

**THE ARIZONA COMMUNITY FOUNDATION, INC.
AND
SUPPORT FOUNDATIONS
COMBINED FINANCIAL STATEMENTS**

Year Ended March 31, 2014

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

COMBINED FINANCIAL STATEMENTS

Year Ended March 31, 2014

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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, 2014, 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, 2014, and the changes in their net asset 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'** 2013 combined financial statements, and our report dated August 26, 2013, expressed an unmodified opinion on those audited combined financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2013, is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

Phoenix, Arizona
November 5, 2014

Mayer Hoffman McCa P.C.

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

COMBINED STATEMENT OF FINANCIAL POSITION

March 31, 2014
(with comparative totals at March 31, 2013)

	<u>ASSETS</u>	
	<u>2014</u>	<u>2013</u>
CASH AND CASH EQUIVALENTS	\$ 7,298,756	\$ 2,912,629
RECEIVABLES, net	15,971,264	11,269,182
PREPAID EXPENSES AND OTHER ASSETS	172,843	466,967
INVESTMENTS	594,328,825	510,322,667
SPLIT INTEREST AGREEMENTS		
Charitable remainder trusts	23,745,761	15,987,809
Beneficial interest in charitable remainder trusts	5,212,576	4,981,845
Charitable gift annuities	2,184,586	2,220,748
Charitable lead trusts	2,292,257	2,761,282
Beneficial interest in life estate	<u>220,000</u>	<u>220,000</u>
TOTAL SPLIT INTEREST AGREEMENTS	33,655,180	26,171,684
PROPERTY AND EQUIPMENT, net	<u>5,537,009</u>	<u>5,567,172</u>
TOTAL ASSETS	<u>\$ 656,963,877</u>	<u>\$ 556,710,301</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	\$ 1,557,875	\$ 1,472,318
GRANTS PAYABLE	6,486,681	4,810,143
PRESENT VALUE OF ANNUITY PAYMENTS		
Charitable remainder trusts	15,070,285	10,220,526
Charitable gift annuities	<u>2,296,254</u>	<u>2,502,528</u>
TOTAL PRESENT VALUE OF ANNUITY PAYMENTS	17,366,539	12,723,054
DEFERRED RENT	1,062,559	1,113,941
AGENCY ENDOWMENT FUNDS	<u>53,133,408</u>	<u>34,336,868</u>
TOTAL LIABILITIES	<u>79,607,062</u>	<u>54,456,324</u>
NET ASSETS		
Unrestricted		
Controlling interest	558,658,877	486,909,389
Noncontrolling interest	<u>926,959</u>	<u>1,027,026</u>
Total unrestricted	559,585,836	487,936,415
Temporarily restricted	<u>17,770,979</u>	<u>14,317,562</u>
TOTAL NET ASSETS	<u>577,356,815</u>	<u>502,253,977</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 656,963,877</u>	<u>\$ 556,710,301</u>

See Notes to Combined Financial Statements

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

COMBINED STATEMENT OF ACTIVITIES

Year Ended March 31, 2014
(with comparative totals for the year ended March 31, 2013)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>	
			<u>2014</u>	<u>2013</u>
CONTRIBUTIONS, REVENUES AND OTHER SUPPORT				
Contributions	\$ 64,922,987	\$ 1,107,911	\$ 66,030,898	\$ 60,339,973
Inherent contribution from acquisition	5,384,960	-	5,384,960	-
Interest and dividend income	7,637,159	-	7,637,159	7,591,565
Realized/unrealized investment gains	55,510,900	-	55,510,900	31,221,226
Change in split interest agreements	(8,570,874)	4,358,709	(4,212,165)	672,971
Administrative and trustee fee revenues	465,701	-	465,701	318,140
Rental income	702,157	-	702,157	660,364
Other income	249,377	-	249,377	205,127
Total contributions, revenues and other support before net assets released from restrictions	126,302,367	5,466,620	131,768,987	101,009,366
Net assets released from restrictions	2,013,203	(2,013,203)	-	-
TOTAL CONTRIBUTIONS, REVENUES AND OTHER SUPPORT	<u>128,315,570</u>	<u>3,453,417</u>	<u>131,768,987</u>	<u>101,009,366</u>
EXPENSES				
Program expenses:				
Grants	39,221,738	-	39,221,738	38,633,992
Other program expenses	9,143,107	-	9,143,107	9,997,474
Total program expenses	48,364,845	-	48,364,845	48,631,466
Management and general	5,835,701	-	5,835,701	4,512,071
Fundraising	2,465,603	-	2,465,603	2,266,044
TOTAL EXPENSES	<u>56,666,149</u>	<u>-</u>	<u>56,666,149</u>	<u>55,409,581</u>
CHANGE IN NET ASSETS	71,649,421	3,453,417	75,102,838	45,599,785
NET ASSETS, BEGINNING OF YEAR	<u>487,936,415</u>	<u>14,317,562</u>	<u>502,253,977</u>	<u>456,654,192</u>
NET ASSETS, END OF YEAR	<u>\$ 559,585,836</u>	<u>\$ 17,770,979</u>	<u>\$ 577,356,815</u>	<u>\$ 502,253,977</u>

See Notes to Combined Financial Statements

**THE ARIZONA COMMUNITY FOUNDATION, INC.
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COMBINED STATEMENT OF CASH FLOWS

Year Ended March 31, 2014
(with comparative totals for the year ended March 31, 2013)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 75,102,838	\$ 45,599,785
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Inherent contribution of note receivable	(3,714,924)	-
Inherent contribution of securities	(1,670,036)	-
Donated interest in partnership investments	-	(4,593,411)
Realized/unrealized investment gains	(55,510,900)	(31,221,226)
Change in split interest agreements and present value of annuity payments, net	(2,840,011)	(492,347)
Provision for uncollectible notes receivable	-	260,235
Change in discount on notes receivable	(3,745)	(4,578)
Change in discount on grants payable	(111,106)	(4,966)
Depreciation and amortization	270,232	332,851
Loss on disposal of property and equipment	3,995	19,170
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivables	(970,205)	5,827,229
Prepaid expenses and other assets	294,124	652,389
Increase (decrease) in:		
Accounts payable and accrued expenses	85,557	(148,164)
Grants payable	1,787,644	1,098,703
Deferred rent	(51,382)	6,014
Agency endowment funds	13,364,247	3,286,100
Net cash provided by operating activities	26,036,328	20,617,784
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	147,755,356	97,232,449
Collections on notes receivable	232,642	880,289
Purchases of investments	(169,148,285)	(127,545,166)
Issuance of notes receivable	(245,850)	(350,000)
Purchases of property and equipment	(244,064)	(189,415)
Net cash used in investing activities	(21,650,201)	(29,971,843)
NET CHANGE IN CASH AND CASH EQUIVALENTS	4,386,127	(9,354,059)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,912,629	12,266,688
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 7,298,756	\$ 2,912,629
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING ACTIVITIES		
Tenant improvement allowances	\$ -	\$ 789,854
Realized/unrealized gains on agency fund investments	\$ 5,432,293	\$ 2,808,183

See Notes to Combined Financial Statements

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

NOTES TO COMBINED FINANCIAL STATEMENTS

Year Ended March 31, 2014
(with comparative totals for the year ended March 31, 2013)

(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
- 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
- WAZE Foundation
- Wellik Foundation and Subsidiary
- Robert J. Wick Family Foundation
- Walter M. Wick Family Foundation
- Youth Partners Foundation

During 2014, B and L Charitable Foundation acquired the assets of another nonprofit organization and concurrently changed its legal name to First Baptist Church of Phoenix Foundation. No consideration was paid in exchange for the assets, which included a note receivable from a third party valued at \$3,714,924 and securities valued at \$1,670,036 as of the date of the acquisition. These amounts are included as an inherent contribution in the accompanying combined statements of activities in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-805, *Not-for-Profit Entities – Business Combinations*.

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

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

NOTES TO COMBINED FINANCIAL STATEMENTS

Year Ended March 31, 2014
(with comparative totals for the year ended March 31, 2013)

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

The Financial Accounting Standards Board 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*.

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:

	<u>Controlling Interest</u>		<u>Noncontrolling</u>	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Unrestricted Interest</u>	<u>Totals</u>
March 31, 2013	\$ 486,909,389	\$ 14,317,562	\$ 1,027,026	\$ 502,253,977
Change in net assets	<u>71,749,488</u>	<u>3,453,417</u>	<u>(100,067)</u>	<u>75,102,838</u>
March 31, 2014	<u>\$ 558,658,877</u>	<u>\$ 17,770,979</u>	<u>\$ 926,959</u>	<u>\$ 577,356,815</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, 2014 or 2013.

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, 2013 from which the summarized information was derived.

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

NOTES TO COMBINED FINANCIAL STATEMENTS

Year Ended March 31, 2014
(with comparative totals for the year ended March 31, 2013)

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

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.

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).

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.

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AND
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NOTES TO COMBINED FINANCIAL STATEMENTS

Year Ended March 31, 2014
(with comparative totals for the year ended March 31, 2013)

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

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 amount of 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 \$1,000 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. 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 2014 or 2013.

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 \$1,062,559 and \$1,113,941 at March 31, 2014 and 2013, respectively.

Advertising – Advertising costs are charged to operations when incurred. Advertising expense charged to operations was \$48,859 for 2014 and \$52,362 for 2013.

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NOTES TO COMBINED FINANCIAL STATEMENTS

Year Ended March 31, 2014
(with comparative totals for the year ended March 31, 2013)

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

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, 2014 and 2013, 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 2011, 2012, and 2013 are subject to examination by the IRS, generally for the three years after they were filed. As of the date of this report, the 2014 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:

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. Assets reported at NAV using the practical expedient provisions are considered Level 2 when the Foundation has the ability to redeem its investment at net assets value or its equivalent at the measurement date or within a reasonably short period of time subsequent to the measurement date.

Level 3: Unobservable inputs for the asset or liability. Assets reported at NAV using the practical expedient provisions are considered Level 3 when the investments will never have the ability to be redeemed at the net asset value or the redemption period is long-term in nature.

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(with comparative totals for the year ended March 31, 2013)

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

Recent accounting pronouncements – In October 2012, the FASB issued ASU No. 2012-05 (“ASU 2012-05”) “Statement of Cash Flows (Topic 230), Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows.” ASU 2012-05 requires a not-for-profit entity to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any not-for-profit imposed limitations for sale and were converted nearly immediately into cash. Accordingly, the cash receipts from the sale of those financial assets should be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which case those cash receipts should be classified as cash flows from financing activities. Otherwise, cash receipts from the sale of donated financial assets should be classified as cash flows from investing activities by the not-for-profit. ASU 2012-05 is effective for the first period beginning after June 15, 2013. The amendments of this ASU will be applied prospectively, with early adoption permitted if the not-for-profit’s financial statements for the early adoption period have not yet been made available for issuance. Retrospective application to all prior periods presented is permitted, but not required. The Foundation adopted ASU 2012-05 during 2014. The adoption of this provision resulted in an increase in net cash flows from operating activities of \$9,556,639 and \$6,335,421 with corresponding reductions to net cash flows from investing activities for fiscal year 2014 and 2013, respectively, in the accompanying combined statement of cash flows.

In April 2013, the FASB issued ASU No. 2013-06 (“ASU 2013-06”) “*Not-for-Profit Entities (Topic 958): Services Received from Personnel of an Affiliate.*” ASU 2013-06 provides revenue recognition guidance for not-for-profit entities requiring that contributed services be recognized at fair value if employees of separately governed affiliated entities regularly perform services (in other than an advisory capacity) for and under the direction of the donee. In addition, that guidance indicates that those contributed services should be recognized only if they (1) create or enhance nonfinancial assets or (2) require specialized skills, are provided by individuals possessing those skills, and typically would need to be purchased if not provided by donation. ASU 2013-06 is effective for the first reporting period after December 15, 2013. The Foundation is evaluating the impact of adopting ASU 2013-06, but currently believes there will be no significant impact on their combined financial statements.

In May 2014, the FASB issued ASU No. 2014-09 (“ASU 2014-09”), Revenue from Contracts with Customers. The core principle of ASU 2014-09 is that an entity should 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. Additionally, ASU 2014-09 will require an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. For nonpublic entities, the ASU will be effective for annual reporting periods beginning after December 15, 2017 and interim periods with within annual periods beginning after December 15, 2018. Nonpublic entities may elect to early adopt the ASU, however adoption is not permitted prior to the public entity effective date. The Foundation is evaluating the impact of adopting ASU 2014-09, but currently believes there will be no significant impact on their combined financial statements.

Subsequent events – The Foundation has evaluated subsequent events through November 5, 2014, which is the date the combined financial statements were available to be issued.

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NOTES TO COMBINED FINANCIAL STATEMENTS

Year Ended March 31, 2014
(with comparative totals for the year ended March 31, 2013)

(2) Receivables

Receivables consist of:	<u>2014</u>	<u>2013</u>
Notes receivable:		
Note receivable from an entity controlled by a Board member of a support foundation, secured by a deed of trust, with interest only payments receivable annually at prime plus 1.0% (4.25% at March 31, 2014); the note is due in December 2018.	\$ 5,095,714	\$ 5,095,714
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 in December 2015.	3,661,852	-
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 pledge agreements, with interest only payments receivable annually at 7%; and a balloon payment of principal due in March 2015.	995,000	995,000
Note receivable, secured by a deed of trust on real property, receivable in monthly installments of \$3,097 including interest at 6%; the note matured in November 2012. The borrower was in default and subsequent to March 31, 2014 the Foundation received a deed in lieu of foreclosure for the underlying collateral.	510,235	510,235
Note receivable, secured by a deed of trust, receivable in monthly installments of \$1,745 including interest at 5%; the note is due in December 2040.	366,472	374,609
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.	350,000	350,000
Note receivable, secured by a deed of trust, receivable in monthly installments of \$1,163 including interest at 5%; the note is due in November 2040.	241,722	247,115
Note receivable, secured by a deed of trust, receivable in annual installments of \$50,000, no interest charged; the note is due in July 2015.	50,000	100,000

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(2) Receivables (continued)

	2014	2013
Note receivable, unsecured, receivable in monthly installments of \$4,322 including interest at 3%; the note is due in October 2016.	126,061	-
Note receivable from a Board member of a support foundation, secured by a stock purchase agreement, receivable in annual installments of \$17,888 plus interest at 5.5%; the note is due in March 2015.	23,245	23,245
Note receivable from a Board member of a support foundation, secured by a stock purchase agreement, receivable in annual installments of \$17,888 plus interest at 5.5%; the note is due in March 2015.	<u>23,245</u>	<u>23,245</u>
Total notes receivable	13,269,503	9,545,120
Allowance for doubtful notes receivable	(260,235)	(260,235)
Discount on notes receivable	<u>(92,102)</u>	<u>(95,847)</u>
Notes receivable, net	12,917,166	9,189,038
Pledges receivable	1,317,307	587,153
Bequests receivable	1,550,000	1,300,000
Other receivables	<u>132,791</u>	<u>192,991</u>
Total receivables	<u>\$ 15,971,264</u>	<u>\$ 11,269,182</u>

Scheduled collections on notes receivable at March 31, 2014 are as follows:

Years Ending March 31,

2015	\$ 1,847,228
2016	3,693,844
2017	117,111
2018	90,559
2019	5,161,826
Thereafter	<u>2,358,935</u>
Total annual collections	<u>\$ 13,269,503</u>

Interest on loans is recognized over the term of the loan 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 \$219,125 for 2014 and \$227,400 for 2013.

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.

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(2) Receivables (continued)

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

	<u>2014</u>	<u>2013</u>
Unconditional promises to give due in less than one year	\$ 89,983	\$ 412,624
Unconditional promises to give due in two to five years	841,324	174,529
Unconditional promises to give due in greater than five years	440,000	-
Total unconditional promises to give	<u>\$ 1,371,307</u>	<u>\$ 587,153</u>

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 recorded an allowance for doubtful notes receivable of \$260,235 at March 31, 2014 and 2013.

(3) Investments

Investments consist of the following at March 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Equities and equity mutual funds	\$ 351,420,083	\$ 270,326,124
Fixed income and fixed income funds	87,036,706	102,741,139
Alternative investments	101,946,660	72,774,858
Cash and cash equivalents – interest bearing	26,064,226	36,313,447
Real estate held for investment	22,844,900	21,639,900
Partnership interests	4,429,744	5,751,216
Stock in closely held companies	321,998	267,617
Life insurance and other investments	264,508	204,769
Certificates of deposit	-	303,597
Total investments	<u>\$ 594,328,825</u>	<u>\$ 510,322,667</u>

Expenses relating to investment revenues, including custodial fees and investment advisory fees of \$1,102,721 for 2014 and \$1,052,195 for 2013, 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 \$53 million at March 31, 2014 and \$34 million at March 31, 2013 for the investments held on behalf of others.

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(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 the value of split interest agreements. The present value of the estimated annuity payments for the charitable remainder trusts (\$15,070,285 at March 31, 2014 and \$10,220,526 at March 31, 2013) is calculated using discount rates of 6% for the years ended March 31, 2014 and 2013 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, 2014 and 2013 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 \$2,184,586 at March 31, 2014 and \$2,220,748 at March 31, 2013, are included in investments 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 \$2,296,254 at March 31, 2014 and \$2,502,528 at March 31, 2013.

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, 2014 and 2013, the present values of future benefits expected to be received by the Foundation were estimated to be \$2,292,257 at March 31, 2014 and \$2,761,282 at March 31, 2013.

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(4) Split interest agreements (continued)

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, 2014 and 2013.

Investments in split interest agreements consist of the following for the years ended March 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Equities and equity mutual funds	\$ 17,867,412	\$ 12,098,101
Fixed income and fixed income funds	6,027,156	4,830,667
Alternative investments	634,168	488,963
Cash and cash equivalents – interest bearing	1,401,611	790,826
Charitable lead trusts	2,292,257	2,761,282
Beneficial interest in charitable remainder trusts	5,212,576	4,981,845
Beneficial interest in life estate	220,000	220,000
Total investments	<u>\$ 33,655,180</u>	<u>\$ 26,171,684</u>

(5) Property and equipment

Property and equipment consists of:

	<u>2014</u>	<u>2013</u>
Cost:		
Land and building improvements	\$ 4,152,162	\$ 4,152,162
Furniture, fixtures and equipment	1,577,565	1,357,465
Leasehold improvements	796,301	796,301
Art objects	29,257	29,257
Total cost	6,555,285	6,335,185
Accumulated depreciation and amortization	(1,018,276)	(768,013)
Net property and equipment	<u>\$ 5,537,009</u>	<u>\$ 5,567,172</u>

Depreciation and amortization expense charged to operations was \$270,232 for 2014 and \$332,851 for 2013.

(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 .13% to 2.30%. The following is a summary of grants authorized and payable at March 31:

	<u>2014</u>	<u>2013</u>
Grants payable to be paid in less than one year	\$ 1,231,547	\$ 4,036,389
Grants payable to be paid in one to five years	5,375,024	782,538
Gross grants authorized but unpaid	6,606,571	4,818,927
Less: discount on long-term grants	(119,890)	(8,784)
Net grants authorized but unpaid	<u>\$ 6,486,681</u>	<u>\$ 4,810,143</u>

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(7) Agency endowment 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 endowment funds.

The Foundation maintains variance power and legal ownership of agency endowment 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 endowment funds is summarized as follows:

	<u>2014</u>	<u>2013</u>
Agency endowment funds, beginning of year	\$ 34,336,868	\$ 28,242,585
Contributions	15,095,020	5,884,746
Investment income	536,277	482,705
Realized and unrealized investment gains	5,432,293	2,808,183
Withdrawal of funds	(478,617)	(116,041)
Grants	(1,386,471)	(2,693,454)
Administration and investment fees	(401,962)	(271,856)
Agency endowment funds, end of year	<u>\$ 53,133,408</u>	<u>\$ 34,336,868</u>

(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.

(9) Endowments

The Foundation's endowments consist of approximately 950 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 U.S. generally accepted accounting principles, 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.

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(9) Endowments (continued)

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, 2014, the Foundation has 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.

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 current spending policy is 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, 2014 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 8,905,623	\$ -	\$ 8,905,623
Board-designated endowment funds	<u>557,679,792</u>	<u>-</u>	<u>-</u>	<u>557,679,792</u>
Total funds	<u>\$ 557,679,792</u>	<u>\$ 8,905,623</u>	<u>\$ -</u>	<u>\$ 566,585,415</u>

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(9) Endowments (continued)

The change in endowment net assets for the year ended March 31, 2014 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, April 1, 2013	\$ 485,714,556	\$ 5,767,283	\$ -	\$ 491,481,839
Contributions	61,245,067	8,094,894	-	69,339,961
Investment return:				
Investment income, net	6,482,255	-	-	6,482,255
Realized and unrealized gains	55,224,446	-	-	55,224,447
Change in value of charitable remainder trusts	(77,488)	(4,028,362)	-	(4,105,850)
Appropriation of endowment assets for expenditure	<u>(50,909,044)</u>	<u>(928,192)</u>	<u>-</u>	<u>(51,837,237)</u>
Endowment net assets, March 31, 2014	<u>\$ 557,679,792</u>	<u>\$ 8,905,623</u>	<u>\$ -</u>	<u>\$ 556,585,415</u>

The endowment net assets composition by type of fund as of March 31, 2013 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 5,767,283	\$ -	\$ 5,767,283
Board-designated endowment funds	<u>485,714,556</u>	<u>-</u>	<u>-</u>	<u>485,714,556</u>
Total funds	<u>\$ 485,714,556</u>	<u>\$ 5,767,283</u>	<u>\$ -</u>	<u>\$ 491,481,839</u>

The change in endowment net assets for the year ended March 31, 2013 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, April 1, 2012	\$ 436,963,157	\$ 6,714,966	\$ -	\$ 443,678,123
Contributions	57,893,595	-	-	57,893,595
Investment return:				
Investment income, net	6,656,551	-	-	6,656,551
Realized and unrealized gains	32,093,842	-	-	32,093,842
Change in value of charitable remainder trusts	(156,427)	(947,683)	-	(1,104,110)
Appropriation of endowment assets for expenditure	<u>(47,736,162)</u>	<u>-</u>	<u>-</u>	<u>(47,736,162)</u>
Endowment net assets, March 31, 2013	<u>\$ 485,714,556</u>	<u>\$ 5,767,283</u>	<u>\$ -</u>	<u>\$ 491,481,839</u>

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(10) Fundraising expenses

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

	2014	2013
Salaries and wages	\$ 1,276,435	\$ 1,198,823
Employee benefits	209,047	145,691
Payroll taxes	74,914	67,761
Marketing	83,812	124,824
Travel	48,070	51,874
Events	421,948	36,489
Other	351,377	640,582
Total fundraising expenses	\$ 2,465,603	\$ 2,266,044

(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. In 2012, ACF contributed between 3% and 12% of the eligible employees’ annual compensation depending on length of employment. In 2013, the plan was amended to change the employer match percentage to 0% for the employee’s first year, and 6% match for all subsequent years. ACF made contributions to the plan of \$259,878 for 2014 and \$278,959 for 2013.

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 contributions of \$19,500 for 2014 and \$18,000 for 2013.

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. As of March 31, 2014, the Ellis Center has no employees. Ellis made contributions of \$0 for 2014 and \$17,845 for 2013.

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 \$150,084 for 2014 and \$174,254 for 2013. The plan also includes a provision for Rodel to make discretionary contributions to the plan. There were no discretionary contributions made during 2014 and 2013.

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(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, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities and equity mutual funds:				
Large cap funds	\$ 112,245,925	\$ -	\$ -	\$ 112,245,925
Small/mid cap funds	34,416,648	-	-	34,416,648
International funds	80,580,667	-	-	80,580,667
Other equity funds	25,364,174	-	-	25,364,174
Financial services	20,663,610	-	-	20,663,610
Industrial	15,053,301	-	-	15,053,301
Information technology	13,707,029	-	-	13,707,029
Health Care	10,768,237	-	-	10,768,237
Other equities	56,487,904	-	-	56,487,904
Fixed income and fixed income funds:				
Int. term bond funds	45,402,724	-	-	45,402,724
Other fixed income funds	12,624,434	-	-	12,624,434
Corporate bonds	-	22,403,260	-	22,403,260
U.S. treasuries and agency securities	-	10,008,450	-	10,008,450
Other debt securities and bonds	-	2,624,994	-	2,624,994
Alternative investments:				
Equity long-short	-	36,106,368	-	36,106,368
Private equity fund of funds	-	3,416,679	34,073,652	37,490,331
Other alternative investments	-	23,427,017	5,557,112	28,984,129
Life insurance and other investments	264,508	-	-	264,508
Real estate held for investment	-	-	22,844,900	22,844,900
Partnerships interests	-	-	4,429,744	4,429,744
Stock in closely held companies	-	-	321,998	321,998
Charitable lead trusts, beneficial interest in charitable remainder trusts and beneficial interest in life estate	-	-	7,724,833	7,724,833
Agency endowment funds liability	-	(53,133,408)	-	(53,133,408)
Total	<u>\$ 427,579,161</u>	<u>\$ 44,853,360</u>	<u>\$ 74,952,239</u>	<u>\$ 547,384,760</u>

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(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, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities and equity mutual funds:				
Consumer discretionary	\$ 25,394,216	\$ -	\$ -	\$ 25,394,216
Financial services	46,667,990	-	-	46,667,990
Industrial	29,917,752	-	-	29,917,752
Information technology	29,140,693	-	-	29,140,693
Health care	25,832,732	-	-	25,832,732
Energy	943,326	-	-	943,326
Other equities and equity mutual funds	124,527,516	-	-	124,527,516
Fixed income funds:				
Corporate bonds	33,758,385	-	-	33,758,385
Mortgage backed securities	17,269,181	-	-	17,269,181
U.S. treasuries and agency securities	39,629,773	-	-	39,629,773
Other debt securities and bonds	16,914,467	-	-	16,914,467
Alternative investments:				
Equity long-short	518,321	37,597,668	-	38,115,989
Other alternative investments	5,213,832	2,707,461	27,226,539	35,147,832
Real estate held for investment	-	-	21,639,900	21,639,900
Partnerships interests	-	-	5,751,216	5,751,216
Stock in closely held companies	-	-	267,617	267,617
Certificates of deposit	-	303,597	-	303,597
Other investments	204,769	-	-	204,769
Charitable lead trusts, beneficial interest in charitable remainder trusts and beneficial interest in life estate	-	-	7,963,127	7,963,127
Agency endowment funds liability	-	(34,336,868)	-	(34,336,868)
Total	<u>\$ 395,932,953</u>	<u>\$ 6,271,858</u>	<u>\$ 62,848,399</u>	<u>\$ 465,053,210</u>

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(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, 2014:

	<u>Real estate held for investment</u>	<u>Partnership Interests and stock in closely held companies</u>	<u>Charitable lead trusts, beneficial interest in trusts</u>	<u>Private equity fund of funds, other alternative investments</u>	<u>Total</u>
Balance at April 1, 2013	\$ 21,639,900	\$ 6,018,833	\$ 7,963,127	\$ 27,226,539	\$ 62,848,399
Change in value of split-interest agreements	-	-	(238,294)	-	(238,294)
Purchases and contributions	250,000	53,536	-	5,963,408	6,266,944
Sales	-	(284,672)	-	-	(284,672)
Reclassification to other alternative investments	-	(1,075,173)	-	1,075,173	-
Investment income	-	-	-	243,582	243,582
Realized and unrealized gains (losses)	<u>955,000</u>	<u>39,218</u>	<u>-</u>	<u>5,122,062</u>	<u>6,116,280</u>
Balance at March 31, 2014	<u>\$ 22,844,900</u>	<u>\$ 4,751,742</u>	<u>\$ 7,724,833</u>	<u>\$ 39,630,764</u>	<u>\$ 74,952,239</u>

The table below presents the change in fair value measurements that used Level 3 inputs during the year ended March 31, 2013:

	<u>Real estate held for investment</u>	<u>Partnership Interests and stock in closely held companies</u>	<u>Charitable lead trusts, beneficial interest in trusts</u>	<u>Other alternative investments</u>	<u>Total</u>
Balance at April 1, 2012	\$ 22,754,150	\$ 9,958,555	\$ 8,112,865	\$ 22,360,369	\$ 63,185,939
Change in value of split-interest agreements	-	-	(149,738)	-	(149,738)
Purchases	-	4,478,217	-	2,538,767	7,016,984
Sales	-	(8,426,362)	-	-	(8,426,362)
Investment income	-	-	-	16,594	16,594
Realized and unrealized gains (losses)	<u>(1,114,250)</u>	<u>8,423</u>	<u>-</u>	<u>2,310,809</u>	<u>1,204,982</u>
Balance at March 31, 2013	<u>\$ 21,639,900</u>	<u>\$ 6,018,833</u>	<u>\$ 7,963,127</u>	<u>\$ 27,226,539</u>	<u>\$ 62,848,399</u>

**THE ARIZONA COMMUNITY FOUNDATION, INC.
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Year Ended March 31, 2014
(with comparative totals for the year ended March 31, 2013)

(12) Fair value measurements (continued)

The Foundation currently has no other financial instruments subject to fair value measurement other than at initial recognition. The Foundation estimates that the fair value of cash, receivables, bequest receivables, accounts payable and accrued expenses at March 31, 2014 and 2013 does not materially differ from the aggregate carrying values of its financial instruments recorded in the accompanying combined statement of financial position due to the short maturities of those instruments. The fair value of promises to give, grants payable, and notes receivable, which approximates the carrying value, is estimated by discounting the future cash flows using current rates at which similar instruments would be made with similar credit ratings and for similar maturities. The fair value of the present value of annuity payments is discounted using the payout rates of each trust, based on the life expectancy of the annuitants as actuarially determined, and approximates fair value.

In accordance with FASB ASC 820, the Foundation is required to disclose the nature and risks of the investments reported at NAV.

The following table summarizes the nature and risk of these investments as of March 31, 2014.

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Equity Long/Short Hedge Funds	\$ 36,106,368	\$ -	quarterly	30 day notice
Private Equity Fund of Funds	34,073,652	26,830,000	n/a	n/a
Private Equity Fund of Funds	3,416,679	277,483	quarterly	60 day notice
Other Alternative Investment Funds	5,557,112	3,320,000	n/a	n/a
Multi-strategy Funds	<u>23,427,017</u>	-	annual	30 to 60 day notice
Total	<u>\$ 102,580,828</u>	<u>\$ 30,427,483</u>		

The following table summarizes the nature and risk of these investments as of March 31, 2013.

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Equity Long/Short Hedge Funds	\$ 37,597,668	\$ -	quarterly	30 day notice
Private Equity Funds				
- International	21,411,450	12,980,000	n/a	n/a
Private Equity Fund of Funds	5,815,089	4,200,000	n/a	n/a
Other Alternative Investment Funds	695,810	-	n/a	n/a
Capital Preservation Funds	1,455,960	-	quarterly	35 day notice
Multi-strategy Equity Funds	357,514	-	quarterly	n/a
Event Driven Hedge Funds	198,177	-	quarterly	60 day notice
Total	<u>\$ 67,531,668</u>	<u>\$ 17,180,000</u>		

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(12) Fair value measurements (continued)

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. The fair values of the investments in this category have been estimated using the net asset value per share of the underlying investments.

Private Equity 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. Fair values of the investments in this category have been estimated using the net asset value per share of the underlying investments. While the manager will make distributions over the life of the Fund as exit opportunities arise, redemptions are not permitted.

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. The fair values of the investments in this category have been estimated using the net asset value per share of the underlying investments. While the manager will make distributions over the life of the Fund as exit opportunities arise, redemptions are not permitted.

Capital Preservation Funds – This category contains a limited partnership whose investment objective is to preserve capital and to generate consistent long-term appreciation across all market cycles. Underlying investments in this category include, but is not limited to, limited partnerships, limited liability companies, offshore corporations and other foreign investment vehicles, registered investment companies and direct investments in marketable securities and derivative instruments. Assets are allocated broadly across markets, asset classes, and risk profiles. Fair values of the investments in this category have been estimated using the net asset value per share of the investments.

Multi-strategy Equity 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. The fair values of the investments in this category have been estimated using the net asset value per share of the investments.

Event Driven Hedge Funds – The Absolute Return and Total Return L.P.'s are diversified fund of funds hedge funds. Both the Absolute Return and Total Return have approximately 12-14 underlying hedge fund investments. The Absolute Return fund is comprised of arbitrage-based strategies that are meant to serve as a fixed income surrogate. The Total Return fund includes funds focused on equity-long short, event driven, global macro and distressed situations and serve as an equity surrogate. The fair values of the investments in this category have been estimated using the net asset value per share of the investments.

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Year Ended March 31, 2014
(with comparative totals for the year ended March 31, 2013)

(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. Minimum future rental payments under noncancellable operating leases having remaining terms in excess of one year are as follows:

<u>Years Ending March 31,</u>	
2015	\$ 666,559
2016	716,036
2017	658,703
2018	441,667
2019	441,667
Thereafter	<u>1,254,818</u>
Total minimum future rental payments	<u>\$ 4,179,450</u>

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 \$709,166 for 2014 and \$648,356 for 2013.

(14) Lines of credit

Effective November 2013, the Foundation renewed an unsecured line of credit agreement with a financial institution with a maximum borrowing limit of \$2,000,000. The line of credit matures on November 1, 2014, at which time any unpaid interest and principal is due. Interest is charged at LIBOR plus 2.150%, with a minimum rate of 3%. At March 31, 2014, the rate in effect was the minimum rate of 3%. No amounts were outstanding under the line of credit as of March 31, 2014 and 2013.

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 of credit matures on May 1, 2018, at which time any unpaid interest and principal is due. Interest is charged at 2.5% and is payable quarterly. No amounts were outstanding under the line of credit as of March 31, 2014. Proceeds from the line of credit are expressly restricted to provide financing loans to nonprofit community based organizations in Arizona.



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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, 2014, and our report thereon dated November 5, 2014 which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audit was conducted 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 28 and 29 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.

Phoenix, Arizona
November 5, 2014

Mayer Hoffman McCann P.C.

**THE ARIZONA COMMUNITY FOUNDATION, INC.
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ADDITIONAL INFORMATION

March 31, 2014

COMBINING SCHEDULE OF FINANCIAL POSITION

	<u>ASSETS</u>			
	<u>Arizona Community Foundation</u>	<u>Support Foundations</u>	<u>Eliminations and Reclassifications</u>	<u>Combined</u>
CASH AND CASH EQUIVALENTS	\$ 3,868,781	\$ 3,429,975	\$ -	\$ 7,298,756
RECEIVABLES, net	6,800,090	9,186,674	(15,500)	15,971,264
PREPAID EXPENSES AND OTHER ASSETS	45,632	127,211	-	172,843
INVESTMENTS	434,387,661	159,941,164	-	594,328,825
SPLIT INTEREST AGREEMENTS	33,655,180	-	-	33,655,180
PROPERTY AND EQUIPMENT, net	<u>1,246,498</u>	<u>4,290,511</u>	<u>-</u>	<u>5,537,009</u>
TOTAL ASSETS	<u>\$ 480,003,842</u>	<u>\$ 176,975,535</u>	<u>\$ (15,500)</u>	<u>\$ 656,963,877</u>

LIABILITIES AND NET ASSETS

ACCOUNTS PAYABLE AND ACCRUED EXPENSES	\$ 1,140,597	\$ 432,778	\$ (15,500)	\$ 1,557,875
GRANTS PAYABLE	3,435,310	3,051,371	-	6,486,681
PRESENT VALUE OF ANNUITY PAYMENTS	17,366,539	-	-	17,366,539
DEFERRED RENT	1,062,559	-	-	1,062,559
AGENCY ENDOWMENT FUNDS	<u>53,133,408</u>	<u>-</u>	<u>-</u>	<u>53,133,408</u>
TOTAL LIABILITIES	76,138,413	3,484,149	(15,500)	79,607,062
NET ASSETS	<u>403,865,429</u>	<u>173,491,386</u>	<u>-</u>	<u>577,356,815</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 480,003,842</u>	<u>\$ 176,975,535</u>	<u>\$ (15,500)</u>	<u>\$ 656,963,877</u>

**THE ARIZONA COMMUNITY FOUNDATION, INC.
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ADDITIONAL INFORMATION

Year Ended March 31, 2014

COMBINING SCHEDULE OF ACTIVITIES

	<u>Arizona Community Foundation</u>	<u>Support Foundations</u>	<u>Eliminations and Reclassifications</u>	<u>Combined</u>
CONTRIBUTIONS, REVENUES AND OTHER SUPPORT				
Contributions	\$ 63,909,590	\$ 2,121,308	\$ -	\$ 66,030,898
Inherent contribution from acquisition	-	5,384,960	-	5,384,960
Interest and dividend income	4,873,933	2,763,226	-	7,637,159
Realized/unrealized investment gains	41,327,932	14,182,968	-	55,510,900
Change in split interest agreements	(4,212,165)	-	-	(4,212,165)
Administrative and trustee fee revenues	1,490,341	-	(1,024,640)	465,701
Interfund gifts	13,498,788	1,395,082	(14,893,870)	-
Rental income	228,518	473,639	-	702,157
Other income	<u>255,099</u>	<u>(5,722)</u>	<u>-</u>	<u>249,377</u>
TOTAL CONTRIBUTIONS, REVENUES AND OTHER SUPPORT	<u>121,372,036</u>	<u>26,315,461</u>	<u>(15,918,510)</u>	<u>131,768,987</u>
EXPENSES				
Program expenses				
Grants	33,799,131	5,422,707	(100)	39,221,738
Interfund grants	14,382,946	510,824	(14,893,770)	-
Other program expenses	<u>5,823,863</u>	<u>3,319,244</u>	<u>-</u>	<u>9,143,107</u>
Total program expenses	54,005,940	9,252,775	(14,893,870)	48,364,845
Management and general	5,079,021	1,781,320	(1,024,640)	5,835,701
Fundraising	<u>2,342,993</u>	<u>122,610</u>	<u>-</u>	<u>2,465,603</u>
TOTAL EXPENSES	<u>61,427,954</u>	<u>11,156,705</u>	<u>(15,918,510)</u>	<u>56,666,149</u>
CHANGE IN NET ASSETS	<u>\$ 59,944,082</u>	<u>\$ 15,158,756</u>	<u>\$ -</u>	<u>\$ 75,102,838</u>

See Independent Auditors' Report on Additional Information