THE ARIZONA COMMUNITY FOUNDATION, INC.
AND
SUPPORT FOUNDATIONS

COMBINED FINANCIAL STATEMENTS

Year Ended March 31, 2017

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CONTENTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

**THE ARIZONA COMMUNITY FOUNDATION, INC.
AND SUPPORT FOUNDATIONS**

We have audited the accompanying combined financial statements of ***The Arizona Community Foundation, Inc. and Support Foundations****,* which comprise the combined statement of financial position as of March 31, 2017, and the related combined statements of activities, and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 the combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of ***The Arizona Community Foundation, Inc. and Support Foundations***, as of March 31, 2017, 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.

Report on Summarized Comparative Information

We have previously audited ***The Arizona Community Foundation, Inc. and Support Foundations'*** 2016 combined financial statements, and we expressed an unmodified opinion on those combined financial statements in our report dated October 3, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2016, is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

Mayer Hoffman McCann P.C.

October 24, 2017

THE ARIZONA COMMUNITY FOUNDATION, INC.
AND
SUPPORT FOUNDATIONS

COMBINED STATEMENT OF FINANCIAL POSITION

March 31, 2017
(with comparative totals at March 31, 2016)

A S S E T S

	2017	2016
CASH AND CASH EQUIVALENTS	$ 4,723,699	$ 4,601,285
RECEIVABLES, net	28,964,676	32,327,406
PREPAID EXPENSES AND OTHER ASSETS	358,967	303,515
INVESTMENTS	757,345,292	673,391,890
SPLIT INTEREST AGREEMENTS		
Charitable remainder trusts	25,376,459	22,479,365
Beneficial interest in charitable remainder trusts	5,419,348	5,011,569
Charitable gift annuities	1,786,398	1,719,586
Charitable lead trusts	1,104,944	1,372,140
Beneficial interest in life estate	220,000	220,000
TOTAL SPLIT INTEREST AGREEMENTS	33,907,149	30,802,660
PROPERTY AND EQUIPMENT, net	5,307,401	5,194,044
TOTAL ASSETS	$ 830,607,184	$ 746,620,800

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

	2017	2016
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	$ 3,286,846	$ 1,137,123
GRANTS PAYABLE	7,376,205	11,472,588
PRESENT VALUE OF ANNUITY PAYMENTS		
Charitable remainder trusts	14,838,280	13,421,572
Charitable gift annuities	1,865,283	2,031,796
TOTAL PRESENT VALUE OF ANNUITY PAYMENTS	16,703,563	15,453,368
DEFERRED RENT	811,213	824,869
PROGRAMMATIC REVOLVING LOANS	2,425,000	1,400,000
AGENCY FUNDS	77,173,228	66,715,777
TOTAL LIABILITIES	107,776,055	97,003,725
NET ASSETS		
Unrestricted		
Controlling interest	705,085,248	632,968,058
Noncontrolling interest	461,493	595,015
Total unrestricted	705,546,741	633,563,073
Temporarily restricted	17,284,388	16,054,002
TOTAL NET ASSETS	722,831,129	649,617,075
TOTAL LIABILITIES AND NET ASSETS	$ 830,607,184	$ 746,620,800

THE ARIZONA COMMUNITY FOUNDATION, INC.
AND
SUPPORT FOUNDATIONS

COMBINED STATEMENT OF ACTIVITIES

Year Ended March 31, 2017
(with comparative totals for the year ended March 31, 2016)

	Unrestricted	Temporarily Restricted	Totals 2017	Totals 2016
CONTRIBUTIONS, REVENUES AND OTHER SUPPORT				
Contributions	$ 66,651,199	$ 422,489	$ 67,073,688	$ 122,090,575
Interest and dividend income	11,021,724	-	11,021,724	11,155,405
Realized/unrealized investment gains (losses)	58,736,267	-	58,736,267	(23,862,164)
Change in split interest agreements	(1,398,254)	2,863,364	1,465,110	(785,784)
Administrative and trustee fee revenues	649,103	-	649,103	1,641,020
Rental income	1,178,058	-	1,178,058	768,854
Other income	235,600	-	235,600	300,342
Total contributions, revenues and other support before net assets released from restrictions	137,073,697	3,285,853	140,359,550	111,308,248
Net assets released from restrictions	2,055,467	(2,055,467)	-	-
TOTAL CONTRIBUTIONS, REVENUES AND OTHER SUPPORT	139,129,164	1,230,386	140,359,550	111,308,248
EXPENSES				
Program expenses:				
Grants	45,264,158	-	45,264,158	48,965,837
Other program expenses	9,505,465	-	9,505,465	10,504,763
Total program expenses	54,769,623	-	54,769,623	59,470,600
Management and general	8,907,904	-	8,907,904	8,526,744
Fundraising	3,467,969	-	3,467,969	3,108,638
TOTAL EXPENSES	67,145,496	-	67,145,496	71,105,982
CHANGE IN NET ASSETS	71,983,668	1,230,386	73,214,054	40,202,266
NET ASSETS, BEGINNING OF YEAR	633,563,073	16,054,002	649,617,075	609,414,809
NET ASSETS, END OF YEAR	$ 705,546,741	$ 17,284,388	$ 722,831,129	$ 649,617,075

THE ARIZONA COMMUNITY FOUNDATION, INC.
AND
SUPPORT FOUNDATIONS

COMBINED STATEMENT OF CASH FLOWS

Year Ended March 31, 2017
(with comparative totals for the year ended March 31, 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 73,214,054	$ 40,202,266
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Donated real estate investments	(10,750,000)	(10,623,000)
Realized/unrealized investment (gains) losses	(58,736,267)	23,862,164
Provision for uncollectible pledges receivable	1,183,511	1,100,000
Change in split interest agreements and present value of annuity payments, net	(1,854,294)	1,697,052
Change in discount on notes receivable	144,883	(13,046)
Change in discount on grants payable	2,296	(16,774)
Depreciation and amortization	307,506	268,000
Loss on disposal of property and equipment	24,248	29,361
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivables	2,060,473	(14,449,288)
Prepaid expenses and other assets	(55,452)	54,575
Increase (decrease) in:		
Accounts payable and accrued expenses	2,149,723	(293,498)
Grants payable	(4,098,679)	2,823,810
Deferred rent	(13,656)	(114,562)
Agency funds	2,708,072	8,083,183
Net cash provided by operating activities	6,286,418	52,610,243
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	294,433,652	115,948,991
Collections on notes receivable	1,723,863	753,916
Purchases of investments	(301,151,408)	(172,768,627)
Issuance of notes receivable	(1,750,000)	(805,000)
Purchases of property and equipment	(445,111)	(158,381)
Net cash used in investing activities	(7,189,004)	(57,029,101)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from programmatic revolving loans	1,025,000	-
Net cash provided by financing activities	1,025,000	-
NET CHANGE IN CASH AND CASH EQUIVALENTS	122,414	(4,418,858)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,601,285	9,020,143
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 4,723,699	$ 4,601,285
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING ACTIVITIES		
Realized/unrealized gains (losses) on agency fund investments	$ 7,749,379	$ (3,060,565)
Donated real estate investments	$ 10,750,000	$ 10,623,000

See Notes to Combined Financial Statements

(1) Foundations' operations and summary of significant accounting policies

Nature of operations – ***The Arizona Community Foundation, Inc.*** (the "Foundation") is incorporated in Arizona as a tax-exempt, nonprofit, publicly supported, nonsectarian philanthropic institution with a long-term goal of building permanent, named component funds established by many separate donors for the primary charitable benefit of the residents of Arizona.

The ***Support Foundations*** ("Support Foundations") are separate Arizona tax-exempt public organizations. They operate exclusively to receive and administer funds for charitable, benevolent, scientific and educational purposes. The Support Foundations consist of the following entities:

- AFC Public Foundation
- Armstrong Family Foundation
- Arizona Foundation for Women
- Burton Family Foundation
- Ellis Center for Educational Excellence
- Evans Charitable Foundation
- First Baptist Church of Phoenix Foundation
- Sam & Peggy Grossman Family Foundation
- R. S. Hoyt Jr. Family Foundation
- Ingebritson Family Foundation
- Molly Lawson Foundation
- Lippincott Family Foundation
- Lodestar Charitable Foundation
- Richard A. Odom Family Foundation
- Odom Family Foundation
- Pakis Family Foundation
- Edward J. Robson Family Foundation
- Rodel Charitable Foundation – AZ
- Silverman Family Foundation
- Jim Troxell Foundation
- James A. Unruh Family Foundation
- Vogel Charitable Foundation
- WAZE Foundation
- Wellik Foundation and Subsidiary
- Robert J. Wick Family Foundation
- Walter M. Wick Family Foundation

Effective April 1, 2016, the Foundation formed a new support organization Arizona Foundation for Women ("AFW") and acquired the assets of another nonprofit organization. No consideration was paid in exchange for the assets. The impact of the merger resulted in the nonprofit organization liquidating their assets and liabilities, with the net assets in cash and property being transferred to AFW. AFW will not assume any business or non-profit activities of the nonprofit organization. As such, the merger does not constitute a business combination and has been recognized by the Foundation as a contribution. Accordingly, the Foundation has recognized $1,037,621 of contribution revenue, which was valued at the estimated net assets expected to be received in the form of cash upon liquidation, reduced by any liabilities assumed.

(1) Foundations' operations and summary of significant accounting policies (continued)

During 2016, Youth Partners Foundation acquired the assets of another nonprofit organization and currently changed its legal name to Vogel Charitable Foundation. The impact of the merger resulted in the nonprofit organization liquidating their assets and liabilities, with the net assets in cash and property being transferred to the Foundation. The Foundation will not assume any business or non-profit activities of the nonprofit organization. As such, the merger does not constitute a business combination and has been recognized by the Foundation as a contribution. Accordingly, the Foundation has recognized $1,248,000 of contribution revenue, which was valued at the estimated net assets expected to be received in the form of cash upon liquidation.

The significant accounting policies followed by the Foundation and the Support Foundations are as follows:

The Financial Accounting Standards Board ("FASB") sets accounting principles generally accepted in the United States of America ("GAAP") to ensure consistent reporting. References to GAAP are to the *FASB Accounting Standards Codification ("ASC")*.

Combined financial statements – The Foundation has an economic interest in and control over the Support Foundations. The combined financial statements include the accounts of the Foundation and the Support Foundations (collectively referred to as the "Foundation"). All of the financial activities and balances of these organizations are included in the combined financial statements. All significant inter-organization accounts and transactions have been eliminated in combination.

During the year ended March 31, 2008, the Wellik Foundation received 100% of the voting stock of a C-corporation which operates a dude ranch in the state of Arizona. Under FASB ASC 958-810-3, *Not-for-Profit Entities – Consolidations*, consolidation is required. The accounts of this operation have been consolidated with the Wellik Foundation and are included in the combined financial statements. All significant inter-organization accounts and transactions have been eliminated. The corporation has issued two classes of stock: Class A which has voting rights and Class B which has limited rights for a period of twenty years at which time the shares have the same rights as Class A. The Class B stock is owned by an unrelated party. As a result, the unrelated party's ownership of the Class B stock is disclosed as a noncontrolling interest in the combined financial statements.

The reconciliation of the change in controlling and noncontrolling net assets is as follows:

	Controlling Interest		Noncontrolling	
	Unrestricted	Temporarily Restricted	Unrestricted Interest	Totals
March 31, 2016	$ 632,968,058	$ 16,054,002	$ 595,015	$ 649,617,075
Change in net assets	72,117,190	1,230,386	(133,522)	73,214,054
March 31, 2017	$ 705,085,248	$ 17,284,388	$ 461,493	$ 722,831,129

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

Basis of presentation – The accompanying combined financial statements are presented in accordance with FASB ASC 958-205, *Not-for-Profit Entities – Presentation of Financial Statements.* Under FASB ASC 958-205, the Foundation is required to report information regarding its combined financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Foundation had no permanently restricted net assets at March 31, 2017 and 2016.

Prior year summarized information – The combined financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's combined financial statements for the year ended March 31, 2016 from which the summarized information was derived.

Management's use of estimates – The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Contributions – The Foundation accounts for contributions in accordance with FASB ASC 958-605*, Not-for-Profit Entities – Revenue Recognition*. In accordance with FASB ASC 958-605, contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily or permanently restricted net assets are reclassified to unrestricted net assets and reported in the combined statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Foundation reports the support as unrestricted. Three donors comprised 45% of total contributions for the year ended March 31, 2017. One donor comprised 45% of total contributions for the year ended March 31, 2016.

Donated assets – Assets and other non-cash items donated to the Foundation are recorded as contributions at their estimated fair value at the date of donation. Assets donated with explicit restrictions regarding the timing or purpose of their use and contributions of cash that must be used to acquire long lived assets are reported as restricted contributions. The Foundation records donations of property and equipment that are not restricted as to their use by the donor as unrestricted contributions and increases in unrestricted net assets.

Cash and cash equivalents – For purposes of reporting cash flows, cash and cash equivalents include liquid accounts with original maturities of three months or less that are not designated for investment purposes. Investments carried at market value include certain liquid accounts which are generally not used in operations. Deposits at each institution are insured in limited amounts by the Federal Deposit Insurance Corporation ("FDIC").

(1) Foundations' operations and summary of significant accounting policies (continued)

Promises to give – Unconditional promises to give that are to be collected within one year are recorded at net realizable value. Unconditional promises to give 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 a present value discount technique. In periods subsequent to initial recognition, unconditional promises to give are reported at the amount management expects to collect and are discounted over the collection period using the same discount rate as determined at the time of initial recognition. The discount rate determined at the initial recognition of the unconditional promise to give is based upon management's assessment of many factors, including when the receivable is expected to be collected, the creditworthiness of the donors, the Foundation's past collection experience and its policies concerning the enforcement of promises to give, expectations about possible variations in the amount or timing, or both, of the cash flows, and other factors concerning the receivable's collectability. Amortization of the discounts is included in contributions. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Bequests receivable – Bequests receivable are recognized as contribution revenue in the period the Foundation receives notification the court has found the will of the donor's estate to be valid and all conditions have been substantially met.

Investments – The Foundation accounts for its investments in accordance with FASB ASC 958-320, *Not-for-Profit Entities – Investments – Debt and Equity Securities* and FASB ASC 958-325, *Not-for-Profit Entities – Investments – Other*. Under ASC 958-320, the Foundation is required to report investments in equity securities that have readily determinable fair values, and all investments in debt securities, at fair value. The fair value is based on quoted market prices. Under FASB ASC 958-325, partnership interests, stocks in closely held companies and real estate held for investment are recorded at fair value at the dates the investments were donated and are periodically revalued through the use of a third party appraiser or other appropriate valuation methods, including the market and income approaches. Changes in value are shown as unrealized gains or losses on the combined statement of activities. Alternative investments are reported at fair value using net asset value as the practical expedient for fair value. Investments in life insurance policies are reported at the cash surrender value.

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

Property and equipment – Purchased property and equipment are valued at cost and donated property and equipment are recorded at fair value at the date of gift to the Foundation. Maintenance and repairs are charged to operations when incurred. Generally, property and equipment additions in excess of $5,000 are capitalized. Depreciation and amortization of property and equipment are computed on a straight-line basis over estimated useful lives of 5 to 7 years.

Impairment of long-lived assets – The Foundation accounts for long-lived assets in accordance with the provisions of FASB ASC 360, *Property, Plant, and Equipment.* FASB ASC 360 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

(1) Foundations' operations and summary of significant accounting policies (continued)

Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. No impairment charges were recorded for 2017 and 2016.

Deferred rent – The Foundation accounts for its leases in accordance with FASB ASC 840, *Leases*. Certain operating leases contain escalation, abatement and tenant improvement allowance provisions. Under FASB ASC 840, the Foundation is required to amortize the total lease commitment on a straight-line basis over the life of the lease. The cumulative difference between rent paid and rent charged to expense is recorded as deferred rent on the combined statement of financial position. The cumulative difference between rent paid and rent charged to expense was $811,213 and $824,869 at March 31, 2017 and 2016, respectively.

Advertising – Advertising costs are charged to operations when incurred. Advertising expense charged to operations was $73,884 for 2017 and $52,472 for 2016.

Functional allocation of expenses – The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying combined statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on personnel activity and other appropriate allocation methods. The expense category, management and general, includes those expenses that are not directly identifiable with any specific program but provide for the overall support and direction of the Foundation. Fundraising expenses include those expenses related to the overall solicitation of contributions to the Foundation.

Income tax status – The Foundation and the Support Foundations qualify as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code (the "Code") and, accordingly, there is no provision for income taxes for these organizations. In addition, they qualify for the charitable contribution deduction under Section 170 of the Code and have been classified as organizations that are not private foundations. Income determined to be unrelated business taxable income ("UBTI") would be taxable. The subsidiary of the Wellik Foundation is a for-profit company and files its own income tax return. Investment tax credits and operating loss carryforward benefits are recognized in the year the credits or benefits are realized. The results of operations of the subsidiary for financial reporting purposes were not significant and accordingly, no provision for income or deferred income tax assets or liabilities has been included in the accompanying combined financial statements.

The Foundation and Support Foundations evaluate their uncertain tax positions, if any, on a continual basis through review of their policies and procedures, review of their regular tax filings, and discussions with outside experts. At March 31, 2017 and 2016, management believes the Foundation and Support Foundations did not have any uncertain tax positions.

The Foundation's and Support Foundation's federal Returns of Organizations Exempt From Income Tax (Form 990) for 2014, 2015, and 2016 are subject to examination by the IRS, generally for the three years after they were filed. As of the date of this report, the 2017 returns had not yet been filed.

Fair value measurements – FASB ASC 820, *Fair Value Measurements*, establishes a common definition for fair value to be applied to accounting principles generally accepted in the United States of America requiring use of fair value, establishes a framework for measuring fair value, and expands disclosures about such fair value measurements. FASB ASC 820 also establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values by requiring that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

(1) Foundations' operations and summary of significant accounting policies (continued)

Level 1: Unadjusted quoted market prices in active markets for identical assets or liabilities.

Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

Level 3: Unobservable inputs for the asset or liability.

Recent accounting pronouncements – In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* that will supersede most current revenue recognition guidance, including industry-specific guidance. The core principle of the new guidance is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include the capitalization and amortization of certain contract costs, ensuring the time value of money is considered in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. Additionally, the guidance requires disclosures related to the nature, amount, timing, and uncertainty of revenue that is recognized.

In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606), which changed the effective date of the provisions of ASU No. 2014-09. As a result, the new effective dates for public business entities, certain not-for-profit entities, and certain employee benefit plans to apply the guidance in ASU No. 2014-09 is for annual reporting periods beginning after December 15, 2017. All other entities should apply the guidance in ASU No. 2014-09 to annual reporting periods beginning after December 15, 2018. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016. Transition to the new guidance may be done using either a full or modified retrospective method. The Foundation is currently evaluating the full effect that the adoption of this standard will have on the combined financial statements.

In February 2016, the FASB issued ASU No. 2016-02 – *Leases (Topic 842).* ASU 2016-02 requires that a lease liability and related right-of-use-asset representing the lessee's right to use or control the asset be recorded on the balance sheet upon the commencement of all leases except for short-term leases. Leases will be classified as either finance leases or operating leases, which are substantially similar to the classification criteria for distinguishing between capital leases and operating in existing lease accounting guidance. The ASU is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Foundation is currently evaluating the effect that the adoption of this standard will have on the combined financial statements.

(1) Foundations' operations and summary of significant accounting policies (continued)

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10). ASU 2016-01 requires all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). ASU 2016-01 also requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. In addition, ASU 2016-01 eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities and the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet for public business entities. The amendments in ASU 2016-01 are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. All entities that are not public business entities may adopt the amendments in ASU 2016-01 earlier as of the fiscal years beginning after December 15, 2017, including interim periods within those fiscal years.

Early application by public business entities to financial statements of fiscal years or interim periods that have not yet been issued or, by all other entities, that have not yet been made available for issuance of the following amendments in this ASU are permitted as of the beginning of the fiscal year of adoption:

1. An entity should present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk if the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments.

2. Entities that are not public business entities are not required to apply the fair value of financial instruments disclosure guidance in the General Subsection of Section 825-10-50.

The Foundation has elected to early adopt ASU 2016-01 as of March 31, 2016 relative to the requirement to apply the fair value of financial instruments disclosure guidance in the General Subsection of Section 825-10-50. Accordingly, the Foundation's combined financial statements no longer include the disclosures previously required by Section 825-10-50.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. The amendments in ASU 2014-15 are intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. FASB ASU 2014-15 is effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. The Foundation adopted ASU 2014-15 in 2017 with no significant impact to the combined financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 improves the current net asset classification requirements and the information presented in combined financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. ASU 2016-14 is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Early application is permitted. The amendments of this ASU are to be applied on a retrospective basis in the year that the ASU is first applied. The Foundation is currently evaluating the full effect that the adoption of this standard will have on the combined financial statements.

(1) Foundations' operations and summary of significant accounting policies (continued)

Subsequent events – The Foundation has evaluated subsequent events through October 24, 2017 which is the date the combined financial statements were available to be issued.

(2) Receivables

Receivables consist of:

	2017	2016
Notes receivable:		
Note receivable from an entity controlled by a Board member of a support foundation, secured by a deed of trust, receivable in annual principal payments of $600,000 along with interest only payments receivable annually at LIBOR plus 2.0% (2.98% at March 31, 2017); the note is due in December 2021.	$ 2,941,401	$ 4,141,401
Note receivable, secured by a deed of trust, receivable in monthly installments of $15,000 including interest at 2%; and a balloon payment of principal due upon maturity. In December 2015, the note continued on a month to month basis. In July 2017, the note was amended to extend the maturity to December 2019.	3,283,058	3,394,196
Note receivable, secured by deed of trust, receivable in monthly interest only payments at 4%; and a balloon payment of principal due in July 2019.	1,825,957	1,825,957
Note receivable, secured by a deed of trust, receivable in monthly installments of $1,760 including interest at 3.50%; the note is due in December 2040.	340,285	349,321
Note receivable, secured by real property, receivable in monthly installments of $3,353 including interest at 3.50%; the note is due in September 2020.	132,362	-
Note receivable, secured by real property, receivable in monthly installments of $9,096 including interest at 3.50%; the note is due in December 2021.	500,000	-
Note receivable, secured by real property, receivable in interest only payments of $333 until May 2017 at which receivable amount is changed to monthly installments of $3,833 including interest at 4.00%; the note is due in November 2020.	100,000	-
Note receivable, unsecured, and receivable in annual amounts of $75,000, including quarterly interest payments at 3.50%; the note is due in June 2018.	125,000	200,000

THE ARIZONA COMMUNITY FOUNDATION, INC.
AND
SUPPORT FOUNDATIONS

NOTES TO THE COMBINED FINANCIAL STATEMENTS

Year Ended March 31, 2017
(with comparative totals for the year ended March 31, 2016)

(2) Receivables (continued)

	2017	2016
Note receivable, unsecured, receivable in monthly installments of $4,322 including interest at 3%; the note is due in October 2016.	-	30,419
Note receivable, secured by equipment, receivable in monthly installments of $6,500 including interest at 2.5%; the note is due in December 2021.	348,525	416,877
Note receivable, secured by property, receivable in monthly installments of $6,834 including interest at 4%; the note is due in April 2021.	307,872	376,083
Note receivable, unsecured, interest only payments until February 2016 and then monthly payments of $9,121 are due including interest at 4.5%; the note is due in January 2020.	290,660	384,729
Note receivable, unsecured, annual installments of $50,000 are due including interest at 3.5%; the note is due in May 2021. The note was paid in full in June 2017.	225,000	275,000
Note receivable, unsecured, interest only payments of $7,083 until December 2019 and then monthly payments of $31,568 are due including interest at 8.5%; the note is due in November 30, 2022.	1,000,000	-
Note receivable, unsecured, annual interest only payments at 7%; the note is due in March 2019.	480,000	480,000
Total notes receivable	11,900,120	11,873,983
Discount on notes receivable	(203,626)	(58,743)
Notes receivable, net	11,696,494	11,815,240

THE ARIZONA COMMUNITY FOUNDATION, INC.
AND
SUPPORT FOUNDATIONS

NOTES TO THE COMBINED FINANCIAL STATEMENTS

Year Ended March 31, 2017
(with comparative totals for the year ended March 31, 2016)

(2) <u>Receivables (continued)</u>

	2017	2016
Loans receivable:		
Loan receivable, no interest, matures upon the earlier of project completion, rehabilitation and resale of 15 foreclosed houses, or September 2012. Maturity extended.	75,000	-
Loan receivable, no interest, matures upon earlier of rehabilitation and resale of 2 foreclosed houses, or March 2012. Maturity extended.	70,000	-
Loan receivable, no interest, matures upon earlier of receipt of predevelopment or construction financing or December 2012. Maturity extended.	46,809	-
Loan receivable, no interest, unsecured, matures January 2020	44,000	-
Loan receivable, no interest, unsecured, matures August 2017	75,000	-
Loan receivable, no interest, unsecured, matures December 2017	27,204	-
Loan receivable, no interest, unsecured, matures August 2018	75,000	-
Loan receivable, no interest, unsecured, matures July 2018	100,000	-
Loan receivable, no interest, unsecured, matures December 2018	100,000	-
Loan receivable, no interest, unsecured, matures December 2018	100,000	-
Loan receivable, no interest, unsecured, matures December 2018	75,000	-
Total loans receivable	788,013	-
Pledges receivable	1,917	392,501
Bequests receivable	16,422,071	20,013,834
Other receivables	56,181	105,831
Total receivables	$ 28,964,676	$ 32,327,406

Scheduled collections on notes and loans receivable at March 31, 2017 are as follows:

<u>**Years Ending March 31,**</u>	
2018	$ 1,945,037
2019	2,071,662
2020	5,983,711
2021	1,170,262
2022	982,734
Thereafter	534,727
Total	$ 12,688,133

(2) Receivables (continued)

Interest on notes receivable is recognized over the term of the note and is calculated using the simple-interest method on principal outstanding. Included in interest and dividend income is interest income earned on related party notes receivable of $156,254 for 2017 and $170,091 for 2016.

For notes receivable which are secured by underlying collateral, the Foundation follows FASB ASC 310-10, *Receivables*, which requires the Foundation to measure impairment of the note receivable based on the fair value of the underlying collateral.

Pledges receivable consist of unconditional promises to give at March 31 as follows:

	2017	2016
Unconditional promises to give due in less than one year	$ 1,917	$ 7,834
Unconditional promises to give due in two to five years	-	384,667
Total unconditional promises to give	$ 1,917	$ 392,501

Pledges are normally discounted at an appropriate discount rate. A discount was not considered significant for financial reporting and no provision was made in the accompanying combined financial statements.

Receivables are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through a charge to earnings and a credit to the allowance for uncollectible accounts based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for uncollectible accounts and a credit to receivables. The Foundation considers receivables to be fully collectible at March 31, 2017 and 2016.

Two notes receivable comprised 21% and 23% of the total receivables balance at March 31, 2017 and 2016, respectively. One donor comprised 57% of the receivable balance at March 31, 2017 and 53% of the total receivable balance at March 31, 2016.

(3) Investments

Investments consist of:

	2017	2016
Equities and equity mutual funds	$ 337,466,810	$ 389,880,845
Fixed income and fixed income funds	124,735,180	102,211,910
Alternative investments	213,129,394	103,306,937
Cash and cash equivalents – interest bearing	51,698,296	47,795,658
Real estate held for investment	24,590,000	23,990,000
Partnership interests	3,213,355	4,770,625
Stock in closely held companies	2,009,585	1,107,655
Life insurance and other investments	502,672	328,260
Total investments	$ 757,345,292	$ 673,391,890

(3) Investments (continued)

Expenses relating to investment revenues, including custodial fees and investment advisory fees of $1,947,543 for 2017 and $1,804,097 for 2016, were charged to operations and are included in management and general expense in the accompanying combined statement of activities.

Included in investments are assets held on behalf of others. The Foundation has recorded a liability in the amount of approximately $77 million at March 31, 2017 and $67 million at March 31, 2016 for the investments held on behalf of others.

(4) Split interest agreements

The Foundation is the beneficiary of irrevocable charitable remainder trusts in which the Foundation also serves as trustee. The charitable remainder trusts provide for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available for the Foundation's use. 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 charitable remainder trusts are reported at fair value. On an annual basis, the Foundation recalculates the liability to adjust distributions to the designated beneficiaries based on actuarial assumptions. Adjustments to reflect the valuation of the present value of the estimated annuity payments and changes in actuarial assumptions are recognized in the combined statement of activities as a change in split interest agreements. The present value of the estimated annuity payments for the charitable remainder trusts ($14,838,280 at March 31, 2017 and $13,421,572 at March 31, 2016) is calculated using discount rates of 2.4% and 1.8% for the years ended March 31, 2017 and 2016 and the applicable Internal Revenue Service mortality tables.

The Foundation has a beneficial interest in irrevocable charitable remainder trusts in which the Foundation is not the trustee. Under these agreements, the donor has established and funded trusts under which specified distributions are made to a designated beneficiary or beneficiaries over the trust terms. Upon termination of the trust, the Foundation receives the assets remaining in the trust. Beneficial interests in charitable remainder trusts are recorded at the fair value of the future distributions expected to be received over the term of the agreement which is estimated using a present value discount method. The present value of the estimated future payments for the charitable remainder trusts is calculated using discount rates of 6% for the years ended March 31, 2017 and 2016 and the applicable Internal Revenue Service mortality tables.

The Foundation currently administers charitable gift annuities that provide an annual income payment to the beneficiaries until the income obligation is completed in accordance with the donor's trust agreement. The assets contributed under the charitable gift annuities are carried at fair value. The gift annuities totaling $1,786,398 at March 31, 2017 and $1,719,586 at March 31, 2016, are included in split interest agreements. Contribution revenues are recognized at the date the annuities are established after recording liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. Present values are calculated using a risk-free discount rate determined at the time the annuities are established, and actuarial tables and guidelines used for calculating the available deduction for income tax purposes. The liabilities are adjusted for the accretion of the discount and other changes in the estimates of future benefits. The present value of the estimated annuity payments associated with the charitable gift annuities is $1,865,283 at March 31, 2017 and $2,031,796 at March 31, 2016.

(4) Split interest agreements (continued)

The Foundation is the beneficiary of several charitable lead trusts. Under the terms of the trust agreements, the Foundation is to receive either a fixed payment or a percentage of the fair value of the trusts' investments annually over the specified terms in the trust agreements. Upon the termination of the trust agreement, the remaining trust assets are distributed to others. The charitable lead trusts are carried at fair value. Based on the terms of the trusts and the use of a discount rate of 6% for the years ended March 31, 2017 and 2016, the present values of future benefits expected to be received by the Foundation were estimated to be $1,104,944 at March 31, 2017 and $1,372,140 at March 31, 2016.

The Foundation is the irrevocable beneficiary of a life estate trust on a parcel of real property, which was received during 2009. Under the terms of the trust agreement, the Foundation will take possession of the property upon the death of the life tenants. The beneficial interest is carried at fair value, which is estimated to be $220,000 at March 31, 2017 and 2016.

Investments in split interest agreements consist of:

	2017	2016
Equities and equity mutual funds	$ 17,892,818	$ 16,932,085
Fixed income and fixed income funds	7,048,258	5,588,968
Alternative investments	974,034	541,362
Cash and cash equivalents – interest bearing	1,247,747	1,136,536
Charitable lead trusts	1,104,944	1,372,140
Beneficial interest in charitable remainder trusts	5,419,348	5,011,569
Beneficial interest in life estate	220,000	220,000
Total investments	$ 33,907,149	$ 30,802,660

(5) Property and equipment

Property and equipment consists of:

	2017	2016
Cost:		
Land and building improvements	$ 4,152,162	$ 4,152,162
Furniture, fixtures and equipment	1,414,597	1,533,968
Leasehold improvements	1,140,035	848,762
Art objects	29,257	29,257
Total cost	6,736,051	6,564,149
Accumulated depreciation and amortization	(1,428,650)	(1,370,105)
Net property and equipment	$ 5,307,401	$ 5,194,044

Depreciation and amortization expense charged to operations was $307,506 for 2017 and $268,000 for 2016.

(6) Grants payable

Grants authorized, but unpaid are reported as liabilities in accordance with FASB ASC 958-720*, Not-for-Profit Entities – Other Expenses - Contributions Made*. Grants to be paid in more than one year are discounted using discount rates ranging from .59% to 4.25%. The following is a summary of grants authorized and payable at March 31:

	2017	2016
Grants payable to be paid in less than one year	$ 4,469,288	$ 7,075,981
Grants payable to be paid in one to five years	3,017,250	4,509,236
Gross grants authorized but unpaid	7,486,538	11,585,217
Less: discount on long-term grants	(110,333)	(112,629)
Net grants authorized but unpaid	$ 7,376,205	$ 11,472,588

(7) Agency funds

FASB ASC 958-605 establishes standards for transactions in which a community foundation accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets, or both, to another entity that is specified by the donor. FASB ASC 958-605 specifically requires that if a not-for-profit organization (NPO) establishes a fund at a community foundation with its own funds and specifies itself as the beneficiary of that fund, the community foundation must account for the transfer of such assets as a liability. The Foundation refers to such funds as agency funds.

Included within agency funds are amounts held for loan guarantee programs in support of the Arizona Loans for Assistive Technology Program. The funds are held on behalf of Northern Arizona University and can only be used with their authorization.

The Foundation maintains variance power and legal ownership of agency funds and as such continues to report the funds as cash and investments of the Foundation. However, in accordance with FASB ASC 958-605, a liability has been established equivalent to the value of the assets. Both the liability and the assets are measured at fair value.

The activity for the agency funds is summarized as follows:

	2017	2016
Agency funds, beginning of year	$ 66,715,777	$ 61,693,159
Contributions	13,232,119	14,013,743
Investment income	845,627	771,025
Realized and unrealized investment gains (losses)	7,879,722	(3,060,565)
Withdrawal of funds	(4,048,149)	(3,261,431)
Grants	(6,694,865)	(2,735,928)
Other expenses	(13,353)	-
Administration and investment fees	(743,650)	(704,226)
Agency funds, end of year	$ 77,173,228	$ 66,715,777

(8) Temporarily restricted net assets

Temporarily restricted net assets consist of pledges receivable, life estate trusts, charitable lead trusts, charitable remainder trusts (net of present value of annuity payments related to charitable remainder trusts) and beneficial interest in charitable remainder trusts due to timing of when the pledge will be collected and when the beneficial interest in the trusts will be received by the Foundation. Releases from restriction consist entirely of releases due to the passage of timing restrictions.

(9) Endowments

The Foundation's endowm ents consist of approximately 775 component funds established by donors for a variety of purposes. The bylaws of the Foundation include variance language giving the Board of Directors the power, whenever any restriction or condition on the distribution of funds becomes, in effect, unnecessary, incapable of fulfillment or inconsistent with the charitable purpose of the Foundation, to modify any restriction or condition placed on the distribution of funds and to apply the whole or any part of the principal or income of funds as in its judgment is necessary to serve more effectively the charitable purpose of the Foundation. Based on this provision, all contributions and assets not classified as temporarily restricted due to timing restrictions are classified as unrestricted. Though these funds are classified as unrestricted, the Foundation manages the funds established by donors as endowed funds in accordance with the terms set forth in the individual fund agreements by designation of the Board of Directors. As required by accounting principles generally accepted in the United States, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

In September 2008, the State of Arizona enacted ARS§10-11801 et seq Management of Charitable Funds Act (“MCFA”). The Board of Directors of the Foundation has interpreted MCFA 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. At March 31, 2017 and 2016, the Foundation had no donor-restricted endowment funds, other than those reported as temporarily restricted until the expiration of time restrictions, as the Board has determined that the Foundation's endowments do not meet the definition of donor-restricted endowments under MCFA.

The Foundation has adopted investment and spending policies for endowment assets that seek to provide a predictable stream of funding to programs supported by its endowments while maintaining the purchasing power of the endowment assets. The Foundation's spending and investment policies work together to achieve this objective. Actual returns in any given year may vary from this amount.

To achieve its investment objectives over long periods of time, the Foundation has adopted an investment strategy that invests in domestic and international equities, fixed income, and alternative asset (private equity, hedge funds, etc.) strategies. The majority of assets are invested in equity or equity-like securities. Fixed income and alternative assets are used to lower short-term volatility. Diversification by asset class, investment style, investment manager, etc. is employed to avoid undue concentration risk and enhance total return. The primary performance objective is to achieve an annualized total rate of return, net of investment fees, that is equal to or greater than 6% plus inflation over long periods of time.

(9) Endowments (continued)

The spending policy determines the amount of money in a given year that will be distributed from the Foundation's various endowment assets, which includes donor advised, agency, designated, scholarship, field of interest and unrestricted funds. The spending policy effective for the year ended March 31, 2017 was to distribute an amount equal to approximately 5% of the previous twelve quarter average balance of each funds' liquid assets. Based on the spending policy, over the long term, the Foundation expects its endowment assets to grow at the rate of inflation. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through new gifts and investment returns.

The endowment net assets composition by type of fund as of March 31, 2017 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 10,538,179	$ -	$ 10,538,179
Board-designated endowment funds	267,696,126	-	-	267,696,126
Total funds	$ 267,696,126	$ 10,538,179	$ -	$ 278,234,305

The change in endowment net assets for the year ended March 31, 2017 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, April 1, 2016	$ 239,766,635	$ 9,087,848	$ -	$ 248,854,483
Contributions	14,879,001	422,489	-	15,301,490
Investment return:				
Investment income, net	2,729,720	-	-	2,729,720
Realized and unrealized gains	26,028,054	-	-	26,028,054
Change in value of charitable remainder trusts	-	2,420,522	-	2,420,522
Appropriation of endowment assets for expenditure	(15,707,284)	(1,392,680)	-	(17,099,964)
Endowment net assets, March 31, 2017	$ 267,696,126	$ 10,538,179	$ -	$ 278,234,305

(9) Endowments (continued)

The endowment net assets composition by type of fund as of March 31, 2016 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 9,087,848	$ -	$ 9,087,848
Board-designated endowment funds	239,766,635	-	-	239,766,635
Total funds	$ 239,766,635	$ 9,087,848	$ -	$ 248,854,483

The change in endowment net assets for the year ended March 31, 2016 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, April 1, 2015	$ 252,598,986	$ 9,579,822	$ -	$ 262,178,808
Contributions	6,240,558	218	-	6,240,776
Investment return:				
Investment income, net	3,037,401	-	-	3,037,401
Realized and unrealized gains	(11,765,688)	-	-	(11,765,688)
Change in value of charitable remainder trusts	(440,249)	(94,175)	-	(534,424)
Appropriation of endowment assets for expenditure	(9,904,373)	(398,017)	-	(10,302,390)
Endowment net assets, March 31, 2016	$ 239,766,635	$ 9,087,848	$ -	$ 248,854,483

(10) Fundraising expenses

Fundraising expenses consist of development costs and an allocation of indirect expenses for fundraising events as follows:

	2017	**2016**
Salaries and wages	$ 1,638,473	$ 1,486,193
Employee benefits	239,918	213,315
Payroll taxes	94,280	84,240
Marketing	172,533	140,679
Travel	88,253	64,317
Events	835,596	796,718
Other	398,916	323,176
Total fundraising expenses	$ 3,467,969	$ 3,108,638

(11) Retirement plans

Arizona Community Foundation ("ACF") sponsors a 403(b) retirement plan, which covers substantially all employees after specified periods of service and certain eligibility requirements have been met. ACF contributed 0% of the eligible employees' annual compensation for the employee's first year, and 6% contribution for all subsequent years. ACF made contributions to the plan of $343,500 for 2017 and $301,134 for 2016.

The Lodestar Foundation ("Lodestar") sponsors a profit sharing plan and trust, which covers substantially all its employees, after specified periods of service and certain eligibility requirements have been met. The amount contributed annually is determined by Lodestar. Lodestar made no contributions during 2017 and 2016.

The Ellis Center for Educational Excellence ("Ellis") sponsors a 403(b) retirement plan, which covers its employee, after a specified period of service and certain eligibility requirements have been met. For the years ended March 31, 2017 and 2016, the Ellis Center made no contributions.

The Rodel Charitable Foundation – AZ ("Rodel") sponsors a 401(k) retirement plan, which covers substantially all its employees who meet specified age and service requirements. An employee may contribute funds to the plan up to IRS limits and Rodel matches 100% of the employee's contributions up to 15% of the employee's compensation. Rodel's matching contributions to the plan were $51,783 for 2017 and $146,206 for 2016. The plan also includes a provision for Rodel to make discretionary contributions to the plan. There were no discretionary contributions made during 2017 and 2016.

(12) Fair value measurements

The following table summarizes the valuation of the Foundation's assets and liabilities subject to measurements at fair value by the above FASB ASC 820 categories as of March 31, 2017:

	Level 1	Level 2	Level 3	Total
Equities and equity mutual funds:				
Large cap funds	$ 103,684,802	$ -	$ -	$ 103,684,802
Small/mid cap funds	19,226,483	-	-	19,226,483
International funds	68,621,617	-	-	68,621,617
Equity index funds	33,022,737	-	-	33,022,737
Other equity funds	6,226,932	-	-	6,226,932
Financial services	15,251,936	-	-	15,251,936
Industrial	8,363,064	-	-	8,363,064
Information technology	9,830,477	-	-	9,830,477
Health care	9,792,849	-	-	9,792,849
Exchange traded funds	43,674,011	-	-	43,674,011
Other equities	37,664,720	-	-	37,664,720
Fixed income and fixed income funds:				
Int. term bond funds	58,194,757	-	-	58,194,757
Other fixed income funds	9,983,105	-	-	9,983,105
Corporate bonds	-	43,227,016	-	43,227,016
U.S. treasuries and agency securities	-	8,239,884	-	8,239,884
Other debt securities and bonds	-	12,138,676	-	12,138,676
Life insurance and other investments	502,672	-	-	502,672
Real estate held for investment	-	-	24,590,000	24,590,000
Partnerships interests	-	-	3,213,355	3,213,355
Stock in closely held companies	-	-	2,009,585	2,009,585
Charitable lead trusts, beneficial interest in charitable remainder trusts and beneficial interest in life estate	-	-	6,744,292	6,744,292
Agency funds liability	-	(77,173,228)	-	(77,173,228)
Total	$ 424,040,162	$ (13,567,652)	$ 36,557,232	$ 447,029,742

(12) Fair value measurements (continued)

The following table summarizes the valuation of the Foundation's assets and liabilities subject to measurements at fair value by the above FASB ASC 820 categories as of March 31, 2016:

	Level 1	Level 2	Level 3	Total
Equities and equity mutual funds:				
Large cap funds	$ 130,461,562	$ -	$ -	$ 130,461,562
Small/mid cap funds	34,020,092	-	-	34,020,092
International funds	74,201,032	-	-	74,201,032
Other equity funds	27,466,522	-	-	27,466,522
Financial services	31,601,937	-	-	31,601,937
Industrial	20,044,510	-	-	20,044,510
Information technology	17,581,990	-	-	17,581,990
Health care	14,368,243	-	-	14,368,243
Exchange traded funds	15,153,544	-	-	15,153,544
Other equities	41,913,498	-	-	41,913,498
Fixed income and fixed income funds:				
Int. term bond funds	41,384,500	-	-	41,384,500
Other fixed income funds	22,144,088	-	-	22,144,088
Corporate bonds	-	35,603,517	-	35,603,517
U.S. treasuries and agency securities	-	6,961,523		6,961,523
Other debt securities and bonds	-	1,707,250	-	1,707,250
Life insurance and other investments	328,260	-	-	328,260
Real estate held for investment	-	-	23,990,000	23,990,000
Partnerships interests	-	-	4,770,625	4,770,625
Stock in closely held companies	-	-	1,107,655	1,107,655
Charitable lead trusts, beneficial interest in charitable remainder trusts and beneficial interest in life estate	-	-	6,603,709	6,603,709
Agency funds liability	-	(66,715,777)	-	(66,715,777)
Total	$ 470,669,778	$ (22,443,487)	$ 36,471,989	$ 484,698,280

(12) Fair value measurements (continued)

The table below presents the change in fair value measurements that used Level 3 inputs during the year ended March 31, 2017:

	Real estate held for investment	Partnership Interests and stock in closely held companies	Charitable lead trusts, beneficial interest in trusts, and beneficial interest in life estate	Total
Balance at April 1, 2016	$ 23,990,000	$ 5,878,280	$ 6,603,709	$ 36,471,989
Change in value of split-interest agreements	-	-	(1,488,724)	(1,488,724)
Purchases and contributions	10,750,000	1,222,831	1,629,307	13,602,138
Sales	(11,400,000)	(1,881,782)	-	(13,281,782)
Realized and unrealized gains	1,250,000	3,611	-	1,253,611
Balance at March 31, 2017	$ 24,590,000	$ 5,222,940	$ 6,744,292	$ 36,557,232

The table below presents the change in fair value measurements that used Level 3 inputs during the year ended March 31, 2016:

	Real estate held for investment	Partnership Interests and stock in closely held companies	Charitable lead trusts, beneficial interest in trusts, and beneficial interest in life estate	Total
Balance at April 1, 2015	$ 21,542,000	$ 4,037,823	$ 7,394,433	$ 32,974,256
Change in value of split-interest agreements	-	-	(790,724)	(790,724)
Purchases and contributions	10,623,000	1,557,930	-	12,180,930
Sales	(9,375,000)	(157,549)	-	(9,532,549)
Realized and unrealized gains	1,200,000	440,076	-	1,640,076
Balance at March 31, 2016	$ 23,990,000	$ 5,878,280	$ 6,603,709	$ 36,471,989

(12) Fair value measurements (continued)

In accordance with FASB ASC 820, the Foundation is required to disclose the nature and risks of the investments reported at net asset value ("NAV").

The following table summarizes the nature and risk of these investments as of March 31, 2017.

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Equity Long/Short Hedge Funds	$ 39,015,274	$ -	quarterly	30 day notice
Private Equity Fund of Funds	32,159,357	12,007,587	n/a	n/a
Private Equity Fund of Funds- International	2,226,453	257,764	quarterly	60 day notice
Other Alternative Investment Funds	10,610,573	6,128,350	n/a	n/a
Multi-strategy Funds	17,328,887	41,894,245	annual	30 to 60 day notice
Commingled Trust Fund 1	24,433,143	-	daily	2 day notice
Commingled Trust Fund 2	50,350,147	-	daily	5 day notice
Commingled Trust Fund 3	37,979,594	-	daily	1 day notice
Total	$ 214,103,428	$ 60,287,946		

The following table summarizes the nature and risk of these investments as of March 31, 2016.

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Equity Long/Short Hedge Funds	$ 36,599,884	$ -	quarterly	30 day notice
Private Equity Fund of Funds	34,035,612	15,706,966	n/a	n/a
Private Equity Fund of Funds- International	2,973,847	257,764	quarterly	60 day notice
Other Alternative Investment Funds	11,010,213	6,375,000	n/a	n/a
Multi-strategy Funds	19,228,743	-	annual	30 to 60 day notice
Total	$ 103,848,299	$ 22,339,730		

Equity Long/Short Hedge Funds – This category includes investments in direct hedge funds that invest both long and short primarily in U.S. common stocks. Management of the hedge funds has the ability to short investments across the capitalization range. Positions can range from net long to net short.

Private Equity Fund of Funds – This category is a private equity fund of funds that makes investments in private equity assets obtained on the secondary market. The manager has the authority to invest in Funds with the following strategy focuses: leveraged buyouts, venture capital, growth capital, distressed investments, and mezzanine capital. While the manager will make distributions over the life of the Fund as exit opportunities arise, redemptions are not permitted.

(12) Fair value measurements (continued)

Private Equity Fund of Funds – **International** – This category includes investments in a private equity fund-of-funds and a direct private equity fund. Both funds seek to invest across the spectrum of distressed securities ranging from short-term passive trading strategies to active control. Investments will include public and private securities globally.

Other Alternative Investment Funds – Other alternative investment funds consists primarily of private equity real estate funds and other private equity investments.

Multi-strategy Funds – The multi-strategy equity funds are broadly diversified to include debt, buyout, and real estate. Multiple funds are utilized to ensure proper vintage year diversification.

Comingled Trust Fund 1 – This fund invests in equity securities that are found in the FTSE RAFI Index, which may include common stocks, preferred stocks, depository receipts, or convertible securities. The investment objective of the Fund is to approximate, before expenses, the performance of the FTSE RAFI U.S. 1000 Index over the long term.

Comingled Trust Fund 2 – This fund invests primarily in publicly traded non-US equity securities. The investment objective of this fund is to approximate, as closely as possible, the risk and return characteristics of the MSCI EAFE Index.

Comingled Trust Fund 3 – This fund invests, either directly or indirectly through other commingled investment vehicles, in investment-grade debt and fixed income securities. The funds are expected to invest at least 70% of its total net assets. The investment objective of the fund is to maximize long-term total returns.

(13) Leases

The Foundation leases office equipment and office space under operating lease agreements with terms expiring in various years through 2022. In July 2011, the Foundation entered into a new office lease that commenced in August 2011. The lease has a term of 126 months with monthly lease payments ranging from $0 to $35,873. In June 2017, the Foundation amended a lease agreement to lease additional space through January 2022. The table below includes the minimum payments on this expanded lease. Minimum future rental payments under noncancellable operating leases having remaining terms in excess of one year are as follows:

Years Ending March 31,		
2018	$	810,774
2019		817,294
2020		781,495
2021		767,391
2022		560,335
Total minimum future rental payments	$	3,737,289

(13) Leases (continued)

The operating leases do not provide for renewal options. In the normal course of business, operating leases are generally renewed or replaced by other leases.

Total rental expense was $826,205 for 2017 and $722,786 for 2016.

(14) Programmatic revolving loans

Effective May 2013, the Foundation entered into an unsecured line of credit agreement with a California nonprofit public benefit corporation. The line of credit agreement has a maximum borrowing limit of $5,000,000. The line was scheduled to mature May, 1 2018; however, during 2016 the maturity was extended to July 31, 2021, at which time any unpaid interest and principal is due. Interest is charged at 2.0% and is payable quarterly. The balance outstanding under the line of credit is $1,225,000 as of March 31, 2017 and $900,000 as of March 31, 2016. Proceeds from the line of credit are expressly restricted to provide financing loans to nonprofit community based organizations in Arizona.

Effective December 2013, the Foundation entered into an unsecured line of credit agreement with an Arizona nonprofit public benefit corporation. The line of credit agreement has a maximum borrowing limit of $3,000,000. The line of credit has a stated maturity date of December 1, 2018, at which time any unpaid interest and principal is due. Interest is charged at 0.5% and is payable quarterly. However, the line of credit may be terminated by the lender at any time for any reason. If the Foundation has used the loan proceeds to fund programmatic loans, the lender may not terminate the line of credit prior to the earlier of the stated maturity date of the line of credit or the maturity date of the programmatic loans issued by the Foundation using the line of credit process. As of March 31, 2017 and 2016, the Foundation used the line of credit proceeds to fund programmatic loans with maturities starting in fiscal 2020. The balance outstanding under the line of credit is $1,200,000 as of March 31, 2017 and $500,000 as of March 31, 2016.

(15) Line of credit

Effective March 2016, the Foundation entered into an unsecured line of credit agreement with Bank of America. The line has a maximum borrowing limit of $3,000,000 and matures December 30, 2017. Upon maturity, all unpaid interest and principal are due. Interest is charged at LIBOR plus 2.5% (3.48% as of March 31, 2017) and payable monthly. As of March 31, 2017 and 2016 there were no amounts outstanding under the line of credit. There are certain financial and non-financial covenants required by the bank.

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INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

We have audited the combined financial statements of ***Arizona Community Foundation, Inc. and Support Foundations*** as of and for the year ended March 31, 2017, and have issued our report thereon dated October 24, 2017 which contained an unmodified opinion on those combined financial statements. Our audit was performed for the purpose of forming an opinion on the combined financial statements as a whole. The combining schedules of financial position and activities that follow on pages 31 and 32 are presented for purposes of additional analysis of the combined financial statements rather than to present the financial position, results of operations and cash flows of the individual organizations, and are not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

Mayer Hoffman McCann P.C.

October 24, 2017

THE ARIZONA COMMUNITY FOUNDATION, INC.
AND
SUPPORT FOUNDATIONS

ADDITIONAL INFORMATION

March 31, 2017

COMBINING SCHEDULE OF FINANCIAL POSITION

A S S E T S

	Arizona Community Foundation	Support Foundations	Eliminations and Reclassifications	Combined
CASH AND CASH EQUIVALENTS	$ 3,925,498	$ 798,201	$ -	$ 4,723,699
RECEIVABLES, net	21,850,508	7,114,168	-	28,964,676
PREPAID EXPENSES AND OTHER ASSETS	310,278	48,689	-	358,967
INVESTMENTS	584,323,350	173,021,942	-	757,345,292
SPLIT INTEREST AGREEMENTS	33,907,149	-	-	33,907,149
PROPERTY AND EQUIPMENT, net	1,119,774	4,187,627	-	5,307,401
TOTAL ASSETS	$ 645,436,557	$ 185,170,627	$ -	$ 830,607,184

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

	Arizona Community Foundation	Support Foundations	Eliminations and Reclassifications	Combined
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	$ 3,174,947	$ 111,899	$ -	$ 3,286,846
GRANTS PAYABLE	3,152,414	4,223,791	-	7,376,205
PRESENT VALUE OF ANNUITY PAYMENTS	16,703,563	-	-	16,703,563
DEFERRED RENT	811,213	-	-	811,213
PROGRAMMATIC REVOLVING LOANS	2,425,000	-	-	2,425,000
AGENCY FUNDS	77,173,228	-	-	77,173,228
TOTAL LIABILITIES	103,440,365	4,335,690	-	107,776,055
NET ASSETS	541,996,192	180,834,937	-	722,831,129
TOTAL LIABILITIES AND NET ASSETS	$ 645,436,557	$ 185,170,627	$ -	$ 830,607,184

THE ARIZONA COMMUNITY FOUNDATION, INC.
AND
SUPPORT FOUNDATIONS

ADDITIONAL INFORMATION

Year Ended March 31, 2017

COMBINING SCHEDULE OF ACTIVITIES

	Arizona Community Foundation	Support Foundations	Eliminations and Reclassifications	Combined
CONTRIBUTIONS, REVENUES AND OTHER SUPPORT				
Contributions	$ 54,169,749	$ 12,903,939	$ -	$ 67,073,688
Interest and dividend income	8,218,152	2,803,572	-	11,021,724
Realized/unrealized investment gains	44,606,282	14,129,985	-	58,736,267
Change in split interest agreements	1,465,110	-	-	1,465,110
Administrative and trustee fee revenues	1,822,358	-	(1,173,255)	649,103
Interfund gifts	14,554,659	149,100	(14,703,759)	-
Rental income	227,770	950,288	-	1,178,058
Other income	244,004	(8,404)	-	235,600
TOTAL CONTRIBUTIONS, REVENUES AND OTHER SUPPORT	125,308,084	30,928,480	(15,877,014)	140,359,550
EXPENSES				
Program expenses:				
Grants	38,557,320	6,706,838	-	45,264,158
Interfund grants	13,704,505	999,254	(14,703,759)	-
Other program expenses	7,289,081	2,216,384	-	9,505,465
Total program expenses	59,550,906	9,922,476	(14,703,759)	54,769,623
Management and general	7,600,436	2,480,723	(1,173,255)	8,907,904
Fundraising	3,342,453	125,516	-	3,467,969
TOTAL EXPENSES	70,493,795	12,528,715	(15,877,014)	67,145,496
CHANGE IN NET ASSETS	$ 54,814,289	$ 18,399,765	$ -	$ 73,214,054