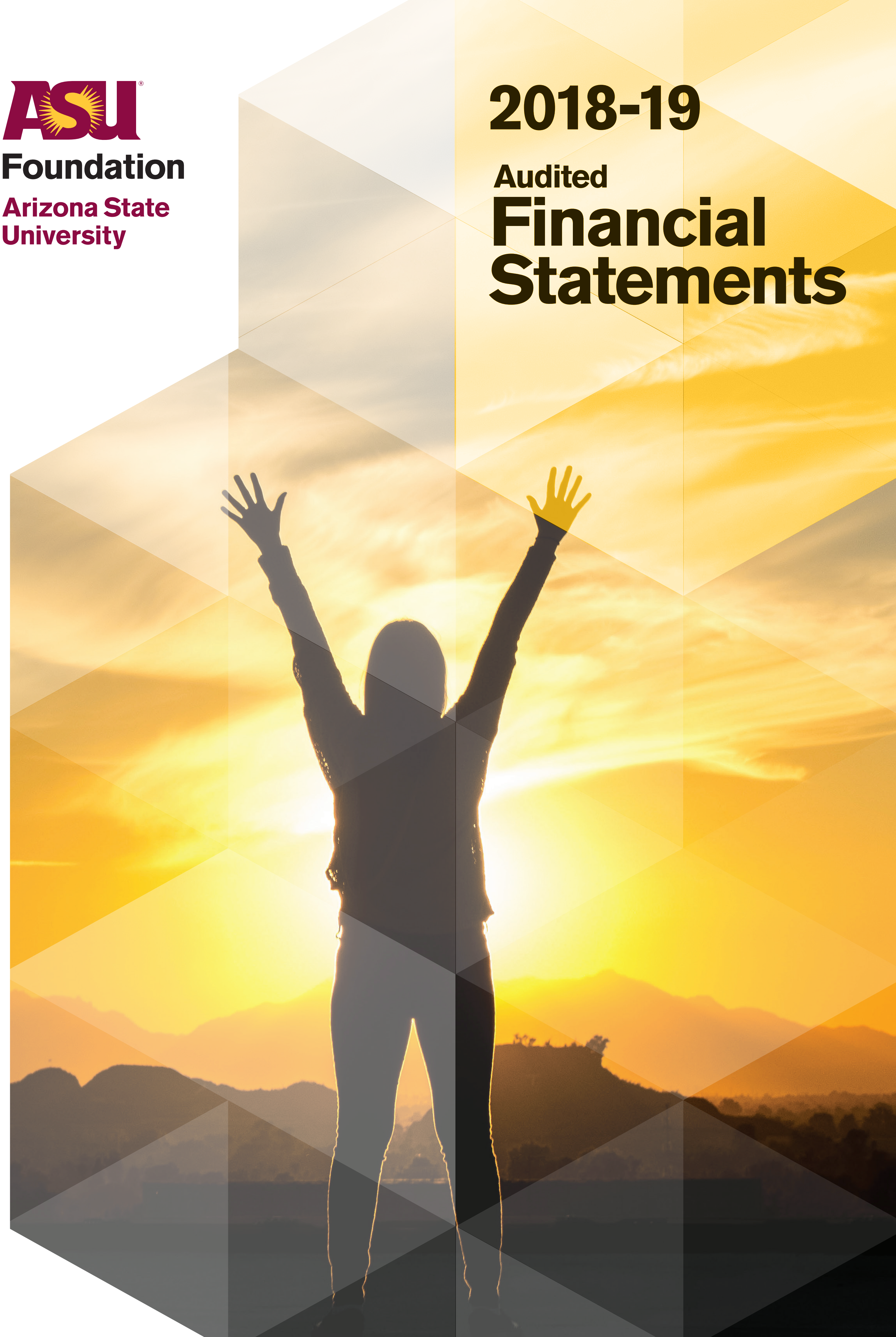
ASU Foundation
Arizona State University

2018-19

Audited Financial Statements



ARIZONA STATE UNIVERSITY FOUNDATION

For A New American University

FINANCIAL STATEMENTS

June 30, 2019

ARIZONA STATE UNIVERSITY FOUNDATION
For A New American University

FINANCIAL STATEMENTS

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ASU Foundation
Arizona State University

Management's Discussion and Analysis (unaudited)

INTRODUCTION

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

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

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

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

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

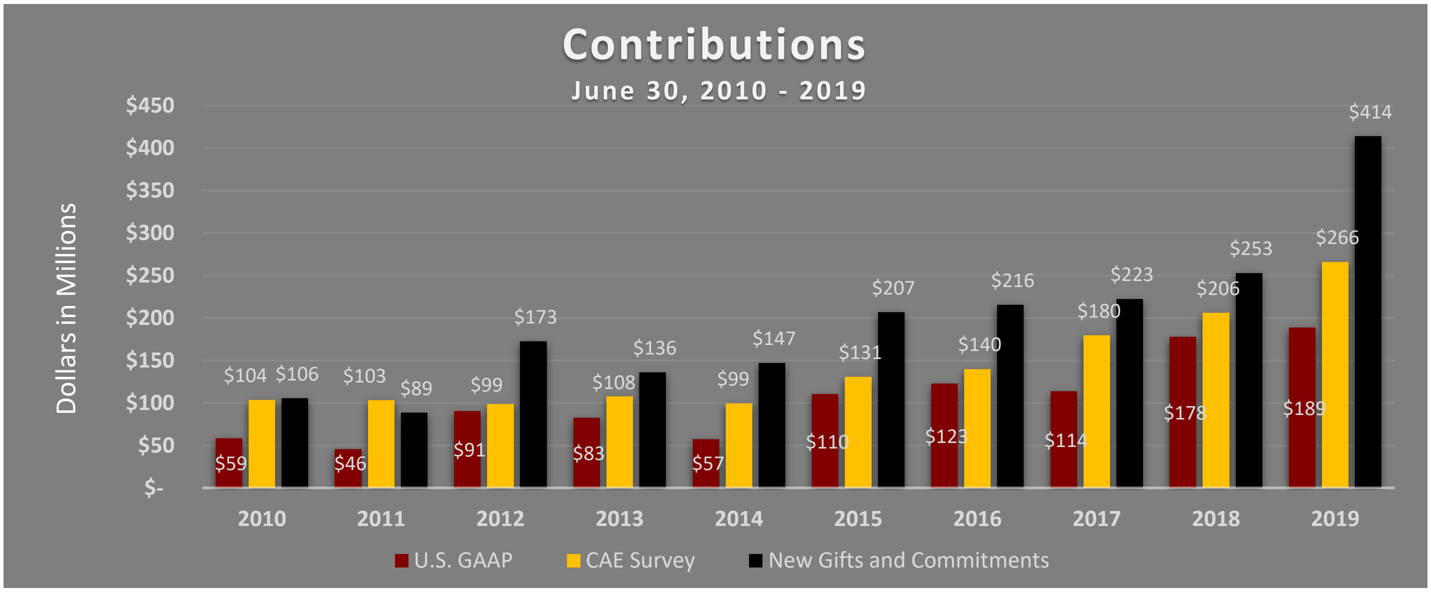
The Foundation is a membership organization with one member, ASU Enterprise Partners (EP). EP has organized its operations to focus on its business lines, which include philanthropy, technology, realty, research and global initiatives. For its administration and back office, the Foundation uses the supporting services provided by EP that include human resources, communications, technology and data management, investment, legal, and financial services. The Foundation's 2019 financial results are summarized in the graphs below.

FUNDRAISING PROGRESS

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

However, the Council for Aid to Education (CAE) publishes a widely used survey called Voluntary Support of Education (VSE), recently acquired by the Council for Advancement and Support of Education 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 financial statements include only gifts made to the Foundation.

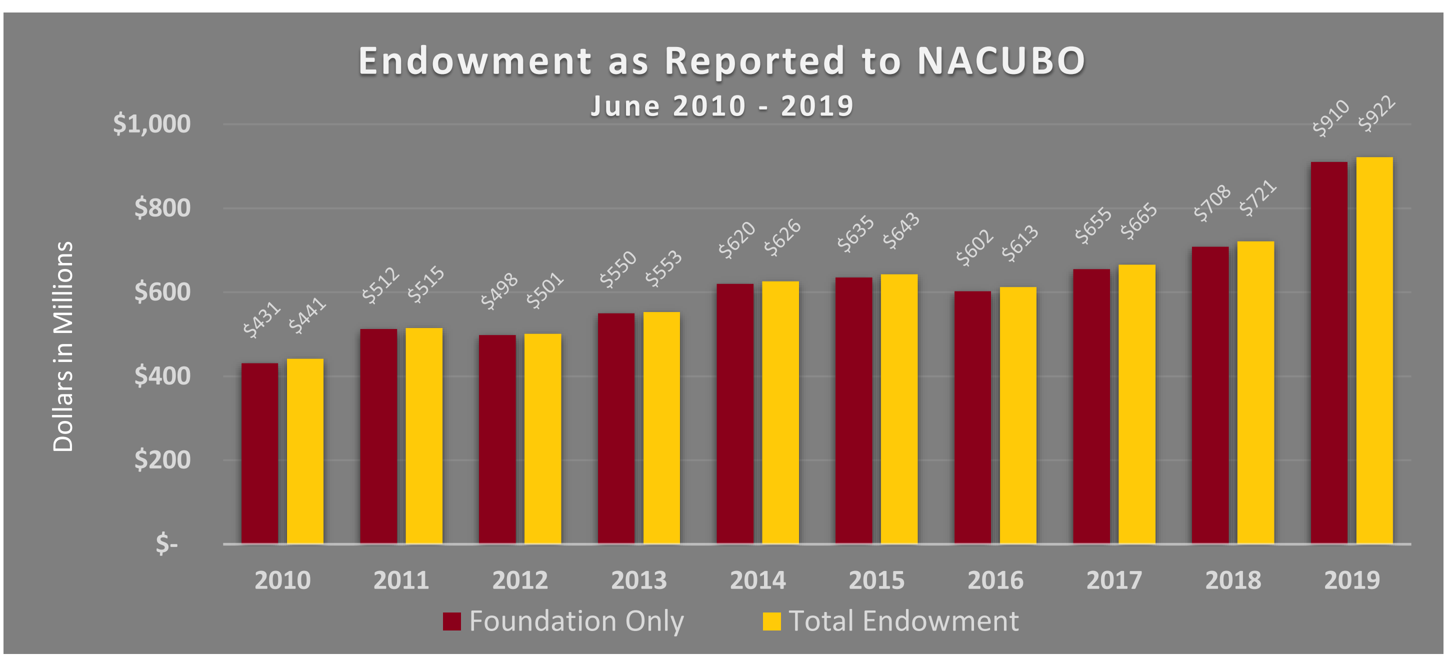
New Gifts and Commitments is an internal productivity measure that provides the broadest possible view of the Foundation fundraising progress. Its contribution total includes new pledges, advised bequests, in-kind gifts, and deferred gifts for the entire University community. Fiscal year 2019 was the fifth year in a row the Foundation achieved record fundraising of approximately $266 million. In fiscal year 2019, New Gifts and Commitments totaled approximately $414 million.



ENDOWMENT VALUE

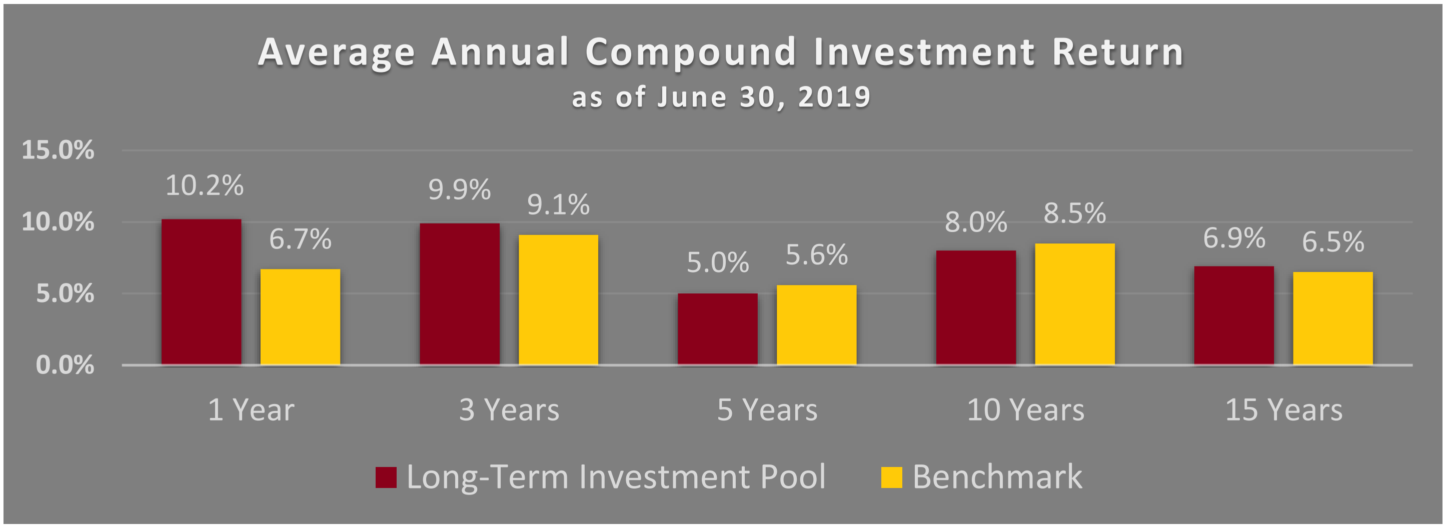
The Foundation reports its endowment value using two different measuring methods as well. The attached audited financial statements report the endowment value for assets held by the Foundation and a related liability for any assets held by the Foundation on behalf of other entities, such as the endowments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

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



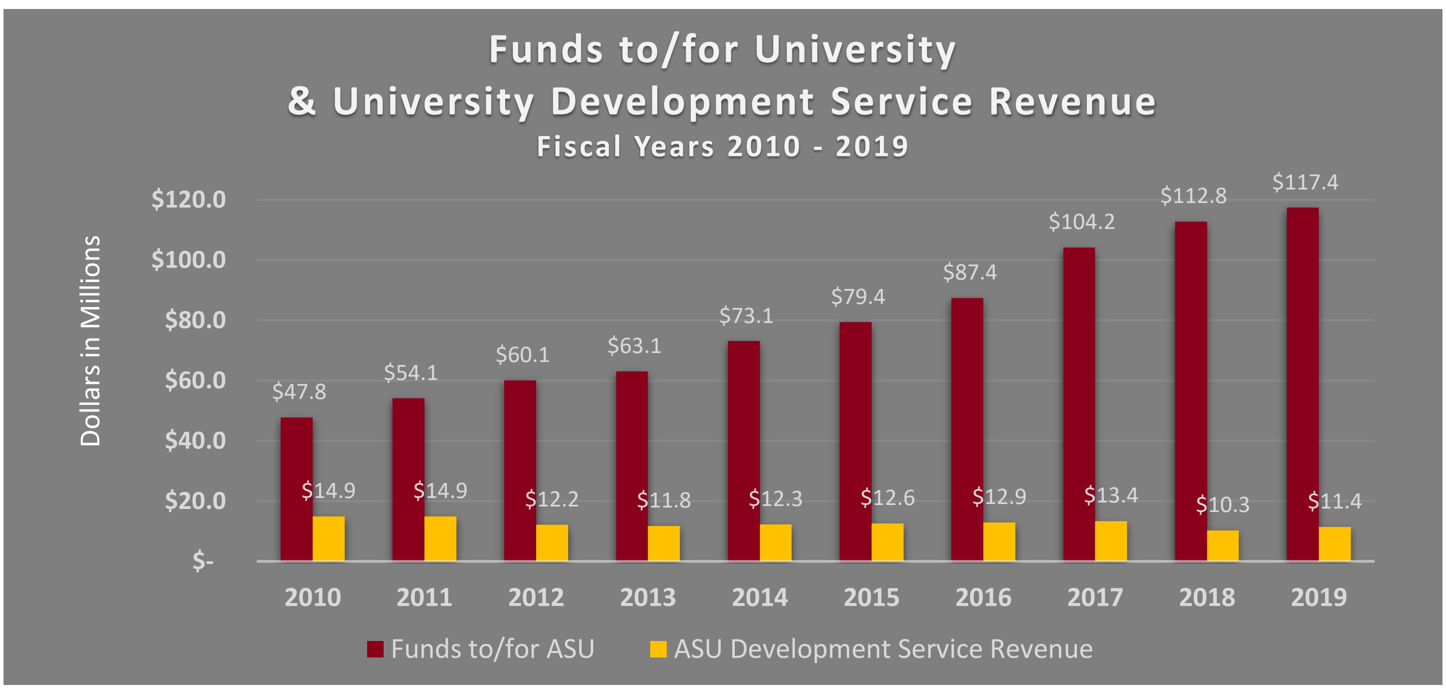
ENDOWMENT INVESTMENT

The Foundation invests the endowment funds under the direction of the Investment Committee of EP's Board of Directors and under the management of an Outsourced Chief Investment Officer, currently BlackRock, in collaboration with the EP Investment Office. The endowment investment performance is compared to the performance of the benchmark, which is a custom formulated passive index reflecting a similar asset allocation.



SUPPORT TO AND FOR ASU AND ITS STUDENTS AND FACULTY

The main purpose of the Foundation is to provide funding for University programs and activities and to support students and faculty. The Foundation was able to increase that funding from $112.8 million in 2018 to approximately $117.4 million in 2019. The sources of these funds are primarily gifts restricted for a period of time or a specific purpose. Many are endowment gifts that provide a portion of the income from the total endowment for each year's spending. Others are gifts received this year, or in previous years, to provide funding for a specific purpose designated by the donor.



FOUNDATION OPERATIONS

The Foundation funds its operations from four sources: 1) EP's Master Services Agreement with the University for development services; 2) asset management fees on the endowment; 3) subsidy from the enterprise reserves; and 4) unrestricted gifts. Between fiscal year 2018 and 2019, contributions measured according to U.S. GAAP grew significantly, investment returns increased, payments for the benefit of the University increased somewhat and the Foundation experienced an expected increase in operating expenses.

CONCLUSION

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

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

Report on the financial statements

We have audited the accompanying financial statements of Arizona State University Foundation for A New American University (*a nonprofit organization*) (the "Organization"), which comprises the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, 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 financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arizona State University Foundation for A New American University as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Other information

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

Report on 2018 summarized comparative information

We have previously audited the Organization’s 2018 financial statements (not presented herein), and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 30, 2018. In our opinion, the accompanying summarized comparative information as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Grant Thornton LLP

Phoenix, Arizona
August 30, 2019

ARIZONA STATE UNIVERSITY FOUNDATION
for A New American University

STATEMENT OF FINANCIAL POSITION

June 30, 2019

(with comparative totals for June 30, 2018)

	June 30, 2019	June 30, 2018
ASSETS		
Cash and cash equivalents	$ 1,996,600	$ 2,562,541
Receivables		
Pledges receivable, net	156,535,925	156,336,595
Charitable trusts receivable	1,312,842	1,723,252
Other receivables, net	406,967	313,654
Total receivables	158,255,734	158,373,501
Investments	1,083,513,469	840,998,057
Land and buildings held for investment	682,280	679,478
Assets held under split-interest agreements	7,455,838	7,467,798
Property and equipment, net	5,954	8,707
Other assets	81,651	140,749
TOTAL ASSETS	$ 1,251,991,526	$ 1,010,230,831
LIABILITIES		
Accounts payable and other liabilities	$ 2,860,043	$ 1,947,948
Assets held for other entities	295,809,301	166,490,065
Obligations under split-interest agreements	2,655,272	3,209,187
TOTAL LIABILITIES	301,324,616	171,647,200
NET ASSETS		
Without donor restrictions	5,146,113	3,950,485
With donor restrictions		
Temporarily restricted	377,676,500	349,709,491
Permanently restricted	567,844,297	484,923,655
Total with donor restrictions	945,520,797	834,633,146
TOTAL NET ASSETS	950,666,910	838,583,631
TOTAL LIABILITIES AND NET ASSETS	$ 1,251,991,526	$ 1,010,230,831

See Notes to Financial Statements

ARIZONA STATE UNIVERSITY FOUNDATION
for A New American University

STATEMENT OF ACTIVITIES

Year Ended June 30, 2019

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

	Year Ended June 30, 2019					
	Without Donor Restrictions	With Donor Restrictions: Temporarily Restricted	Permanently Restricted	Subtotal	Total	Year Ended June 30, 2018
SUPPORT AND REVENUES						
Contributions	$ 8,209,562	$ 96,016,158	$ 84,277,123	$ 180,293,281	$ 188,502,843	$ 178,387,959
Change in estimate for uncollectible pledges	-	(2,237,000)	(936,000)	(3,173,000)	(3,173,000)	(5,617,000)
Change in present value discount	-	413,000	(2,005,000)	(1,592,000)	(1,592,000)	(771,000)
Net investment return (loss)	21,785	58,552,611	1,117,433	59,670,044	59,691,829	35,121,928
Service agreement revenue	11,350,467	-	-	-	11,350,467	10,258,068
Asset management fees	1,870,183	-	-	-	1,870,183	1,808,127
Rent	-	-	-	-	-	145,725
Program revenue and memberships	31,021	-	-	-	31,021	35,290
Other revenue	1,549,651	-	-	-	1,549,651	967,204
Reserves subsidy	-	-	-	-	-	552,617
Reclassification of donor intent and transfers	788,154	(1,255,240)	467,086	(788,154)	-	-
Net assets released from restrictions	123,522,520	(123,522,520)	-	(123,522,520)	-	-
TOTAL SUPPORT AND REVENUES	147,343,343	27,967,009	82,920,642	110,887,651	258,230,994	220,888,918
EXPENSES						
Payments for the benefit of the University:						
Directly to the University:						
Donations and reimbursements	95,251,676	-	-	-	95,251,676	91,959,712
Scholarships - ASU selected	9,537,726	-	-	-	9,537,726	8,957,661
To vendors on behalf of the University	11,473,318	-	-	-	11,473,318	8,976,019
Subtotal	116,262,720	-	-	-	116,262,720	109,893,392
Scholarships - Non ASU selected	162,476	-	-	-	162,476	126,345
Payments to other charitable entities	926,076	-	-	-	926,076	2,776,968
Total payments for the benefit of the University	117,351,272	-	-	-	117,351,272	112,796,705
Operating expenses:						
Salaries and benefits	11,214,943	-	-	-	11,214,943	10,593,706
Depreciation	2,753	-	-	-	2,753	15,624
Professional services	2,268,545	-	-	-	2,268,545	1,713,098
Other expense	6,115,291	-	-	-	6,115,291	3,597,246
Shared services	9,194,911	-	-	-	9,194,911	8,887,713
Total operating expenses	28,796,443	-	-	-	28,796,443	24,807,387
TOTAL EXPENSES	146,147,715	-	-	-	146,147,715	137,604,092
CHANGE IN NET ASSETS	1,195,628	27,967,009	82,920,642	110,887,651	112,083,279	83,284,826
NET ASSETS, BEGINNING OF PERIOD	3,950,485	349,709,491	484,923,655	834,633,146	838,583,631	755,298,805
NET ASSETS, END OF PERIOD	$ 5,146,113	$ 377,676,500	$ 567,844,297	$ 945,520,797	$ 950,666,910	$ 838,583,631

ARIZONA STATE UNIVERSITY FOUNDATION
for A New American University

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2019

(with comparative totals for year ended June 30, 2018, unaudited)

	Year Ended June 30, 2019			
EXPENSES	Program	Management & General	Fundraising	Total
Payments for the benefit of the University:				
Directly to the University:				
Donations and reimbursements	$ 95,251,676	$ -	$ -	$ 95,251,676
Scholarships - ASU selected	9,537,726	-	-	9,537,726
To vendors on behalf of the University	11,011,518	-	461,800	11,473,318
Subtotal	115,800,920	-	461,800	116,262,720
Scholarships - Non ASU selected	162,476	-	-	162,476
Payments to other charitable entities	926,076	-	-	926,076
Total payments for the benefit of the University	116,889,472	-	461,800	117,351,272
Operating expenses:				
Salaries and benefits	-	-	11,214,943	11,214,943
Depreciation	-	2,753	-	2,753
Professional services	-	289,047	1,979,498	2,268,545
Other expense	3,463,250	252,031	2,400,010	6,115,291
Shared services	-	9,194,911	-	9,194,911
Total operating expenses	3,463,250	9,738,742	15,594,451	28,796,443
TOTAL EXPENSES	$ 120,352,722	$ 9,738,742	$ 16,056,251	$ 146,147,715

	Year Ended June 30, 2018			
EXPENSES	Program	Management & General	Fundraising	Total
Payments for the benefit of the University:				
Directly to the University:				
Donations and reimbursements	$ 91,959,712	$ -	$ -	$ 91,959,712
Scholarships - ASU selected	8,957,661	-	-	8,957,661
To vendors on behalf of the University	8,474,394	-	501,625	8,976,019
Subtotal	109,391,767	-	501,625	109,893,392
Scholarships - Non ASU selected	126,345	-	-	126,345
Payments to other charitable entities	2,776,968	-	-	2,776,968
Total payments for the benefit of the University	112,295,080	-	501,625	112,796,705
Operating expenses:				
Salaries and benefits	-	-	10,593,706	10,593,706
Depreciation	-	15,624	-	15,624
Professional services	35,312	549,269	1,128,517	1,713,098
Other expense	1,158,708	64,873	2,373,665	3,597,246
Shared services	-	8,887,713	-	8,887,713
Total operating expenses	1,194,020	9,517,479	14,095,888	24,807,387
TOTAL EXPENSES	$ 113,489,100	$ 9,517,479	$ 14,597,513	$ 137,604,092

ARIZONA STATE UNIVERSITY FOUNDATION
for A New American University

STATEMENT OF CASH FLOWS

Year Ended June 30, 2019

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

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 112,083,279	$ 83,284,826
Adjustments to reconcile change in net assets to net cash		
provided by (used in) operating activities		
Change in present value discount on pledges receivable	1,592,000	771,000
Change in estimate for uncollectible pledges	3,173,000	5,617,000
Net realized and unrealized investment (gains) or losses	(59,689,027)	(35,121,791)
Net realized and unrealized (gains) or losses on land and buildings held for investment	(2,802)	(137)
Depreciation	2,753	15,624
Contributions restricted for long-term investment	(81,336,123)	(32,406,151)
Loss on disposal of property and equipment	-	45,166
(New) or terminated split-interest agreements	(225,917)	(174,126)
Change in present value of split-interest agreements	76,149	131,295
Changes in operating assets and liabilities:		
(Increase) / decrease in:		
Pledges receivable	16,172,901	(28,600,524)
Other receivables	506,686	540,712
Increase / (decrease) in:		
Accounts payable and other liabilities	912,096	(1,563,002)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(6,735,005)	(7,460,108)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	1,243,145,332	615,024,382
Purchases of investments	(1,411,579,136)	(636,001,216)
Purchases of property and equipment	-	100,000
Change in assets held for other entities	114,344,879	(8,052,803)
Change in other assets	59,097	432,366
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(54,029,828)	(28,497,271)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for long-term investment	60,198,892	35,878,888
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	60,198,892	35,878,888
NET CHANGE IN CASH AND CASH EQUIVALENTS	(565,941)	(78,491)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,562,541	2,641,032
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 1,996,600	$ 2,562,541
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Disposal of property and equipment	$ 29,707	$ 146,740

(1) Operations and summary of significant accounting policies

Operations – **Arizona State University Foundation for A New American University (Foundation or Organization)** is an Arizona nonprofit corporation and is recognized as a 501(c)(3) tax-exempt organization by the IRS. ASU Enterprise Partners (EP) serves as the sole member and parent and holding company of the Organization and is recognized as a 501(c)(3) tax-exempt organization by the IRS. The Organization supports Arizona State University (ASU or University) through raising, investing and managing private philanthropic gifts and serving as an advisor to the University President.

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

Basis of presentation – The financial statements have been prepared on the accrual basis of accounting according to the accounting principles generally accepted in the United States of America (U.S. GAAP). The financial position and activities are reported according to two classes of net assets: without donor restrictions and with donor restrictions.

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

Without Donor Restrictions – Includes net assets that are not subject to donor restrictions, as well as voluntary reserves associated with the operating activities of the Organization and any funds designated by the boards for various purposes.

With Donor Restrictions – Includes net assets that are subject to donor restrictions, which the Foundation has defined into two categories.

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 within net assets with donor restrictions. Expenditures that fulfill the temporary restriction are shown as expenses in net assets without donor restrictions and a reduction in net assets with donor restriction revenue as a release from restriction.

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 or socially responsible 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. If there are underwater endowments, the amount that the current value of the endowment is lower than corpus is shown as a reduction in net assets with donor restrictions.

Comparative financial information – The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Since prior-year information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP, such information should be read in conjunction with the Organization's audited financial statements as of and for the year ended June 30, 2018, from which the summarized information was derived.

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

Management's use of estimates – The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the 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, value of investment properties and estimated useful lives for depreciation of property and equipment.

Reclassifications – Certain amounts have been reclassified in the 2018 financial statements to conform to the presentation of the 2019 financial statements. Certain amounts have been reclassified in the 2018 consolidated financial statements to conform to the presentation of the 2019 consolidated financial statements. The reclassification includes $6,025,263 of underwater endowment funds that was reclassified from "unrestricted" to temporarily restricted within "with donor restrictions" as of June 30, 2018.

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 domestic financial institutions are insured up to the limits of the Federal Deposit Insurance Corporation (FDIC) and at times may exceed those limits.

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

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

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

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

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

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

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

- **Level 1 -** Quoted prices are available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

- **Level 2 -** Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. The nature of these securities include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed.

- **Level 3 -** Securities that have little to no pricing observability as of the report date. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

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

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

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

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 financial statements.

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

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

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

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

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

Impairment of long-lived assets – The Organization reviews the carrying value of its long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of assets to be held and used may not be recoverable. Upon determining that an asset is impaired, the Organization reports the asset at the lower of the carrying amount or fair value less the costs to sell. Management does not believe there are any indications of impairment of any long-lived assets at June 30, 2019 and 2018.

Contributions – Contributions received are recorded as without donor restrictions or with donor restrictions 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 financial statements. Donated services of volunteers are not recorded in the accompanying financial statements since they do not meet the recognition criteria.

Revenue recognition –The Organization adopted Accounting Standards Codification (ASC) number 606, Revenue from Contracts with Customers, on July 1, 2018 using the modified retrospective method. ASC 606 prescribes a five-step model that includes: (1) identify the contract; (2) identify the performance obligations; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations; and (5) recognize revenue when (or as) performance obligations are satisfied. Many of the Organization’s revenue streams were exempt from adoption (e.g. contributions) and due to the manner in which the Organization historically recognized revenue, ASC 606 did not have an impact on the amount or timing of revenue recognition, resulting in no adjustment to net assets upon adoption.

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

Revenue from exchange transactions, investment activities, rental and property management activities, management fees, other fees and non-contribution revenue are recognized when the transfer of risks and rewards of ownership and control pass to the customer. The Organization recognizes revenue at the agreed-upon amount stated in the contract for the aforementioned revenue transactions. Payments from customers are typically due upon receipt. For contracts that span over a period of time, revenue is recognized ratably over the term of the agreement or as the Organization achieves specified milestones.

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

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

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

Reclassification of donor intent – From time to time, the Organization receives requests by donors or their designees to change the use for which the donor's original gift was intended. These donor requests are considered by the Organization, and if approved, may result in the reclassification of net assets between without donor restrictions and with donor restrictions. These reclassifications are reflected in the statement of activities as reclassification of donor intent and transfers.

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

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

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

Tax positions taken related to the Organization's tax-exempt status and other miscellaneous tax positions have been reviewed. Management is of the opinion that material positions taken by the Organization would be upheld under examination. Accordingly, the Organization has not recorded an income tax liability for uncertain tax positions as of June 30, 2019 and 2018, and does not anticipate a significant change for the following twelve months. The Organization is subject to tax examination by the federal and Arizona state jurisdictions, which generally remain open for three and four years, respectively.

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

Recent accounting pronouncements:

In December 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This standard eliminates the transaction and industry-specific revenue recognition guidance. This standard creates a single, principle-based revenue recognition framework that requires entities to shift away from primarily rules-based U.S. GAAP and to apply significantly more judgment. With that increase in judgment, Topic 606 requires expanded disclosures surrounding revenue recognition. This new guidance is effective for fiscal years beginning after December 15, 2017, and can be early adopted in certain circumstances. In August 2015, the FASB issued Accounting Standards Update 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date.* This guidance defers the implementation date of Standard 2014-09, *Revenue from Contracts with Customers (Topic 606)* to reporting periods beginning after December 15, 2017 for public entities. The Organization adopted this standard during the year ended June 30, 2019. Upon adoption, there was no adjustment to opening net assets.

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

- Lessee Impact: The key impact to lessees is the requirement to show operating leases on the statement of financial position through recognizing a Right of Use (ROU) asset and liability, with the lease liability measured at the present value of the future lease payments and the asset measured at the lease liability adjusted for payments made before lease commencement and initial indirect costs. The leases would be classified into financing leases (recognize interest expense and amortization based on the interest method) and operating leases (recognize rent expense on a straight-line basis over the lease term).

- Lessor Impact: The impact to lessors is minimal, remaining similar to today's standards. For direct financing leases, recognize any loss up front, defer profit and account for investment in lease using the interest method, and for operating leases, recognize an asset sale and account for investment in the lease using the interest method of the lease term.

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

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 new guidance is effective for annual reporting periods beginning after December 15, 2017. The Organization adopted this standard during the year ended June 30, 2019.

(2) Liquidity and availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	2019	2018
Cash and cash equivalents	$ 1,996,600	$ 2,562,541
Unrestricted portion of net pledges receivable within 1 year	1,958,192	1,775,157
Other receivables, net within 1 year	406,967	313,654
Investments	-	-
Total liquidity and availability	$ 4,361,759	$ 4,651,352

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations become due. The Organization invests cash in excess of daily requirements in short-term investments and money market funds.

In addition to available financial assets, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover all general expenditures.

(3) Pledges receivable, net

Pledges receivable, discounted using rates ranging from 1.2% to 6.0%, consist of the following unconditional promises to give:

	2019	2018
Gross pledges receivable	$ 226,375,925	$ 221,411,595
Present value discount	(17,528,000)	(15,936,000)
Allowance for uncollectible pledges	(52,312,000)	(49,139,000)
Pledges receivable, net	$ 156,535,925	$ 156,336,595
Gross pledges are receivable as follows:		
Receivable in one year	$ 64,173,867	$ 56,917,333
Receivable in two to five years	63,775,614	60,888,134
Receivable after five years	98,426,444	103,606,128
Total gross pledges receivable	$ 226,375,925	$ 221,411,595

The Organization had conditional pledges receivable totaling $69.2 million and $38.3 million at June 30, 2019 and 2018, respectively; no amounts are included in the above pledges receivable balance. Conditional pledges receivable are recorded when the conditions are substantially met.

(4) 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:

	2019	2018
Accounts receivable, operations	$ 393,449	$ 304,005
Payroll and benefits receivable	8,068	6,687
Receivables from affiliates	5,450	2,962
Allowance for doubtful accounts	-	-
Total other receivables, net	$ 406,967	$ 313,654

Management provides for uncollectible amounts through a charge to earnings and a credit to the allowance for doubtful accounts based on its assessment of the current status of individual receivables. Management has determined that no allowance for uncollectible receivables as of June 30, 2019 and 2018 is needed.

(5) Investments

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

Investments consist of:

2019	LTIP	SRIP	STIP	Other	Total
Global equities	$ 354,305,332	$ -	$ -	$ 15,567,523	$ 369,872,855
Global fixed income	176,500,942	-	93,538,055	1,125,203	271,164,200
Diversifying strategies	111,671,838	-	-	-	111,671,838
Real assets	121,138,030	-	-	521,293	121,659,323
Private capital	85,844,784	-	-	-	85,844,784
Cash and cash equivalents	1,060,046	100,018,173	21,037,995	1,184,255	123,300,469
Total investments	$ 850,520,972	$ 100,018,173	$ 114,576,050	$ 18,398,274	$ 1,083,513,469

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

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

(5) Investments (continued)

2019	Level 1	Level 2	Level 3	NAV	Total
Global equities	$ 239,683,807	$ -	$ 105,583,920	$ 24,605,128	$ 369,872,855
Global fixed income	165,843,020	6,212,820	16,869,765	82,238,595	271,164,200
Diversifying strategies	3,826	-	12,120,890	99,547,122	111,671,838
Real assets	37,326,499	-	84,332,824	-	121,659,323
Private capital	149	-	83,508,182	2,336,453	85,844,784
Cash and cash equivalents	123,278,102	-	22,367	-	123,300,469
Total investments	$ 566,135,403	$ 6,212,820	$ 302,437,948	$ 208,727,298	$ 1,083,513,469

2018	Level 1	Level 2	Level 3	NAV	Total
Global equities	$ 240,388,514	$ -	$ 99,074,392	$ 26,023,298	$ 365,486,204
Global fixed income	153,555,314	11,203,035	9,388,468	25,134,827	199,281,644
Diversifying strategies	19,456,834	-	3,782,498	87,993,766	111,233,098
Real assets	25,504,359	-	62,756,120	-	88,260,479
Private capital	3,931,163	-	51,372,367	6,419,950	61,723,480
Cash and cash equivalents	14,967,567	-	45,585	-	15,013,152
Total investments	$ 457,803,751	$ 11,203,035	$ 226,419,430	$ 145,571,841	$ 840,998,057

Certain investments are valued using NAV and are reported at the net asset values calculated by the investment manager. These investments, at June 30, 2019, 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	$ 24,605,128	$ -	Monthly to quarterly	Daily - 30 days
Global fixed income	82,238,595	-	Monthly	Daily - 60 days
Diversifying strategies	99,547,122	-	Monthly to every 2 years	3 - 90 days
Real assets	-	-	Not available	
Private capital	2,336,453	-	Not available	
Total	$ 208,727,298	$ -		

Level 3 investments have unfunded commitments of $105.5 million as of June 30, 2019.

(5) Investments (continued)

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

2019	Beginning Balance	Realized or Unrealized (Losses)	Purchases	Sales	Ending Balance
Global equities	$ 99,074,392	$ 6,825,471	$ -	$ (315,943)	$ 105,583,920
Global fixed income	9,388,468	400,623	8,419,782	(1,339,108)	16,869,765
Diversifying strategies	3,782,498	(311,464)	11,000,439	(2,350,583)	12,120,890
Real assets	62,756,120	24,109,130	11,152,312	(13,684,738)	84,332,824
Private capital	51,372,367	9,973,553	38,294,357	(16,132,095)	83,508,182
Cash and cash equivalents	45,585	-	85,000	(108,218)	22,367
Total Level 3	$ 226,419,430	$ 40,997,313	$ 68,951,890	$ (33,930,685)	$ 302,437,948

2018	Beginning Balance	Realized or Unrealized (Losses)	Purchases	Sales	Ending Balance
Global equities	$ 89,477,034	$ 10,632,196	$ 7,987	$ (1,042,825)	$ 99,074,392
Global fixed income	7,931,994	77,043	2,452,296	(1,072,865)	9,388,468
Diversifying strategies	13,301,759	1,147,130	358,945	(11,025,336)	3,782,498
Real assets	65,155,592	2,352,181	12,344,054	(17,095,707)	62,756,120
Private capital	48,049,406	2,818,838	9,389,641	(8,885,518)	51,372,367
Cash and cash equivalents	28,113	(36,788)	125,000	(70,740)	45,585
Total Level 3	$ 223,943,898	$ 16,990,600	$ 24,677,923	$ (39,192,991)	$ 226,419,430

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

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

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

(5) Investments (continued)

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

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

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

(6) Land and buildings held for investment

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

Land and buildings held for investment includes:

	2019	2018
Copper Mine	$ 633,000	$ 633,000
Other gifted properties	49,280	46,478
Total land and buildings held for investment	$ 682,280	$ 679,478

(7) Endowment and net asset classifications

Management of the Organization's endowments is governed by laws in the state of Arizona based on the Uniform Prudent Management of Institutional Funds Act (the statute). The Organization has interpreted the statute as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (within net assets with donor restrictions): (a) the original value of gifts donated to the permanent endowment; (b) the original value of subsequent gifts to the permanent endowment; and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level required to be held in perpetuity. For these funds, the change in value is shown as net investment return within net assets with donor restrictions and is reported in net assets with donor restrictions.

(7) Endowment and net asset classifications (continued)

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

		With Donor Restrictions		
2019	**Without Donor Restrictions**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowments	$ -	$ 62,088,770	$ 496,391,365	$ 558,480,135
Quasi-endowments	-	81,562,295	-	81,562,295
Total funds	$ -	$ 143,651,065	$ 496,391,365	$ 640,042,430

		With Donor Restrictions		
2018	**Without Donor Restrictions**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowments	$ (6,025,264)	$ 43,516,815	$ 434,558,258	$ 472,049,809
Quasi-endowments	-	81,154,169	-	81,154,169
Total funds	$ (6,025,264)	$ 124,670,984	$ 434,558,258	$ 553,203,978

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

	2019	**2018**
ASU Trust	$ 250,355,514	$ 137,372,341
ASU Alumni Associataion	18,942,711	17,500,031
Total assets held for other entities	$ 269,298,225	$ 154,872,372

The associated financial statements include a non-endowed asset held for others in the amount of $26,511,076 and $11,617,693 as June 30, 2019 and 2018, respectively that is not included in the above totals.

The Organization's endowment is invested in the LTIP and SRIP. The Organization's investment policies for the LTIP and SRIP 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.

(7) 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. The inflation rate used for 2019 was 1.9% and for 2018 was 2.1%. The cap and floor were based on 4.25% and 3.25% for both 2019 and 2018, respectively. 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.

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

		With Donor Restrictions		
2019	**Without Donor Restriction**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment Net Assets, June 30, 2018	$ (6,025,264)	$ 124,670,984	$ 434,558,258	$ 553,203,978
Adjustment due to reclassification	6,025,264	(6,025,264)	-	-
Contributions and other additions	-	1,447,324	60,248,590	61,695,914
Investment return:				
Interest and Dividends	-	8,294,900	441,052	8,735,952
Net realized and unrealized gains or (losses)	-	62,517,705	1,191,298	63,709,003
Assets due to others	-	(20,824,761)	-	(20,824,761)
Total investment return	-	49,987,844	1,632,350	51,620,194
Appropriation for expenditure	-	(26,475,136)	(514,917)	(26,990,053)
Reclassification of donor intent	-	45,313	467,084	512,397
Endowment Net Assets, June 30, 2019	$ -	$ 143,651,065	$ 496,391,365	$ 640,042,430

		With Donor Restriction		
2018	**Without Donor Restriction**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment Net Assets, June 30, 2017	$ (7,012,802)	$ 117,654,904	$ 397,256,437	$ 507,898,539
Contributions and other additions	-	5,779,790	35,878,888	41,658,678
Investment return:				
Interest and Dividends	-	7,443,318	424,205	7,867,523
Net realized and unrealized gains or (losses)	987,538	30,777,807	1,026,945	32,792,290
Assets due to others	-	(12,895,779)	-	(12,895,779)
Total investment return	987,538	25,325,346	1,451,150	27,764,034
Appropriation for expenditure	-	(25,010,722)	(526,612)	(25,537,334)
Reclassification of donor intent	-	921,666	498,395	1,420,061
Endowment Net Assets, June 30, 2018	$ (6,025,264)	$ 124,670,984	$ 434,558,258	$ 553,203,978

(8) Assets held under split-interest agreements

The Organization is currently the beneficiary of certain charitable remainder trusts (CRT) where the Organization is the trustee. The Organization also administers certain charitable gift annuities (CGA). The CRT's and CGA's provide for the payment of distributions to the grantor or other designated beneficiaries over the trust's or annuity's term (usually the designated beneficiary's lifetime). At the end of the CRT's or CGA's term, the remaining assets are available for use by the Organization as specified by the grantor. The portion of the trust attributable to the present value of the future benefits to be received by the Organization is recorded as a temporarily restricted contribution (within net assets with donor restrictions) 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 Organization 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 statement of activities. The present value of the estimated payments for the trusts and annuities, shown below, is calculated using a discount rate of 2.8% for 2019 and 3.4% for 2018, and is based on mortality expectations found in the IRS Actuarial Valuations Publication.

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

Assets held under split-interest agreements consist of:

	2019	2018
Charitable gift annuities		
Equities	$ 3,616,363	$ 3,787,338
Fixed income	1,455,247	1,253,543
Other	73,913	96,653
	5,145,523	5,137,534
Charitable remainder trusts		
Equities	871,901	962,456
Fixed income	767,050	743,662
Other	31,916	40,829
	1,670,867	1,746,947
Life insurance	639,448	583,317
Total assets held under split-interest agreements	$ 7,455,838	$ 7,467,798

Obligations under split-interest agreements consist of:

	2019	2018
Charitable gift annuities	$ 1,969,205	$ 2,392,838
Charitable remainder trusts	686,067	816,349
Total obligations under split-interest agreements	$ 2,655,272	$ 3,209,187

(9) Property and equipment, net

Property and equipment consist of:

		2019		2018
Cost:				
Building fixtures		628,288		38,464
Equipment				
Information systems		3,492,374		3,492,374
Other equipment		-		619,532
Total cost		4,120,662		4,150,370
Accumulated depreciation		(4,114,708)		(4,141,663)
Total property and equipment, net	$	5,954	$	8,707

Depreciation expense charged to operations totaled $2,753 and $15,624 for the years ended 2019 and 2018, respectively.

(10) Accounts payable and other liabilities

Accounts payable and other liabilities consist of:

		2019		2018
Accrued expenses	$	1,049,376	$	979,127
General accounts payable		859,744		(25,744)
Payroll liabilities		950,923		994,565
Total accounts payable and other liabilities	$	2,860,043	$	1,947,948

(11) Net assets with donor restrictions

Temporarily and permanently restricted net assets (within net assets with donor restrictions) are available for the following purposes:

	2019		2018	
	With Donor Restriction		With Donor Restriction	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Academic support	$ 65,892,791	$ 165,363,589	$ 60,394,061	$ 137,705,406
Athletics	11,540,220	4,071,122	14,473,504	4,370,662
Capital	21,803,236	-	24,011,106	-
Discretionary use for ASU	20,278,497	18,638,856	18,446,463	18,663,675
Faculty	39,912,526	129,429,656	34,498,775	114,231,580
Financial aid	75,004,948	160,586,937	64,100,884	155,927,224
Library	1,315,802	1,820,752	1,225,362	1,820,467
Miscellaneous	4,835,587	137,557	6,442,812	137,557
Operations and maintenance	618,253	-	1,064,899	-
Research	60,397,908	43,347,674	57,567,681	19,477,294
Specific programs	107,711,732	82,653,154	103,320,207	67,853,791
Pledge reserve and discount	(31,635,000)	(38,205,000)	(29,811,000)	(35,264,000)
Total restricted net assets	$ 377,676,500	$ 567,844,297	$ 355,734,754	$ 484,923,656

Due to the reclassification of the underwater endowment, the ending balance of temporarily restricted net assets at June 30, 2018 is $6,025,264 higher than the beginning balance of temporarily restricted net assets at July 1, 2018.

(12) Net investment return (loss)

Net investment return (loss) consists of:

		With Donor Restrictions		
2019	Without Donor Restriction	Temporarily Restricted	Permanently Restricted	Total
Dividends & Interest	$ -	$ 11,730,552	$ 441,052	$ 12,171,604
Change in Value of Split Interest Agreements	20,326	581,776	-	602,102
Net realized gain/(loss)	-	46,158,597	558,365	46,716,962
Net unrealized gain/(loss)	1,459	17,848,353	156,895	18,006,707
Change in assets due to others	-	(14,974,357)	-	(14,974,357)
Investment management fees	-	(2,792,310)	(38,879)	(2,831,189)
Net investment return (loss)	$ 21,785	$ 58,552,611	$ 1,117,433	$ 59,691,829

(12) Net investment return (loss) (continued)

2018	Without Donor Restriction	With Donor Restrictions: Temporarily Restricted	With Donor Restrictions: Permanently Restricted	Total
Dividends & Interest	$ 46	$ 9,053,903	$ 424,205	$ 9,478,154
Change in Value of Split Interest Agreements	39,968	116,267	-	156,235
Net realized gain/(loss)	-	15,098,377	854,429	15,952,806
Net unrealized gain/(loss)	987,414	21,104,353	(316,527)	21,775,240
Change in assets due to others	-	(9,425,668)	-	(9,425,668)
Investment management fees	-	(2,777,269)	(37,570)	(2,814,839)
Net investment return (loss)	$ 1,027,428	$ 33,169,963	$ 924,537	$ 35,121,928

(13) Other revenue

Other revenue consists of:

	2019	2018
ASU program support	$ 498,006	$ 429,941
Insurance reimbursement	292,330	179,716
Miscellaneous	759,315	357,547
Total other revenue	$ 1,549,651	$ 967,204

(14) Net assets released from restrictions

Net assets were released from restriction for the following purposes:

	2019	2018
Academic support	$ 12,830,567	$ 12,430,894
Athletics	4,512,939	4,348,834
Capital	8,111,796	6,186,801
Discretionary use for ASU	564,742	1,672,860
Faculty	4,099,663	4,658,308
Financial aid	10,651,142	9,040,910
Library	115,714	73,252
Miscellaneous	10,184,092	8,174,627
Operations and Maintenance	594,578	374,146
Research	31,740,088	32,056,843
Specific University programs	40,117,199	39,772,251
Total net assets released from restrictions	$ 123,522,520	$ 118,789,726

(15) Retirement plan

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

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

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

The second component of the Plan is the employer discretionary matching of employee contributions by the Organization. The Organization matches 50% of the employee's contribution, not to exceed 3% of the employee's compensation. The Organization’s matching contributions to the Plan were approximately $223,000 and $207,000 for the years ended June 30, 2019 and 2018, respectively.

The third component of the Plan provides for employer discretionary contributions by the Organization. The annual contribution for the year ended June 30, 2019 was 4% of compensation for all eligible employees. The Organization’s discretionary contributions were approximately $322,000 and $301,000 for the years ended June 30, 2019 and 2018, respectively.

Employer contributions vest evenly over five years.

(16) Related party transactions

From time to time, the Organization may receive or transfer cash to or from related entities. Contributions from these entities are reflected in contributions and were $5,250,831 and $268,786 in fiscal years ended 2019 and 2018, respectively. Donations to related entities are reflected in other expense and were $3,570,000 and $1,239,000 in 2019 and 2018, respectively. Service provided by a related entity were $387,201 and $250,000 in fiscal years ended 2019 and 2018, respectively.

During fiscal years 2019 and 2018, the Organization recognized contribution revenue from the members of the Organization’s Board of Directors of approximately $1,091,250 and $272,000, respectively. At June 30, 2019 and 2018, net unconditional pledges receivable from the members of the Foundation’s Board of Directors were approximately $887,500 and $875,000, respectively.

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

For the financial and non-financial instruments, except for investments, noted throughout the accompanying 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:

2019	Level 1	Level 2	Level 3
Assets at fair value (recurring basis)			
Charitable trusts receivable	$ -	$ -	$ 1,312,842
Land and buildings held for investment	-	-	682,280
Assets held under split interest agreements	7,455,838	-	-
Total assets at fair value	$ 7,455,838	$ -	$ 1,995,122
Liabilities at fair value (recurring basis)			
Assets held for other entities	$ -	$ -	$ 295,809,301
Total liabilities at fair value	$ -	$ -	$ 295,809,301
2018			
Assets at fair value (recurring basis)			
Charitable trusts receivable	$ -	$ -	$ 1,723,252
Land and buildings held for investment	-	-	679,478
Assets held under split interest agreements	7,467,798	-	-
Total assets at fair value	$ 7,467,798	$ -	$ 2,402,730
Liabilities at fair value (recurring basis)			
Assets held for other entities	$ -	$ -	$ 166,490,065
Total liabilities at fair value	$ -	$ -	$ 166,490,065

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

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

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

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

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

2019	Beginning Balance	Restructure Transfer	Total realized or unrealized gains or (losses)	Purchases & (Sales), Net	Ending Balance
Level 3 assets					
Charitable trusts receivable	$ 1,723,252	$ -	$ 189,590	$ (600,000)	$ 1,312,842
Land/Buildings held for investmen	679,478	-	2,802	-	682,280
Total Level 3 assets	$ 2,402,730	$ -	$ 192,392	$ (600,000)	$ 1,995,122
Level 3 liabilities					
Assets held for other entities	$ 166,490,065	$ -	$ 129,319,236	$ -	$ 295,809,301
Total Level 3 liabilities	$ 166,490,065	$ -	$ 129,319,236	$ -	$ 295,809,301

2018	Beginning Balance	Restructure Transfer	Total realized or unrealized gains or (losses)	Purchases & (Sales), Net	Ending Balance
Level 3 assets					
Charitable trusts receivable	$ 2,484,933	$ -	$ (161,681)	$ (600,000)	$ 1,723,252
Land/Buildings held for investmen	679,341	-	137	-	679,478
Total Level 3 assets	$ 3,164,274	$ -	$ (161,544)	$ -	$ 2,402,730
Level 3 liabilities					
Assets held for other entities	$ 165,117,200	$ -	$ 1,372,865	$ -	$ 166,490,065
Total Level 3 liabilities	$ 165,117,200	$ -	$ 1,372,865	$ -	$ 166,490,065

(18) Litigation

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

(18) Litigation (continued)

On January 17, 2017, Altela brought a Demand for Arbitration (Demand) with the American Arbitration Association against SI and the Foundation. The Demand, like the previous district court complaint, asserts against SI causes of action for breach of the Agreement, breach of the implied covenant of good faith and fair dealing, interference with contract/business relationships/business expectancies, and unjust enrichment, and seeks damages, including punitive damages, costs, interest, and attorneys' fees. On February 14, 2017, SI filed an Answering Statement and Counterclaims for breach of the Agreement and breach of the covenant of good faith and fair dealing. On July 24, 2017, the three-arbitrator panel issued a scheduling order setting, among other things, a fact discovery deadline of February 23, 2018, an expert discovery deadline of May 4, 2018, and a final hearing to be conducted on June 18-22, 2018. On April 16, 2018, the arbitration panel issued an order of dismissal that dismissed Altela's claims against the Foundation, but not SI. The Foundation was dismissed from the action with prejudice.

With respect to SI, the final hearing took place on June 18-22, 2018 and a closing argument took place on July 16, 2018. On October 18, 2018 the arbitration panel issued its final award. The panel denied Altela's claims against SI and awarded SI $5,897,671 in underpaid royalties, interest, attorneys' fees, costs and disbursements.

On November 21, 2018, the District Court for the District of Arizona entered an order confirming the award. SI has not collected on the judgment from Altela, which SI understands is now dissolved pursuant to Section 275(a) of the General Corporation Law of the State of Delaware. Most of the legal expenses for defense of this suit were covered by insurance and have been reimbursed.

University professor's claim: On February 29, 2016, a University professor filed a lawsuit in Maricopa County Superior Court against the Arizona Board of Regents (ABOR) and thirteen individual defendants. The professor's lawsuit focuses principally on what she considers to be a demotion in stature of her position assignment and reduction in her funding and her office space after she "blew the whistle" in June 2014, complaining of alleged gross waste, mismanagement and unethical practices, among other things. The professor named the then President and Chief Executive Officer (CEO) for the Foundation and the CEO, Chief Legal Officer and a member of the Board of Directors of SI. The professor alleges that the individually named defendants acted in their personal capacities to breach her contract with ABOR and retaliate against her with respect to her employment with ABOR/the University. On August 3, 2017, the Court dismissed all the individual defendants from the professor's complaint for failure to state a claim upon which relief may be granted. However, the Court granted the professor the right to amend her complaint to assert a couple of new claims against the individual defendants as well as SI. On July 7, 2018, the Court again dismissed, without prejudice, all defendants from the lawsuit. The professor then moved for leave to amend her complaint to file a Third Amended Complaint. The Court denied the professor's motion and entered a final order as to all defendants. The professor filed an appeal with the Arizona Court of Appeals arguing the Superior Court improperly dismissed her Complaints and abused its discretion in denying her leave to amend to file a Third Amended Complaint. The matter is currently being briefed to the Arizona Court of Appeals. It is not known yet whether the Arizona Court of Appeals will schedule oral argument.

At this time, the Foundation is not a named or potential party to this litigation. Further, the current President and Chief Executive Officer of the Foundation is not a named or potential party to this litigation. The Foundation has no current or pending involvement with this matter.

(18) Litigation (continued)

Alleged wrongful dismissal: This matter involves a former employee of the Foundation who asserts that she was terminated in retaliation for taking leave under the Family Medical Leave Act, and retaliated against for requesting accommodations under the Americans With Disabilities Act. On or about May 29, 2019, the employee filed a discrimination charge with the Equal Employment Opportunity Commission (EEOC), but the investigation is stayed pending a potential mediation in the case. The Foundation will defend the employment decisions it made with respect to the employee's employment, and does not believe that it discriminated against her in any way. The Foundation, however, is willing to engage in conversation to determine if the matter can be resolved. It is too early at this stage to provide an evaluation of the likelihood of an unfavorable outcome or a precise range of the potential loss.

(19) Subsequent events

The Foundation evaluated subsequent events through August 30, 2019, which is the date these financial statements were issued. No significant events were identified that needed disclosure.