207	42,203,963
Pledge reserve and discount	(23,771,900)	(29,637,000)	(23,933,000)	(27,006,000)
Total restricted net assets	$ 289,496,011	$ 432,261,851	$ 287,938,179	$ 417,755,504

(18) Net investment return (loss)

Net investment return (loss) consists of:

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)

2015	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Dividends and interest	$ 2,003,852	$ 8,577,508	$ 389,301	$ 10,970,661
Change in value of split-interest agreements	(219)	136,805	-	136,586
Net realized gains (losses)	6,196,695	30,205,851	1,007,904	37,410,450
Net unrealized gains (losses)	(5,265,937)	(26,391,985)	(1,626,056)	(33,283,978)
Change in assets due to other entities	-	(1,210,183)	-	(1,210,183)
Investment management fees	(15,453)	(3,228,707)	(35,421)	(3,279,581)
Total net investment return (loss)	$ 2,918,938	$ 8,089,289	$ (264,272)	$ 10,743,955

(19) Other revenue

Other revenue consists of:

	2016	2015
AzTE revenue	$ 8,415,591	$ 1,128,772
ASU program support	1,054,097	1,214,258
ASURE contracts	684,169	308,846
Conferences	102,457	34,769
Scottsdale LLC revenue	-	629,423
Miscellaneous	983,858	450,240
Total other revenue	$ 11,240,172	$ 3,766,308

(20) Net assets released from restrictions

Net assets were released from restriction for the following purposes:

	2016	2015
Academic support	$ 19,019,951	$ 15,055,175
Athletics	2,023,828	544,298
Capital	4,503,223	4,157,250
Discretionary use for ASU	952,252	1,439,873
Faculty	3,844,122	4,994,820
Financial aid	7,858,134	6,838,427
Library	91,269	88,366
Miscellaneous	8,999,740	10,450,609
Operations and maintenance	221,647	168,647
Research	13,095,873	12,614,249
Specific programs	31,914,675	27,616,478
Total net assets released from restrictions	$ 92,524,714	$ 83,968,192

(21) Retirement plan

The Foundation 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.

(21) Retirement plan (continued)

The second component of the Plan is the employer discretionary matching of employee contributions by the Foundation. The Foundation matches 50% of the first 6% of the employee's contribution, not to exceed 3% of the employee's compensation. The Foundation's matching contributions to the Plan were approximately $431,000 and $379,000 for the years ended June 30, 2016 and 2015, respectively.

The third component of the Plan provides for employer discretionary contributions by the Foundation. The annual contribution for the years ended June 30, 2016 and 2015 was 4% of compensation for all eligible employees. The Foundation's discretionary contributions were approximately $650,000 and $572,000 for the years ended June 30, 2016 and 2015, respectively.

Employer contributions vest evenly over five years.

(22) Functional expense allocation

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

	2016	2015
Program services	$ 101,049,797	$ 97,401,736
Fundraising	15,114,912	13,005,803
Management and general	13,619,428	11,175,473
Total expenses	$ 129,784,137	$ 121,583,012

(23) Related party transactions

Members of the Boards of Directors of the Foundation and Affiliates or the associated companies of these board members occasionally provide vendor services to the Foundation and Affiliates. These services are primarily professional services and are appropriately recorded as professional services expense at standard rates in the accompanying consolidated statement of activities. Other vendor services provided by board members are appropriately recorded in the applicable expense category in the accompanying consolidated statement of activities. The amounts were not significant for the years ended June 30, 2016 and 2015.

During fiscal years 2016 and 2015, the Foundation recognized contribution revenue from the members of the Foundation’s Board of Directors of approximately $755,000 and $476,000, respectively. At June 30, 2016 and 2015, net unconditional pledges receivable from the members of the Foundation’s Board of Directors were approximately $474,000 and $135,000, respectively.

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

For the financial and non-financial instruments 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:

2016	Level 1	Level 2	Level 3
Assets at fair value (recurring basis)			
Charitable trusts receivable	$ -	$ -	$ 3,182,202
Investments	314,170,623	-	399,389,819
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	$ 345,688,476	$ -	$ 463,441,442
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

2015	Level 1	Level 2	Level 3
Assets at fair value (recurring basis)			
Charitable trusts receivable	$ -	$ -	$ 3,669,649
Investments	341,579,924	-	394,853,176
Land and buildings held for investment	-	-	50,208,315
Assets with limited use	28,817,592	-	-
Assets held under split-interest agreements	7,019,938	-	-
Total assets at fair value	$ 377,417,454	$ -	$ 448,731,140
Liabilities at fair value (recurring basis)			
Assets held for other entities	$ -	$ -	$ 132,667,962
Unrealized swap liability	-	8,297,160	-
Total liabilities at fair value	$ -	$ 8,297,160	$ 132,667,962

For the above financial instruments, fair value methodologies are discussed in Notes 4, 5, 7, 8 and 14.

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.

(24) 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:

2016	Beginning Balance	Total Realized or Unrealized Gains or (Losses)	Purchases	Sales	Ending Balance
Level 3 assets					
Charitable trusts receivable	$ 3,669,649	$ 112,553	$ -	$ (600,000)	$ 3,182,202
Investments	394,853,176	(16,355,603)	162,320,653	(141,428,407)	399,389,819
Land and Buildings held for investment	50,208,315	1,417,481	9,243,625	-	60,869,421
Total Level 3 assets	$ 448,731,140	$ (14,825,569)	$ 171,564,278	$ (142,028,407)	$ 463,441,442
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

2015	Beginning Balance	Total Realized or Unrealized Gains or (Losses)	Purchases	Sales	Ending Balance
Level 3 assets					
Charitable trusts receivable	$ 1,276,620	$ 85,186	$ 2,307,843	$ -	$ 3,669,649
Investments	318,216,858	10,281,594	138,868,260	(72,513,536)	394,853,176
Land and Buildings held for investment	45,838,442	(143,769)	13,210,416	(8,696,774)	50,208,315
Total Level 3 assets	$ 365,331,920	$ 10,223,011	$ 154,386,519	$ (81,210,310)	$ 448,731,140
Level 3 liabilities					
Assets held for other entities	$ 130,503,305	$ 2,164,657	$ -	$ -	$ 132,667,962
Total Level 3 liabilities	$ 130,503,305	$ 2,164,657	$ -	$ -	$ 132,667,962

(25) Litigation

On June 6, 2016, Altela, Inc. (“Altela”), a former licensee of AzTE’s, filed a complaint against AzTE in Arizona District Court. Altela’s complaint alleges 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. Altela seeks damages, including punitive damages, costs, interest, and attorneys’ fees. The complaint also names the Foundation. On July 14, 2016, AzTE and the ASU Foundation filed motions to compel compliance by Altela with the Alternate Dispute Resolution (ADR) Procedure provided in the Agreement. The Court has not yet scheduled a hearing on the motion.

(25) Litigation (continued)

On February 29, 2016, an ASU 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 alleged gross waste, mismanagement and unethical practices, among other things. The professor has not named as defendants the Foundation or AzTE. Rather, she has named the President and Chief Executive Officer 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/ASU. All defendants have moved to dismiss the professor's complaint for failure to state upon which relief may be granted. Those motions are pending with the Court. It is speculative whether the Foundation or AzTE will ever be named as parties in the lawsuit as the professor does not, on the facts alleged, appear to have viable claims against either entity.

(26) Subsequent events

The Foundation evaluated subsequent events through August 26, 2016, which is the date these consolidated financial statements were issued. The following significant event was identified:

As part of its mission to support ASU, the Foundation identified a need to help the University create new revenue sources to meet its rapid growth from local to global solutions. After a year of planning, designing, and obtaining the advice of experts, the Foundation's Board of Directors approved a corporate structure reorganization to be effective July 1, 2016.

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

Specifically, the Board approved a resolution in September 2015 that allowed for the creation of a new entity, ASU Enterprise Partners (EP), an Arizona nonprofit corporation, to serve as a holding company for five subsidiary entities: ASU Foundation, ASURE, RCASU, University Realty (UR), and AzTE. Then in May 2016, the Board approved a resolution that created a member based framework where EP becomes the sole member of each of these five entities. In addition, this resolution assigned various assets and liabilities to EP and all of the real estate LLCs described in Note 1 to UR. AzTE's and RCASU's subsidiary entities remain subsidiary entities of AzTE and RCASU, respectively, in an unchanged manner. EP began its activities on July 1, 2016.

This corporate restructure did not add or remove any net assets from the consolidated view of the Foundation and affiliates compared to the consolidated view of EP and affiliates. However, significant net assets were moved between the entities.

ADDITIONAL INFORMATION

ARIZONA STATE UNIVERSITY FOUNDATION
for A New American University
AND AFFILIATES
ADDITIONAL INFORMATION
June 30, 2016

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

	ASUF							
	University Support	Foundation Operations	AzTE	ASURE	RCASU	Real Estate Affiliates	Eliminating Entries	Total
ASSETS								
Cash and cash equivalents	$ 6,570,456	$ 2,319,621	$ 7,888,922	$ 6,728	$ 1,069,843	$ 749,167	$ -	$ 18,604,737
Receivables								
Pledges receivable, net	132,490,269	1,400	-	-	75	-	-	132,491,744
Charitable trusts receivable	3,182,202	-	-	-	-	-	-	3,182,202
Other receivables, net	41,233	2,278,284	473,428	253,627	111,527	1,625,735	(963,748)	3,820,086
TOTAL RECEIVABLES	135,713,704	2,279,684	473,428	253,627	111,602	1,625,735	(963,748)	139,494,032
Investments	686,313,969	15,236,653	3,049,793	-	-	16,608,150	(7,648,123)	713,560,442
Land and buildings held for investment	41,698	636,682	-	-	-	60,191,041	-	60,869,421
Assets with limited use	-	-	-	-	-	24,617,460	-	24,617,460
Assets held under split-interest agreements	6,900,393	-	-	-	-	-	-	6,900,393
Net investment in direct financing lease	-	-	-	-	-	22,820,000	-	22,820,000
Capitalized bond issuance costs, net	-	-	-	-	-	1,446,443	-	1,446,443
Property and equipment, net	-	253,700	7,467	59,401	-	12,472,897	-	12,793,465
Other assets	135,209	279,552	488,025	12,268	-	41,421	-	956,475
TOTAL ASSETS	$ 835,675,429	$ 21,005,892	$ 11,907,635	$ 332,024	$ 1,181,445	$ 140,572,314	$ (8,611,871)	$ 1,002,062,868
LIABILITIES AND NET ASSETS								
Accounts payable and other liabilities	$ 303,997	$ 3,991,953	$ 2,305,858	$ 1,075,596	$ 145,085	$ 2,750,045	$ (963,748)	$ 9,608,786
Assets held for other entities	128,692,351	-	-	-	311	7,415,849	(7,415,849)	128,692,662
Obligations under split-interest agreements	3,458,564	-	-	-	-	-	-	3,458,564
Unrealized swap liability	-	-	-	-	-	10,394,594	-	10,394,594
Bonds payable	-	-	-	-	-	103,495,000	-	103,495,000
TOTAL LIABILITIES	132,454,912	3,991,953	2,305,858	1,075,596	145,396	124,055,488	(8,379,597)	255,649,606
TOTAL NET ASSETS (DEFICIT)	703,220,517	17,013,939	9,601,777	(743,572)	1,036,049	16,516,826	(232,274)	746,413,262
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	$ 835,675,429	$ 21,005,892	$ 11,907,635	$ 332,024	$ 1,181,445	$ 140,572,314	$ (8,611,871)	$ 1,002,062,868

See Report of Independent Certified Public Accountants

ARIZONA STATE UNIVERSITY FOUNDATION
for A New American University
AND AFFILIATES

ADDITIONAL INFORMATION

Year Ended June 30, 2016

CONSOLIDATING STATEMENT OF ACTIVITIES

	ASUF							
	University Support	**Foundation Operations**	**AzTE**	**ASURE**	**RCASU**	**Real Estate Affiliates**	**Eliminating Entries**	**Total**
SUPPORT AND REVENUES								
Contributions	$ 115,821,705	$ 6,778,704	$ -	$ 108,000	$ 330,000	$ -	$ (108,000)	$ 122,930,409
Change in estimate for uncollectible pledges	(906,000)	(1,000)	-	-	-	-	-	(907,000)
Change in present value discount	(1,564,000)	-	-	-	18,000	-	-	(1,546,000)
Net investment return (loss)	(18,731,185)	(1,453,840)	(484,842)	-	-	2,048,371	3,047,864	(15,573,632)
Asset management fees	(6,444,479)	8,421,095	-	-	-	85,888	(350,000)	1,712,504
Service agreement revenue	-	12,880,812	6,921,162	630,939	149,288	-	-	20,582,201
Rent	-	252,120	-	3,000	-	8,043,424	(6,692,562)	1,605,982
Other revenue	2,048,763	1,888,392	8,415,591	684,169	-	29,296	(1,826,039)	11,240,172
Reclassification of donor intent and transfers	513,402	(2,997,954)	-	-	-	2,484,552	-	-
TOTAL SUPPORT AND REVENUES	90,738,206	25,768,329	14,851,911	1,426,108	497,288	12,691,531	(5,928,737)	140,044,636
EXPENSES								
Payments for the benefit of the University:								
Directly to University:								
Donations and reimbursements	68,804,012	206,313	-	-	-	-	-	69,010,325
Scholarships - ASU selected	7,425,875	-	-	-	-	-	-	7,425,875
To vendors on behalf of the University	10,176,008	-	-	-	-	-	-	10,176,008
Subtotal	86,405,895	206,313	-	-	-	-	-	86,612,208
Scholarships - Non ASU selected	153,884	-	-	-	-	-	-	153,884
Payments to other charitable entities	425,349	175,000	-	-	-	-	-	600,349
Total payments for the benefit of the University	86,985,128	381,313	-	-	-	-	-	87,366,441
Operating expenses:								
Salaries and benefits	-	19,740,929	2,746,015	1,180,389	-	-	-	23,667,333
Depreciation/Amortization	-	154,213	3,423	29,431	-	536,403	(54,888)	668,582
Interest expense	-	-	-	-	-	2,311,743	(748,868)	1,562,875
Professional services	-	4,721,874	4,861,225	153,710	39,303	679,620	(1,432,881)	9,022,851
All other expenses	-	6,412,800	1,570,376	394,120	238,326	2,572,533	(3,692,100)	7,496,055
Total operating expenses	-	31,029,816	9,181,039	1,757,650	277,629	6,100,299	(5,928,737)	42,417,696
TOTAL EXPENSES	86,985,128	31,411,129	9,181,039	1,757,650	277,629	6,100,299	(5,928,737)	129,784,137
INCREASE/(DECREASE) IN NET ASSETS	3,753,078	(5,642,800)	5,670,872	(331,542)	219,659	6,591,232	-	10,260,499
Change in unrealized swap value	-	-	-	-	-	(2,097,434)	-	(2,097,434)
CHANGE IN NET ASSETS	3,753,078	(5,642,800)	5,670,872	(331,542)	219,659	4,493,798	-	8,163,065
NET ASSETS (DEFICIT), BEGINNING OF PERIOD	699,467,439	22,656,739	3,930,905	(412,030)	816,390	11,790,754	-	738,250,197
Capital contributions to LLC	-	-	-	-	-	232,274	(232,274)	-
NET ASSETS (DEFICIT), END OF PERIOD	$ 703,220,517	$ 17,013,939	$ 9,601,777	$ (743,572)	$ 1,036,049	$ 16,516,826	$ (232,274)	$ 746,413,262

See Report of Independent Certified Public Accountants