Financial Reports

THE ARIZONA COMMUNITY FOUNDATION, INC.
AND
SUPPORT FOUNDATIONS

COMBINED FINANCIAL STATEMENTS

Year Ended March 31, 2019

Henry+Horne

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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, 2019, and the related combined statements of activities, functional expenses, 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, 2019, 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

The summarized combined financial statements of ***The Arizona Community Foundation, Inc. and Support Foundations,*** as of March 31, 2018, were audited by other auditors whose report dated September 11, 2018, expressed an unmodified opinion on those combined financial statements.

Henry + Horne, LLP

Tempe, Arizona
October 2, 2019

THE ARIZONA COMMUNITY FOUNDATION, INC.
AND
SUPPORT FOUNDATIONS
COMBINED STATEMENT OF FINANCIAL POSITION
March 31, 2019 and March 31, 2018

	2019	2018
ASSETS		
CASH AND CASH EQUIVALENTS	$ 6,887,762	$ 5,227,346
PREPAID EXPENSES AND OTHER ASSETS	351,417	327,147
RECEIVABLES, net	48,043,878	51,592,406
INVESTMENTS	904,717,665	876,105,833
PROPERTY AND EQUIPMENT, net	559,242	5,344,977
TOTAL ASSETS	$ 960,559,964	$ 938,597,709
LIABILITIES AND NET ASSETS		
LIABILITIES		
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	$ 1,017,942	$ 476,340
GRANTS PAYABLE	8,340,350	6,752,647
PRESENT VALUE OF ANNUITY PAYMENTS		
Charitable remainder trusts	14,115,637	14,467,781
Charitable gift annuities	1,313,681	1,340,524
TOTAL PRESENT VALUE OF ANNUITY PAYMENTS	15,429,318	15,808,305
RENT ACCRUED UNDER NON-LEVEL LEASES	200,812	774,071
PROGRAMMATIC REVOLVING LOANS	1,225,000	2,425,000
AGENCY FUNDS AND FUNDS HELD FOR OTHERS	97,421,044	95,322,043
TOTAL LIABILITIES	123,634,466	121,558,406
NET ASSETS		
Without donor restrictions	817,458,575	798,259,881
With donor restrictions	19,466,923	18,779,422
TOTAL NET ASSETS	836,925,498	817,039,303
TOTAL LIABILITIES AND NET ASSETS	$ 960,559,964	$ 938,597,709

THE ARIZONA COMMUNITY FOUNDATION, INC.
AND
SUPPORT FOUNDATIONS
COMBINED STATEMENT OF ACTIVITIES
Year Ended March 31, 2019
(with comparative totals for the year ended March 31, 2018)

	Without Donor Restrictions	With Donor Restrictions	Totals 2019	Totals 2018 *
CONTRIBUTIONS, REVENUES AND OTHER SUPPORT				
Contributions	$ 68,041,764	$ 622,321	$ 68,664,085	$ 108,714,340
Investment income	20,415,346	-	20,415,346	58,172,786
Interest from notes receivables	545,255	-	545,255	733,150
Change in split interest agreements	-	262,983	262,983	964,574
Administrative and trustee fee revenues	907,735	.	907,735	870,480
Rental income	814,022	-	814,022	784,897
Other income (charges)	119,262	-	119,262	(406,104)
Total contributions, revenues and other support before net assets released from restrictions	90,843,384	885,304	91,728,688	169,834,123
Net assets released from restrictions				
Charitable lead trusts	197,803	(197,803)	-	-
TOTAL CONTRIBUTIONS, REVENUES AND OTHER SUPPORT	91,041,187	687,501	91,728,688	169,834,123
EXPENSES				
Program expenses:				
Grants and scholarships	54,716,065	-	54,716,065	56,657,412
Other program expenses	7,091,631	-	7,091,631	8,475,477
Total program expenses	61,807,696	-	61,807,696	65,132,889
Management and general	6,225,260	-	6,225,260	7,180,332
Fundraising	3,809,537	-	3,809,537	3,312,728
TOTAL EXPENSES	71,842,493	-	71,842,493	75,625,949
CHANGE IN NET ASSETS	19,198,694	687,501	19,886,195	94,208,174
NET ASSETS, BEGINNING OF YEAR	798,259,881	18,779,422	817,039,303	722,831,129
NET ASSETS, END OF YEAR	$ 817,458,575	$ 19,466,923	$ 836,925,498	$ 817,039,303

*Reclassified to conform to current year presentation

THE ARIZONA COMMUNITY FOUNDATION, INC.
AND
SUPPORT FOUNDATIONS
Year Ended March 31, 2019

COMBINED STATEMENT OF FUNCTIONAL EXPENSES

	Program Services	Other Program	Total Program	Management and General	Fundraising	Total
Grants & Scholarships	$ 54,716,065	-	$ 54,716,065	$ -	$ -	$ 54,716,065
Salaries & Wages	-	1,902,043	1,902,043	2,466,829	1,939,665	6,308,537
Retirement Plan Contributions	-	94,023	94,023	150,137	131,758	375,918
Other Employee Benefits	-	201,185	201,185	273,116	167,873	642,174
Payroll Taxes	-	124,124	124,124	159,160	116,475	399,759
Advertising and Promotion	-	143,814	143,814	157,463	163,729	465,006
Conferences, Conventions and Meetings	-	114,708	114,708	61,736	58,868	235,312
Depreciation	-	227,345	227,345	78,970	74,969	381,284
Dues, Subscriptions & Publications	-	73,200	73,200	139,672	34,991	247,863
Event Expenses	-	-	-	-	712,745	712,745
General Program Expenses	-	682,150	682,150	-	-	682,150
Information Technology	-	97,018	97,018	668,039	36,511	801,568
Insurance	-	33,080	33,080	162,928	237	196,245
Interest	-	105,714	105,714	118,923	-	224,637
Occupancy	-	52,421	52,421	580,710	37,277	670,408
Office Expenses	-	33,850	33,850	233,677	38,753	306,280
Other Expenses	-	97,420	97,420	56,369	20,784	174,573
Professional Services	-	2,838,561	2,838,561	754,366	141,504	3,734,431
Real Property Expense	-	136,198	136,198	48,269	-	184,467
Travel	-	134,777	134,777	114,896	133,398	383,071
Total	$ 54,716,065	$ 7,091,631	$ 61,807,696	$ 6,225,260	$ 3,809,537	$ 71,842,493

THE ARIZONA COMMUNITY FOUNDATION, INC.
AND
SUPPORT FOUNDATIONS
COMBINED STATEMENT OF CASH FLOWS
Year Ended March 31, 2019

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 19,886,195	$ 94,208,174
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Donated investments	(4,136,343)	(25,022,981)
Realized/unrealized investment (gains) losses	(2,623,910)	(44,306,282)
Provision for uncollectible pledges receivable	-	602,904
Change in split interest agreements and present value of annuity payments, net	(378,987)	(895,258)
Change in discount on notes receivable	-	(203,626)
Change in discount on grants payable	-	110,333
Depreciation and amortization	381,284	438,892
Loss on disposal of property and equipment	4,583,705	340,059
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivables	14,328,952	(18,166,856)
Prepaid expenses and other assets	(24,271)	31,821
Increase (decrease) in:		
Accounts payable and accrued expenses	541,602	(310,378)
Grants payable	1,587,703	(733,891)
Deferred rent	(573,259)	(37,142)
Agency funds	504,224	9,902,590
Net cash provided by operating activities	34,076,895	15,958,359
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	174,942,860	116,705,948
Collections on notes receivable	2,026,689	4,208,206
Purchases of investments	(178,594,128)	(117,092,741)
Interest and dividends reinvested	(16,605,534)	(15,915,531)
Issuance of notes receivable	(12,807,113)	(2,544,066)
Purchases of property and equipment	(179,253)	(816,528)
Net cash used in investing activities	(31,216,479)	(15,454,712)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment on programmatic revolving loans	(1,200,000)	-
Net cash used in financing activities	(1,200,000)	-
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,660,416	503,647
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	5,227,346	4,723,699
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 6,887,762	$ 5,227,346
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING ACTIVITIES		
Realized/unrealized gains (losses) on agency fund investments	$ 1,594,777	$ 5,746,097
Donated real estate investments	$ 4,136,343	$ 25,022,981

(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 in support of the Foundation's exempt purpose. The Support Foundations consist of the following entities:

- AFC Public Foundation
- Armstrong Family Foundation
- Arizona Foundation for Women
- Jane Starke Boyd and Alexander Boyd AZ Charitable Foundation
- 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
- Petznick Stewart 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

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

During the fiscal year ended March 31, 2018, WAZE Foundation and Vogel Charitable Foundation disposed of essentially all of their assets, but they continue to exist as separate legal entities.

During the fiscal year ended March 31, 2019, the Petznick Stewart Foundation and the Jane Starke Boyd and Alexander Boyd AZ Charitable Foundation were formed as new supporting organizations.

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

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"). Included in the Support Foundations is a wholly owned subsidiary of the Wellik Foundation, which requires consolidation and was the result of a gift to that organization. The underlying assets of this subsidiary were liquidated during the year ended March 31, 2019. 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.

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 two groups of net assets:

- Net assets without donor restrictions: net assets that are not subject to donor-imposed stipulations and donor-restricted contributions whose restrictions are met in the same reporting period.
- Net assets with donor restrictions: net assets subject to donor-imposed stipulations that will be either met by actions of the Foundation or the passage of time.

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

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, including unconditional promises to give, are recognized as revenues in the period received. Contributions are recorded without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions 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 contributions without donor restrictions. Two donors comprised 25% of total contributions for the year ended March 31, 2019. One donor comprised 26% of total contributions for the year ended March 31, 2018.

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 contributions with donor restrictions when the assets are placed in service. The Foundation records donations of property and equipment that are not restricted as to their use by the donor as contributions without donor restrictions.

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 GAAP. Accordingly, such information should be read in conjunction with the Foundation's combined financial statements for the year ended March 31, 2018, 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. Significant estimates have been made by management in determining the fair value of investments. Due to uncertainties in estimating these values, it is possible that the estimates could change in the near term.

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

Fair value measurements – FASB ASC 820, *Fair Value Measurements*, establishes a common definition for fair value, establishes a framework for measuring fair value, and expands disclosures about such fair value measurements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs. FASB ASC 820 establishes a hierarchy for ranking the quality and reliability of the inputs used to measure fair values, and requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

The Foundation's policy for determining the timing of significant transfers between levels of the fair value hierarchy is at the date of the event or change in circumstances that caused the transfer. Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in methodologies used during the year ended March 31, 2019.

Equity securities, debt securities, and mutual funds	Valued at the closing price reported in the active market.
Real estate	Valued at the lesser of the most recent appraised value or listed sale value.
Closely held stocks or partnership interests	Valued using either cost approach, relative value, or discounted cash flows, with applicable discounts.
Life insurance policies	Valued at cash surrender value.
Alternative investments	Valued using net asset value of the shares held at year end as the practical expedient for fair value.
Annuity liabilities under split interest agreements	Valued at the present value of future cash flows using actuarial mortality tables.

These methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or inputs to determine the fair value of certain financial instruments could result in a different fair value at the reporting date.

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

Cash and cash equivalents – For purposes of the combined statement of cash flows, cash and cash equivalents include liquid accounts with original maturities of three months or less that are not designated for investment purposes. 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.

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 at fair value all investments in debt and equity securities that have readily determinable fair values. Under FASB ASC 958-325, other assets held as investments are recorded at fair value at the dates they 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.

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

Investments (Continued) - The Foundation's primary investment objective is to prudently manage charitable assets to achieve positive, long-term rates of return. To meet its objectives, the Foundation offers a variety of investment options to serve donors' charitable goals and time horizons.

- Pooled Investments consist of four distinct investment pools whose holdings are selected in order to seek long-term capital appreciation, while achieving various degrees of liquidity, market volatility risks, and social impact objectives. Pooled investments are managed by third-party investment managers and are monitored by management and the Investment Committee of the Board of Directors.
- Brokered Investments are managed by external money managers who are recommended by donors and who are independent of the Foundation and its donors. These managers agree to adhere to investment guidelines and policies prescribed by the Foundation.
- All other investments are managed on an individual basis to maximize preservation of the original gift value and liquidity.

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.

The Foundation invests in alternative investments, which include institutional funds, private equity funds, and limited liability companies. Institutional funds are multi-strategy, comingled equity and bond funds. Private equity funds are comprised of investments in limited partnerships. These partnerships generally represent restricted investment securities whose values have been estimated by the managing partner of the partnership in the absence of readily ascertainable market values.

Investment return or loss is included in the statements of activities and consists of interest and dividend income, realized and unrealized gains and losses, less external investment expenses.

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.

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

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 2019 and 2018.

Split interest agreements – The Foundation has entered into several agreements for charitable gift annuities, charitable remainder trusts, and charitable lead trusts. In some cases, the Foundation is the trustee and at other times, it holds a beneficial interest in the agreement. Under these agreements, the donor contributes assets into a trust in exchange for either regular distributions for a specified period of time to the donor or other beneficiaries, or a remainder interest at the end of the trust term. In either case, the Foundation is either a full or partial beneficiary of the alternate interest.

Irrevocable Charitable Remainder Trusts - Foundation as Trustee

Payments are made to the 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. Investments held in the charitable remainder trusts are reported at fair value. A liability is recognized at inception of the trust at the present value of the estimated payments to beneficiaries over the trust term, with the remainder value to the Foundation recognized as contributions with donor restrictions. The liability is revalued annually using present value techniques. Investment returns and liability changes 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 ($14,115,637 at March 31, 2019 and $14,467,781 at March 31, 2018) is calculated using discount rates of 2.41% and 4.89% for the years ended March 31, 2019 and 2018, respectively, and the applicable Internal Revenue Service mortality tables.

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

Split interest agreements (continued)

Irrevocable Charitable Remainder Trusts – Third Party as Trustee

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 ($6,293,351 at March 31, 2019 and $5,743,304 at March 31, 2018) is calculated using discount rates of 2.41% and 4.89% for the years ended March 31, 2019 and 2018, respectively, and the applicable Internal Revenue Service mortality tables. These split interest agreements are presented as receivables in the accompanying statement of financial position, as the Foundation does not manage the underlying investments.

Charitable Lead Trusts

The Foundation is the named beneficiary in charitable lead trusts in which the Foundation is not the trustee. Under these agreements, the Foundation has recorded a receivable for the present value of the estimated cash flows from the trust, which has been estimated using discount rates of 2.41% and 4.89%, for the years ended March 31, 2019 and 2018, respectively, and the applicable Internal Revenue Service mortality tables.

Charitable Gift Annuities

The Foundation currently administers charitable gift annuities that provide a periodic payment to the beneficiaries until the obligation is completed in accordance with the underlying agreement. The assets contributed under the charitable gift annuity agreements are carried at fair value. 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 annually for the accretion of the discount, changes in rates, and other changes in the estimates of future benefits. The Foundation has insured a portion of these instruments in order to reduce the Foundation's risk and exposure. Accordingly, a portion of these agreements are administered by a third party insurance company under a group annuity contract. The related liabilities for these agreements are offset in the accompanying statement of financial position by a group annuity contract, which reflects the estimate of the contract's benefit.

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

Rent accrued under non-level leases – The Foundation accounts for its leases in accordance with FASB ASC 840, *Leases*. Certain operating leases contain escalation, abatement and tenant improvement allowance provisions. The Foundation recognizes the total lease commitment ratably over the life of the lease, regardless of the payment terms. The cumulative difference between rent charged to expense and the rent paid is recorded as rent accrued under non-level leases on the combined statement of financial position. The cumulative difference between rent paid and rent charged to expense was $200,812 at March 31, 2019 and $774,071 at March 31, 2018.

Advertising – Advertising costs are charged to operations when incurred. Advertising expense charged to operations was $71,720 and $47,124 for 2019 and 2018, respectively.

Grants and scholarships – Grants and scholarships are recorded when approved. In some instances, the recipient is required to meet certain conditions prior to receiving the funds. Due to the uncertainty of the probability of meeting these conditions, recognition of the expense is delayed until such time as the condition is met. Certain grants and scholarships are not conditional, but are scheduled to be paid in future years. Management has recorded these at face value, as it has been determined that the applicable discount is not material to the financial statements as a whole.

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.

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

Income tax status (continued)

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, 2019, 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 2016, 2017, and 2018 are subject to examination by the IRS, generally for the three years after they were filed. As of the date of this report, the 2019 returns had not yet been filed.

Reclassifications – Certain accounts in the prior year combined financial statements have been reclassified for comparative purposes to conform with the presentation of the current year combined financial statements.

Change in accounting principle – 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*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Foundation has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented and resulted in the temporarily restricted net asset balance ($18,779,422) and the unrestricted net asset balance ($798,259,881) at March 31, 2018 being renamed net assets with donor restrictions and net assets without donor restrictions, respectively. Also, a new disclosure about liquidity and availability has been added.

Subsequent events – The Foundation has evaluated subsequent events through October 2, 2019, which is the date the combined financial statements were available to be issued.

(2) Liquidity

The following table reflects the Foundation's financial assets as of March 31, 2019, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, trust assets, assets held for others, and endowments net of amounts available to spend within one year in accordance with the spending policy.

Financial assets:	
Cash	$ 6,887,762
Receivables	48,043,878
Prepaid expenses	351,417
Investments	904,717,665
Total financial assets	960,000,722
Amounts not available in the next year:	
Long term loans and notes receivable	(35,022,461)
Beneficial interests in split interest trusts	(6,851,690)
Investments held in trusts	(24,467,131)
Investments in real estate	(21,616,000)
Illiquid investments	(166,814,323)
Agency funds held for others	(97,421,044)
Pooled investments held under charitable gift annuity agreements	(1,270,125)
Board designated endowment funds, net of amount available to spend	(120,192,894)
Financial assets available to meet cash needs for expenditures within one year	$ 486,345,054

(3) Receivables

For the years ended March 31, 2019 and 2018, receivables consisted of the following:

	2019	2018
Notes receivable, net	$ 21,529,418	$ 10,748,994
Bequests receivable	19,144,684	34,030,688
Beneficial interest in charitable remainder trusts	6,293,351	5,743,304
Charitable lead trusts	756,339	877,817
Other	320,086	191,603
	$ 48,043,878	$ 51,592,406

Notes receivable are comprised of promissory notes contributed to the Foundation by donors and notes receivable initiated by the Foundation under its community impact loan program and its affordable housing pre-development loan programs. The components of notes receivable are as follows:

	2019	2018
Promissory notes assigned to the Foundation:		
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, 2019): the note is due in December 2021.	$ 1,741,401	$ 2,341,401
Note receivable, secured by a deed of trust, receivable in monthly installments of $15,000, including interest at 2.0%: 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.	2,889,979	3,164,588
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	1,000,000

(3) Receivables (continued)

	2019	2018
Note receivable, secured by a deed of trust, receivable in monthly installments of $1,760, including interest at 3.5%: the note is due in December 2040. The note was paid in full during the year ended March 31, 2019.	-	330,928
Note receivable, unsecured, annual interest only payments at 7.0%: the note is due in March 2019. Maturity extended.	480,000	480,000
Note receivable, unsecured, all principal and accrued interest at 5.0% due and payable in May 2020.	25,000	25,000
Note receivable, secured by land, receivable in quarterly installments of principal and interest at 5.0% of average monthly balance: the notes is due in December 2019.	30,119	73,779
Note receivable, secured by common stock of Moral Compass Corporation, receivable in annual interest only payments at 2.11%; the note is due in December 2023.	2,000,000	-
Note receivable, secured by common stock of Moral Compass Corporation, receivable in annual interest only payments at 2.11%; the note is due in December 2023.	2,000,000	-
Note receivable, secured by common stock of Moral Compass Corporation, receivable in annual interest only payments at 2.11%; the note is due in December 2023.	2,000,000	-
Note receivable, secured by a deed of trust, assignment of leases and rents, security agreement and fixture filing, receivable in yearly installments of principal and interest at 4.0%: the note is due in January 2035.	5,100,000	-

(3) Receivables (continued)

Notes Receivable - Community Impact Loan Program:	**2019**	**2018**
Note receivable, secured by real property, receivable in monthly installments of $3,353, including interest at 3.5%: the note is due in September 2020. The note was paid in full during the year ended March 31, 2019.	-	96,177
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 4.0%: the note is due in November 2020.	73,985	116,106
Note receivable, secured by equipment, receivable in monthly installments of $6,500, including interest at 2.5%: the note is due in December 2021.	206,591	278,444
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.	89,361	192,271
Note receivable, unsecured, annual installments of $50,000, are due including interest at 3.5%: the note is due in May 2021.	125,000	175,000
Note receivable, receivable in interest only payments until April 2021, at which receivable amount is changed to monthly installments of including annual interest at 2.85%: the note is due in April 2023.	150,000	25,000
Note receivable, secured by real property, receivable in monthly installments of $6,151, including interest at 4.0%: the note is due in April 2024.	344,017	402,786

(3) Receivables (continued)

	2019	2018
Note receivable, secured by real property, receivable in interest only payments until March 2018, at which receivable amount is changed to monthly installments of $20,048 including interest at 4.0%: the note is due in September 2024.	161,716	187,500
Note receivable, secured by deed of trust, receivable in monthly interest only payments of $26,250, at 3.5%: and a balloon payment of principal due in October 2020.	600,000	600,000
Note receivable, secured by deed of trust, receivable in monthly interest only payments until May 2018, at which receivable amount is changed to monthly installments of $7,918, including interest at 4.0%: the note is due in January 2023.	489,122	500,000
Note receivable, secured by securities at Chase Bank, receivable in monthly installments of $10,631, including interest at 4.0%: the note is due in July 2028.	496,321	-
Note receivable, unsecured, monthly payments of $5,596, are due including interest at 4.25%: the note is due in July 2025.	376,580	-
Notes Receivable - Affordable Housing Pre-Development Loan Program:		
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	75,000
Loan receivable, no interest, matures upon earlier of rehabilitation and resale of 2 foreclosed houses, or March 2012. Maturity extended.	70,000	70,000

(3) Receivables (continued)

	2019	2018
Loan receivable, no interest, matures upon earlier of receipt of predevelopment or construction financing or December 2012. Maturity extended.	10,809	21,810
Loan receivable, no interest, unsecured, matures January 2020.	38,000	41,000
Loan receivable, no interest, unsecured, matured December 2017.	-	27,204
Loan receivable, no interest, unsecured, matured December 2018.	-	100,000
Loan receivable, no interest, unsecured, matures December 2018, extended to December 2020.	100,000	100,000
Loan receivable, no interest, unsecured, matures May 2019.	75,000	75,000
Loan receivable, no interest, unsecured, matures August 2019.	100,000	100,000
Loan receivable, no interest, unsecured, matures November 2019.	75,000	75,000
Loan receivable, no interest, unsecured, matures November 2019.	75,000	75,000
Loan receivable, no interest, unsecured, matures June 2020.	75,000	-
Loan receivable, no interest, unsecured, matures April 2020.	31,417	-
Loan receivable, no interest, unsecured, matures February 2020.	75,000	-

(3) Receivables (continued)

	2019	2018
Loan receivable, no interest, unsecured, matures August 2020.	100,000	-
Loan receivable, no interest, unsecured, matures September 2020.	75,000	-
Loan receivable, no interest, unsecured, matures February 2021.	100,000	-
Loan receivable, no interest, unsecured, matures February 2021.	75,000	-
Total notes receivables	$ 21,529,418	$ 10,748,994

Scheduled collections on notes receivable at March 31, 2019 are as follows:

Years Ending March 31,	
2020	$ 5,651,641
2021	3,040,015
2022	911,618
2023	7,314,742
2024	503,451
Thereafter	4,107,951
Total	$ 21,529,418

Five notes receivable comprised 65% of the total receivables as of March 31, 2019. 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 $91,984 and $90,274 for 2019 and 2018, respectively.

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

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.

(3) Receivables (continued)

Bequests Receivable

For the year ended March 31, 2019, bequests receivable included bequests from one donor that accounted for 88% of the balance. For the year ended March 31, 2018, bequests receivable included bequests from two separate donors that accounted for 81.7% of the balance.

Collectability

All 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, 2019 and 2018.

(4) Investments

Investments consist of:

	2019	2018
Pooled investments	$ 515,147,343	$ 497,757,441
Brokered investments	324,451,756	309,446,808
Assets held under charitable remainder trusts	26,197,253	26,406,081
Partnerships and other closely held equity	14,523,978	13,227,727
Real estate	21,616,000	27,389,763
Group annuity contract	939,211	939,211
Cash surrender value of life insurance	493,883	422,879
Beneficial interest in life estate	220,000	220,000
Other investments	1,128,241	295,923
	$ 904,717,665	$ 876,105,833

The pooled investments include $1,270,125 and $1,266,906 as of March 31, 2019 and 2018, respectively, of assets held to satisfy charitable gift annuities.

(4) Investments (continued)

Pooled investments are comprised of the following:

2019	Not Categorized	Level 1	Total
Cash and cash equivalents	$ 38,524,710	$ -	$ 38,524,710
Equities mutual funds:			
Small/mid cap funds	-	17,856,305	17,856,305
International funds	-	42,096,794	42,096,794
Equity index funds	-	75,035,482	75,035,482
Emerging markets funds	-	12,684,031	12,684,031
Fixed income funds:			
Bond funds	-	26,263,132	26,263,132
U.S. treasuries and agency securities	-	6,360,172	6,360,172
Private equity and hedge funds	147,089,072	-	147,089,072
Comingled trust funds	149,237,645	-	149,237,645
Total	$ 334,851,427	$ 180,295,916	$ 515,147,343

2018	Not Categorized	Level 1	Total
Cash and cash equivalents	$ 40,046,036	$ -	$ 40,046,036
Equities mutual funds:			
Small/mid cap funds	-	18,006,272	18,006,272
International funds	-	41,902,598	41,902,598
Equity index funds	-	82,959,260	82,959,260
Emerging markets funds	-	18,480,241	18,480,241
Fixed income funds:			
Bond funds	-	24,378,112	24,378,112
U.S. treasuries and agency securities	-	23,267,750	23,267,750
Private equity and hedge funds	178,666,007	-	178,666,007
Comingled trust funds	70,051,165	-	70,051,165
Total	$ 288,763,208	$ 208,994,233	$ 497,757,441

(4) Investments (continued)

Brokered investments are held in 101 investment accounts managed by various external money managers who adhere to investment guidelines and policies prescribed by the Foundation. External managers' investment allocation is monitored by Foundation management and the Investment Committee, and is comprised of the following aggregated categories:

2019	Not Categorized	Level 1	Level 2	Total
Cash and Cash Equivalents	$ 13,612,121	$ -	$ -	$ 13,612,121
Equities and equities mutual funds:				
Equity Index Funds	-	36,935,848	-	36,935,848
International Equities fund	-	24,653,090	-	24,653,090
Real Estate Funds	-	1,464,042	-	1,464,042
Other Mutual funds and Exchange Traded Funds	-	100,751,192	-	100,751,192
Domestic equities	-	73,547,025	-	73,547,025
International Equities	-	5,309,924	-	5,309,924
Fixed income and fixed income funds:				
Bond mutual funds		22,276,767		22,276,767
Corporate Bonds	-	-	27,619,860	27,619,860
Government Bond Funds	-	14,733,708	-	14,733,708
Alternative Investments				
Private equity and hedge funds	3,548,179	-	-	3,548,179
Total	$ 17,160,300	$ 279,671,596	$ 27,619,860	$ 324,451,756

2018	Not Categorized	Level 1	Level 2	Total
Cash and Cash Equivalents	$ 14,989,844	$ -	$ -	$ 14,989,844
Equities and equities mutual funds:				
Equity Index Funds	-	8,929,998	-	8,929,998
International Equities fund	-	5,863,164	-	5,863,164
Real Estate Funds	-	1,071,383	-	1,071,383
Other Mutual funds and Exchange Traded Funds	-	78,810,212	-	78,810,212
Domestic equities	-	120,337,411	-	120,337,411
International Equities	-	443,126	-	443,126
Fixed income and fixed income funds:				
Bond mutual funds		33,215,236		33,215,236
Corporate Bonds	-	-	39,056,125	39,056,125
Government Bond Funds	-	698,505	-	698,505
Alternative Investments				
Private equity and hedge funds	6,031,804	-	-	6,031,804
Total	$ 21,021,648	$ 249,369,035	$ 39,056,125	$ 309,446,808

(4) Investments (continued)

Other investments are categorized as follows:

	2019	Fair Value Level	2018	Fair Value Level
Assets held under charitable remainder trusts				
Cash and cash equivalents	$ 1,509,140	NA	$ 1,067,715	NA
Government securities	3,818,170	1	-	1
Equity mutual funds	6,550,484	1	6,917,592	1
Fixed income mutual funds	25,727	1	66,303	1
Corporate bonds	3,258,446	2	6,775,307	2
Domestic equities	11,035,286	1	11,579,164	1
Partnerships	6,061,421	3	4,870,188	3
Partnerships and other closely held equity	8,462,557	NA	8,357,539	NA
Real estate	21,616,000	3	27,389,763	3
Group annuity contract	939,211	3	939,211	3
Cash surrender value of life insurance	493,883	3	422,879	3
Beneficial interest in life estate	220,000	3	220,000	3
Other investments	1,128,241	1	295,923	1
	$ 65,118,566		$ 68,901,584	

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, 2019:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private Equity Fund of Funds	$ 15,457,368	$ 7,263,447	n/a	n/a
Private Equity	23,815,006	16,814,816	n/a	n/a
Private Debt Fund	47,265,079	38,071,145	n/a	n/a
Multi-strategy Funds	66,584,277	-	monthly	30 to 60 day notice
Private Real Estate Funds	3,576,942	1,840,000	n/a	n/a
Commingled Trust Fund 1	34,384,656	-	daily	2 day notice
Commingled Trust Fund 2	58,633,838	-	daily	1 day notice
Commingled Trust Fund 3	56,219,151	-	daily	1 day notice
Total	$ 305,936,317	$ 63,989,408		

(4) Investments (continued)

The following table summarizes the nature and risk of these investments as of March 31, 2018:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private Equity Fund of Funds	$ 20,000,412	$ 9,280,164	n/a	n/a
Private Equity	18,173,947	10,038,044	n/a	n/a
Private Debt Fund	25,994,491	39,062,420	n/a	n/a
Multi-strategy Funds	46,216,569	-	monthly	30 to 60 day notice
Private Real Estate Funds	4,979,292	1,840,000	n/a	n/a
Commingled Trust Fund 1	26,861,140	-	daily	2 day notice
Commingled Trust Fund 2	62,350,855	-	daily	1 day notice
Commingled Trust Fund 3	55,178,313	-	daily	1 day notice
Total	$ 259,755,019	$ 60,220,628		

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.

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 consist 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.

(4) Investments (continued)

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 fund is expected to invest at least 70% of its total net assets. The investment objective of the fund is to maximize long-term total returns.

(5) Present Value of Annuity Payments

The liability for annuity payments due under charitable remainder trusts and charitable gift annuities is valued using present value techniques, and includes the following activity for the year:

	Charitable remainder trusts	Charitable gift annuities	Total
Balance at beginning of the year	$ 14,467,781	$ 1,340,524	$ 15,808,305
New gifts	213,870	64,255	278,125
Annuity payments	(1,730,125)	(91,098)	(1,821,223)
Revaluation of liability	1,164,111	-	1,164,111
	$ 14,115,637	$ 1,313,681	$ 15,429,318

(6) Property and equipment

Property and equipment consist of:

	2019	2018
Cost:		
Land and building improvements	$ -	$ 4,152,162
Furniture, fixtures and equipment	1,275,518	1,677,208
Leasehold improvements	187,762	1,193,880
Art objects	29,257	29,257
Total cost	1,492,537	7,052,507
Accumulated depreciation and amortization	(933,295)	(1,707,530)
Net property and equipment	$ 559,242	$ 5,344,977

Depreciation and amortization expense charged to operations was $381,284 for 2019 and $438,892 for 2018.

(7) 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 evaluated for discounting using current rates. The discount has been deemed to not be material. The following is a summary of grants authorized and payable at March 31:

	2019	2018
Grants payable to be paid in less than one year	$ 4,757,049	$ 3,570,426
Grants payable to be paid in one to five years	3,583,301	3,182,221
Net grants authorized but unpaid	$ 8,340,350	$ 6,752,647

(8) 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 liability is classified as a Level 2 fair value instrument.

(8) Agency funds (continued)

The activity for the agency funds is summarized as follows:

	2019	2018
Agency funds, beginning of year	$ 95,322,043	$ 79,673,356
Contributions and additions	13,375,060	13,492,784
Investment income	1,475,850	1,552,877
Realized and unrealized investment gains (losses)	118,927	5,746,097
Withdrawal of funds	(12,189,107)	(4,503,384)
Administration and investment fees	(681,729)	(639,687)
Agency funds, end of year	$ 97,421,044	$ 95,322,043

(9) Net assets with donor restrictions

Net assets with donor restrictions consist of 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.

(10) Endowments

The Foundation's endowments consist of approximately 800 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 net assets with donor restrictions due to timing restrictions are classified as net assets without donor restrictions. Though these funds are classified as net asset without donor restrictions, 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.

(10) 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, 2019, the Foundation had no donor-restricted endowment funds, other than those reported as 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 spending policy effective for the years ended March 31, 2019 and 2018 was to distribute an amount equal to approximately 4.25% 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.

(10) Endowments (continued)

The endowment net assets composition by type of fund as of March 31, 2019 is as follows:

	Without donor restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ -	$ 12,197,231	$ 12,197,231
Board-designated endowment funds	299,651,719	-	299,651,719
Total funds	$ 299,651,719	$ 12,197,231	$ 311,848,950

The change in endowment net assets for the year ended March 31, 2019 is as follows:

	Without donor restrictions	With Donor Restrictions	Total
Endowment net assets, April 1, 2018	$ 299,082,972	$ 11,938,299	$ 311,021,271
Contributions	9,728,388	78,578	9,806,966
Investment return	9,415,208	-	9,415,208
Change in value of charitable remainder trusts	52,519	180,354	232,873
Appropriation of endowment assets for expenditure	(18,627,368)	-	(18,627,368)
Endowment net assets, March 31, 2019	$ 299,651,719	$ 12,197,231	$ 311,848,950

The endowment net assets composition by type of fund as of March 31, 2018 is as follows:

	Without donor restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ -	$ 11,938,299	$ 11,938,299
Board-designated endowment funds	299,082,972	-	299,082,972
Total funds	$ 299,082,972	$ 11,938,299	$ 311,021,271

(10) Endowments (continued)

The change in endowment net assets for the year ended March 31, 2018 is as follows:

	Without donor restrictions	With Donor Restrictions	Total
Endowment net assets, April 1, 2017	$ 267,696,126	$ 10,538,179	$ 278,234,305
Contributions	18,009,173	222,670	18,231,843
Additonal funds designated as endowment	2,827,289		2,827,289
Investment return:			
Investment income, net	5,094,589	-	5,094,589
Realized and unrealized gains	19,335,835	-	19,335,835
Change in value of charitable remainder trusts	-	1,177,450	1,177,450
Appropriation of endowment assets for expenditure	(13,880,040)	-	(13,880,040)
Endowment net assets, March 31, 2018	$ 299,082,972	$ 11,938,299	$ 311,021,271

(11) 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,	
2020	$ 777,873
2021	718,711
2022	593,893
2023	963,136
2024	808,921
Thereafter	2,755,435
Total minimum future rental payments	$ 6,617,969

(11) 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 $858,265 for 2019 and $718,207 for 2018.

(12) 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 $351,500 for 2019 and $345,201 for 2018.

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 2019 and 2018.

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, 2019 and 2018, 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 $36,742 for 2019 and $41,063 for 2018 . The plan also includes a provision for Rodel to make discretionary contributions to the plan. There were no discretionary contributions made during 2019 and 2018.

(13) Level 3 fair value measurements

The table below presents the change in fair value measurements that used Level 3 inputs during the year ended March 31, 2019:

	Receivables from charitable lead trusts, and beneficial interest in trusts	Partnership Interests	Real estate held for investment	Investments in cash surrender value of life insurance, beneficial interest in life estate and other level 3	Total
Balance at April 1, 2018	$ 6,621,121	$ 4,870,188	$ 27,389,763	$ 1,878,013	$ 40,759,085
Change in value of split-interest agreements	(115,174)	-	-	-	(115,174)
Purchases and contributions	543,743	1,081,291	-	-	1,625,034
Sales	-	-	(3,646,183)	-	(3,646,183)
Realized / unrealized		-			(2,053,527)
gains	-	109,942	(2,127,580)	(35,889)	(2,163,469)
Balance at March 31, 2019	$ 7,049,690	$ 6,061,421	$ 21,616,000	$ 1,842,124	$ 34,405,766

The table below presents the change in fair value measurements that used Level 3 inputs during the year ended March 31, 2018:

	Receivables from charitable lead trusts, and beneficial interest in trusts	Partnership Interests and stock in closely held companies	Real estate held for investment	Charitable lead trusts, beneficial interest in trusts, and beneficial interest in life estate other level 3	Total
Balance at April 1, 2017	$ 6,524,292	$ 4,142,648	$ 24,590,000	$ 642,343	$ 35,899,283
Change in value of split-interest agreements	96,829	-	-	-	96,829
Purchases and contributions	-	736,715	8,112,000	1,166,807	10,015,522
Sales	-	-	(4,253,173)	-	(4,253,173)
Realized and unrealized gains	-	(9,175)	(1,059,064)	68,863	(999,376)
Balance at March 31, 2018	$ 6,621,121	$ 4,870,188	$ 27,389,763	$ 1,878,013	$ 40,759,085

(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, 2019. Proceeds from the line of credit are expressly restricted to provide financing loans to nonprofit community based organizations in Arizona.

(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, 2019. Upon maturity, all unpaid interest and principal are due. Interest is charged at LIBOR plus 2.5% (4.2% as of March 31, 2019) and payable monthly. As of March 31, 2019 and 2018 there were no amounts outstanding under the line of credit. There are certain financial and non-financial covenants required by the bank.

(16) New accounting pronouncements

The Financial Accounting Standards Board has issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers*. For nonpublic companies, this standard must be adopted for annual reporting periods beginning after December 15, 2018. The standard’s core principle is that an organization will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the organization expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity’s contracts with customers. Management is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

The Financial Accounting Standards Board has issued Accounting Standards Update (“ASU”) No. 2016-02, *Leases*. For nonpublic companies, the required adoption of this standard is expected to be delayed to annual reporting periods beginning after December 15, 2020. The standard’s core principle is the recognition of lease assets and lease liabilities by lessees for substantially all leases, including those currently classified as operating leases. Under the ASU, a lessee will be required to recognize assets and liabilities for operating and finance leases with terms of more than 12 months. Management is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

(16) New accounting pronouncements (continued)

The Financial Accounting Standards Board has issued Accounting Standards Update ("ASU") No. 2018-08, *Not-For-Profit Entities-Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. For nonpublic companies, the standard must be adopted for annual reporting periods beginning after December 15, 2019. The standard's core principle is to clarify and improve the scope and the accounting guidance for contributions received and contributions made. This ASU should assist entities in evaluating whether transactions should be accounted for as contributions or as exchange transactions and determining whether a contribution is conditional. Management is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

To the Board of Directors of
THE ARIZONA COMMUNITY FOUNDATION, INC.
and SUPPORT FOUNDATIONS

We have audited the combined financial statements of ***Arizona Community Foundation, Inc. and Support Foundations*** as of and for the year ended March 31, 2019, and have issued our report thereon dated October 2, 2019 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 40 and 41 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.

Henry + Horne, LLP

Tempe, Arizona
October 2, 2019

THE ARIZONA COMMUNITY FOUNDATION, INC.
AND
SUPPORT FOUNDATIONS
ADDITIONAL INFORMATION
March 31, 2019

COMBINING STATEMENT OF FINANCIAL POSITION

A S S E T S

	Arizona Community Foundation	Support Foundations	Eliminations and Reclassifications	Combined
CASH AND CASH EQUIVALENTS	$ 5,375,577	$ 1,512,185	$ -	$ 6,887,762
PREPAID EXPENSES AND OTHER ASSETS	334,244	17,173	-	351,417
RECEIVABLES, net	20,334,613	27,937,390	(228,125)	48,043,878
INVESTMENTS	712,827,644	191,890,021	-	904,717,665
PROPERTY AND EQUIPMENT, net	557,245	1,997	-	559,242
TOTAL ASSETS	$ 739,429,323	$ 221,358,766	$ (228,125)	$ 960,559,964

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	$ 1,182,830	$ 63,237	$ (228,125)	$ 1,017,942
GRANTS PAYABLE	4,511,875	3,828,475	-	8,340,350
PRESENT VALUE OF ANNUITY PAYMENTS	15,429,318	-	-	15,429,318
DEFERRED RENT	200,812	-	-	200,812
PROGRAMMATIC REVOLVING LOANS	1,225,000	-	-	1,225,000
AGENCY FUNDS	97,421,044	-	-	97,421,044
TOTAL LIABILITIES	119,970,879	3,891,712	(228,125)	123,634,466
NET ASSETS	619,458,444	217,467,054	-	836,925,498
TOTAL LIABILITIES AND NET ASSETS	$ 739,429,323	$ 221,358,766	$ (228,125)	$ 960,559,964

THE ARIZONA COMMUNITY FOUNDATION, INC.
AND
SUPPORT FOUNDATIONS
ADDITIONAL INFORMATION
Year Ended March 31, 2019
COMBINING STATEMENT OF ACTIVITIES

	Arizona Community Foundation	Support Foundations	Eliminations and Reclassifications	Combined
CONTRIBUTIONS, REVENUES AND OTHER SUPPORT				
Contributions	$ 62,870,240	$ 5,793,845	$ -	$ 68,664,085
Investment income	15,542,757	4,872,589	-	20,415,346
Interest from notes receivables	304,389	240,866	-	545,255
Change in split interest agreements	262,983	-	-	262,983
Administrative and trustee fee revenues	2,665,525	-	(1,757,790)	907,735
Interfund gifts	619,330	1,391,455	(2,010,785)	-
Rental income	373,923	523,445	(83,346)	814,022
Other income	114,211	5,051	-	119,262
TOTAL CONTRIBUTIONS, REVENUES AND OTHER SUPPORT	82,753,358	12,827,251	(3,851,921)	91,728,688
EXPENSES				
Program expenses:				
Grants and scholarships	45,458,330	9,257,735	-	54,716,065
Interfund grants	1,391,455	619,330	(2,010,785)	-
Other program expenses	6,175,040	954,448	(37,857)	7,091,631
Total program expenses	53,024,825	10,831,513	(2,048,642)	61,807,696
Management and general	5,674,765	2,352,438	(1,801,943)	6,225,260
Fundraising	3,600,329	210,544	(1,336)	3,809,537
TOTAL EXPENSES	62,299,919	13,394,495	(3,851,921)	71,842,493
CHANGE IN NET ASSETS	$ 20,453,439	$ (567,244)	$ -	$ 19,886,195

See Notes to Combined Financial Statements