

The Arizona Community Foundation, Inc. and Support Foundations

Combined Financial Statements

March 31, 2023

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

COMBINED FINANCIAL STATEMENTS

Year Ended March 31, 2023

CONTENTS

	<u>Pages</u>
INDEPENDENT AUDITORS' REPORT	1 - 3
COMBINED FINANCIAL STATEMENTS	
Combined Statement of Financial Position	4
Combined Statement of Activities	5
Combined Statement of Functional Expenses	6 - 7
Combined Statement of Cash Flows	8
Notes to the Combined Financial Statements	9 - 46
ADDITIONAL INFORMATION	
Independent Auditors' Report on Additional Information	48
Combining Schedule of Financial Position	49
Combining Schedule of Activities	50

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying combined financial statements of The Arizona Community Foundation, Inc. and Support Foundations, which comprise the combined statements of financial position as of March 31, 2023 and 2022, and the related combined statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of The Arizona Community Foundation, Inc. and Support Foundations as of March 31, 2023 and 2022, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Arizona Community Foundation, Inc. and Support Foundations and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Arizona Community Foundation, Inc. and Support Foundations' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Arizona Community Foundation, Inc. and Support Foundations' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Arizona Community Foundation, Inc. and Support Foundations' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Emphasis of Matter

As described in Note 1 to the financial statements, on April 1, 2022, the Organization adopted Accounting Standards Codification Topic 842 as required by Accounting Standards Update 2016-02, Leases (Topic 842), and its related amendments. Our opinion is not modified with respect to this matter.

Baker Tilly US, LLP

Tempe, Arizona
September 27, 2023

**THE ARIZONA COMMUNITY FOUNDATION, INC.
AND
SUPPORT FOUNDATIONS
COMBINED STATEMENTS OF FINANCIAL POSITION**
March 31, 2023 and 2022

<u>ASSETS</u>	<u>2023</u>	<u>2022</u>
CASH AND CASH EQUIVALENTS	\$ 6,079,067	\$ 11,675,240
PREPAID EXPENSES AND OTHER ASSETS	364,663	309,023
RECEIVABLES, net	37,487,965	41,866,669
INVESTMENTS	1,291,050,669	1,360,835,049
PROPERTY AND EQUIPMENT, net	1,025,297	1,101,185
OPERATING LEASES RIGHT-OF-USE ASSETS	<u>3,486,301</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 1,339,493,962</u>	<u>\$ 1,415,787,166</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	\$ 1,139,034	\$ 1,634,834
GRANTS PAYABLE	26,887,435	24,343,841
PRESENT VALUE OF ANNUITY PAYMENTS		
Charitable remainder trusts	12,192,231	14,427,491
Charitable gift annuities	<u>1,343,100</u>	<u>1,668,453</u>
TOTAL PRESENT VALUE OF ANNUITY PAYMENTS	13,535,331	16,095,944
RENT ACCRUED UNDER NON-LEVEL LEASES	-	66,921
NOTES PAYABLE	150,000	1,710,812
OPERATING LEASE LIABILITIES	3,611,817	-
AGENCY FUNDS AND FUNDS HELD FOR OTHERS	<u>135,280,699</u>	<u>138,451,760</u>
TOTAL LIABILITIES	180,604,316	182,304,112
NET ASSETS		
Without donor restrictions	1,138,412,198	1,210,164,459
With donor restrictions	<u>20,477,448</u>	<u>23,318,595</u>
TOTAL NET ASSETS	<u>1,158,889,646</u>	<u>1,233,483,054</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,339,493,962</u>	<u>\$ 1,415,787,166</u>

**THE ARIZONA COMMUNITY FOUNDATION, INC.
AND
SUPPORT FOUNDATIONS
COMBINED STATEMENTS OF ACTIVITIES**
Year Ended March 31, 2023
(with comparative totals for the year ended March 31, 2022)

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2023	2022
CONTRIBUTIONS, REVENUES AND OTHER SUPPORT				
Contributions	\$ 90,212,859	\$ -	\$ 90,212,859	\$ 285,152,233
Contributed nonfinancial assets	5,248,720	-	5,248,720	2,822,000
Investment income (loss)	(53,784,767)	-	(53,784,767)	52,633,736
Interest from notes receivables	676,445	-	676,445	671,337
Change in split interest agreements	(95,667)	(2,178,053)	(2,273,720)	368,919
Administrative and trustee fee revenues	1,474,484	-	1,474,484	2,327,754
Rental income	1,017,128	-	1,017,128	3,923,848
Other income (charges)	431,102	-	431,102	652,400
Total contributions, revenues and other support before net assets released from restrictions	45,180,304	(2,178,053)	43,002,251	348,552,227
Net assets released from restrictions:				
Charitable trusts	663,094	(663,094)	-	-
TOTAL CONTRIBUTIONS, REVENUES AND OTHER SUPPORT	45,843,398	(2,841,147)	43,002,251	348,552,227
EXPENSES				
Program expenses:				
Grants and scholarships	94,915,835	-	94,915,835	92,160,996
Other program expenses	14,327,040	-	14,327,040	12,740,261
Total program expenses	109,242,875	-	109,242,875	104,901,257
Management and general	5,087,603	-	5,087,603	4,782,008
Fundraising	3,265,181	-	3,265,181	2,941,895
TOTAL EXPENSES	117,595,659	-	117,595,659	112,625,160
CHANGE IN NET ASSETS	(71,752,261)	(2,841,147)	(74,593,408)	235,927,067
NET ASSETS, BEGINNING OF YEAR	1,210,164,459	23,318,595	1,233,483,054	997,555,987
NET ASSETS, END OF YEAR	<u>\$ 1,138,412,198</u>	<u>\$ 20,477,448</u>	<u>\$ 1,158,889,646</u>	<u>\$ 1,233,483,054</u>

See Notes to Combined Financial Statements

**THE ARIZONA COMMUNITY FOUNDATION, INC.
AND
SUPPORT FOUNDATIONS
COMBINED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended March 31, 2023**

	Program Services	Management and General	Fundraising	Total
Grants & Scholarships	\$ 94,915,835	\$ -	\$ -	\$ 94,915,835
Salaries & Wages	4,440,233	2,466,798	1,315,625	8,222,656
Retirement Plan Contributions	234,869	130,483	69,591	434,943
Other Employee Benefits	434,834	241,574	128,840	805,248
Payroll Taxes	291,278	161,821	86,304	539,403
Advertising and Promotion	509,591	59,949	130,064	699,604
Depreciation	203,901	113,278	60,415	377,594
Dues, Subscriptions & Publications	88,357	49,087	26,180	163,624
Event Expenses	-	-	717,569	717,569
General Program Expenses	2,079,362	-	-	2,079,362
Information Technology	374,049	207,805	110,829	692,683
Insurance	78,126	43,403	23,149	144,678
Interest	20,960	-	-	20,960
Occupancy	590,529	328,071	174,971	1,093,571
Office Expenses	180,754	130,538	53,557	364,849
Other Expenses	152,598	467,091	123,558	743,247
Professional Services	4,557,625	603,163	211,612	5,372,400
Travel	89,974	84,542	32,917	207,433
Total	\$ 109,242,875	\$ 5,087,603	\$ 3,265,181	\$ 117,595,659

THE ARIZONA COMMUNITY FOUNDATION, INC.
AND
SUPPORT FOUNDATIONS
COMBINED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended March 31, 2022

	Program Services	Management and General	Fundraising	Total
Grants & Scholarships	\$ 92,160,996	\$ -	\$ -	\$ 92,160,996
Salaries & Wages	3,890,263	2,319,195	1,271,817	7,481,275
Retirement Plan Contributions	211,569	126,128	69,167	406,864
Other Employee Benefits	338,856	202,010	110,780	651,646
Payroll Taxes	252,656	150,622	82,599	485,877
Advertising and Promotion	544,328	75,102	71,109	690,539
Depreciation	171,807	102,424	56,168	330,399
Dues, Subscriptions & Publications	119,402	71,182	39,035	229,619
Event Expenses	10,000	-	530,972	540,972
General Program Expenses	540,185	-	-	540,185
Information Technology	460,518	274,540	150,554	885,612
Insurance	73,195	43,636	23,929	140,760
Interest	53,358	-	-	53,358
Occupancy	465,461	277,487	152,170	895,118
Office Expenses	190,304	140,960	62,215	393,479
Other Expenses	185,607	336,568	44,299	566,474
Professional Services	5,177,340	629,120	258,965	6,065,425
Travel	55,412	33,034	18,116	106,562
Total	\$ 104,901,257	\$ 4,782,008	\$ 2,941,895	\$ 112,625,160

THE ARIZONA COMMUNITY FOUNDATION, INC.
AND
SUPPORT FOUNDATIONS
COMBINED STATEMENTS OF CASH FLOWS
Years Ended March 31, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (74,593,408)	\$ 235,927,067
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Donated investments	(44,757,932)	(135,923,545)
Realized/unrealized investment (gains) losses	72,213,323	(34,937,913)
Change in split interest agreements and present value of annuity payments, net	(2,560,613)	(494,622)
Provision of uncollectible notes receivable	3,151,598	-
Change in discount on notes receivable	(3,351,598)	-
Depreciation and amortization	377,594	330,399
Loss on disposal of property and equipment	153,086	29,855
Amortization of right-of-use assets	899,685	-
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivables	(376,993)	(6,897,389)
Prepaid expenses and other assets	(55,640)	122,911
Increase (decrease) in:		
Accounts payable and accrued expenses	(495,800)	702,364
Grants payable	2,543,594	14,695,183
Deferred rent	-	(972)
Operating lease liability	(841,090)	-
Agency funds	3,944,859	6,383,400
Net cash provided by (used in) operating activities	(43,749,335)	79,936,738
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	215,072,047	372,025,082
Collections on notes receivable	4,463,797	1,668,254
Purchases of investments	(154,056,247)	(425,827,530)
Interest and dividends reinvested	(19,980,231)	(18,133,979)
Issuance of notes receivable	(5,330,600)	(1,790,100)
Proceeds from sale of property and equipment	369,626	-
Purchases of property and equipment	(824,418)	(320,578)
Net cash provided by (used in) investing activities	39,713,974	(72,378,851)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment on programmatic revolving loans	(1,710,812)	(863,963)
Borrowings on short-term debt	150,000	-
Net cash provided by (used in) financing activities	(1,560,812)	(863,963)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(5,596,173)	6,693,924
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	11,675,240	4,981,316
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 6,079,067	\$ 11,675,240
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING ACTIVITIES		
Realized/unrealized gains (losses) on agency fund investments	\$ (7,115,920)	\$ 3,794,749
Donated art objects	\$ 5,248,720	\$ 2,822,000
Donated real estate investments	\$ 7,020,000	\$ 158,760,763

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

Years Ended March 31, 2023 and 2022

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

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

Years Ended March 31, 2023 and 2022

(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.

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

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

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.

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.

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

Years Ended March 31, 2023 and 2022

(1) Foundations' Operations and Summary of Significant Accounting Policies (Continued)

Contributions –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 unrestricted. One donor comprised 48% of total contributions for the year ended March 31, 2022.

The Foundation applies the provisions of FASB issued Accounting Standards Update (ASU) No. 2018-08, *Not-For-Profit Entities-Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, in determining when contributions received and contributions made should be classified as contributions or as exchange transactions, or whether conditionality is present.

Contributed nonfinancial assets – The Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2020-07, *Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires the Foundation to present contributed nonfinancial assets in a separate line item in the combined statement of activities and to disclose certain information about the contributed nonfinancial assets, including whether the assets were monetized or utilized by the Foundation. In addition, the Foundation is required to disclose a description of how these assets are valued. The Foundation adopted this standard as of April 1, 2022.

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. 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, 2022.

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

Years Ended March 31, 2023 and 2022

(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. The valuation of certain investments and bequests receivable are determined to be significant estimates. Due to uncertainties in estimating these values, it is possible that the estimates could change in the near term.

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 ARIZONA COMMUNITY FOUNDATION, INC.
AND
SUPPORT FOUNDATIONS**

NOTES TO THE COMBINED FINANCIAL STATEMENTS

Years Ended March 31, 2023 and 2022

(1) Foundations' Operations and Summary of Significant Accounting Policies (Continued)

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.

Equity securities, debt securities, and mutual funds	Valued at the closing price reported in the active market.
Real estate	Valued at fair value using the lesser of the most recent appraised value or listed sale value.
Closely held stocks or partnership interests	No readily determinable fair value – measurement alternative
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 (Level 3)
Real estate partnerships with non-controlling interest	Equity method

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.

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

Years Ended March 31, 2023 and 2022

(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 Securities*, FASB ASC 958-321, *Not-for-Profit Entities – Investments – Equity Securities*, and FASB ASC 958-325, *Not-for-Profit Entities – Investments – Other*. Under ASC 958-320 and ASC 958-321, the Foundation is required to report at fair value all investments in debt and equity securities that have readily determinable fair values. Certain investments without readily determinable fair values are measured at net asset value in accordance with the practical expedient available under ASC 321. 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 values are shown as unrealized gains or losses on the combined statement of activities. Certain non-marketable equity securities, including certain partnerships and closely held entities (that do not qualify for the net asset value practical expedient) are valued using the measurement alternative available under ASC 958-321. The Foundation adjusts the carrying value of these non-marketable equity securities up or down for observable price changes in orderly transactions for identical or similar investments of the same issuer and for impairment, if any. All gains and losses on non-marketable equity securities, realized and unrealized, are recognized in the statement of activities as changes in net assets.

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

Years Ended March 31, 2023 and 2022

(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 five 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 private equity funds, private debt funds, institutional 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 based on net asset value as per the practical expedient under ASC 321-10.

Investment return or loss is included in the statements of activities and consist 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.

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

Years Ended March 31, 2023 and 2022

(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 the years ended March 31, 2023 and 2022.

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 (\$12,192,231 at March 31, 2023 and \$14,427,491 at March 31, 2022) is calculated using discount rates of 3% and 2.3% for the years ended March 31, 2023 and 2022, respectively, and the applicable Internal Revenue Service mortality tables.

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

Years Ended March 31, 2023 and 2022

(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 (\$7,707,029 at March 31, 2023 and \$8,279,535 at March 31, 2022) is calculated using discount rates of 3% and 2.3% for the years ended March 31, 2023 and 2022, 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 3% and 2.3%, for the years ended March 31, 2023 and 2022, respectively, and the applicable Internal Revenue Service mortality tables. These split interest agreements are also presented as receivables in the accompanying statements of financial position.

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.

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

Years Ended March 31, 2023 and 2022

(1) Foundations' Operations and Summary of Significant Accounting Policies (Continued)

Advertising – Advertising costs are charged to operations when incurred. Advertising expense charged to operations was \$115,077 and \$52,333 for the years ending March 31, 2023 and 2022, 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. 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. Certain employee positions are allocated based on time and effort. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on personnel activity, including depreciation, occupancy and office expenses, 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 ARIZONA COMMUNITY FOUNDATION, INC.
AND
SUPPORT FOUNDATIONS**

NOTES TO THE COMBINED FINANCIAL STATEMENTS

Years Ended March 31, 2023 and 2022

(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, 2023 and 2022, 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 2020, 2021, and 2022 are subject to examination by the IRS, generally for the three years after they were filed. As of the date of this report, the 2023 returns had not yet been filed.

Adoption of New Accounting Standard - Effective April 1, 2022, the Foundation adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842), and all related amendments using the modified retrospective approach. The Foundation's 2022 financial statements continue to be accounted for under the FASB's Topic 840 and have not been adjusted.

ASU No. 2016-02 requires lessees to recognize the assets and liabilities that arise from leases on the statements of financial position. At lease inception, leases are classified as either finance leases or operating leases with the associated right-of-use asset and lease liability measured at the net present value of future lease payments. Operating lease right-of-use assets are expensed on a straight-line basis as lease expense over the non-cancelable lease term. Lease expense for the Foundation's finance leases is comprised of the amortization of the right-of-use asset and interest expense recognized based on the effective interest method. At the date of adoption, the Foundation recorded operating lease right-of-use assets and lease liabilities of \$4,249,609 and \$4,324,355.

The new standard provides for several optional practical expedients. Upon transition to Topic 842, the Foundation elected:

- The package of practical expedients permitted under the transition guidance which does not require the Foundation to reassess prior conclusions regarding whether contracts are or contain a lease, lease classification and initial direct lease costs;
- The practical expedient to use hindsight in determining the lease term (that is, when considering options to extend or terminate the lease or to purchase the underlying asset) and in assessing impairment of the Foundation's right-of-use assets.

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

Years Ended March 31, 2023 and 2022

(1) Foundations' Operations and Summary of Significant Accounting Policies (Continued)

Adoption of New Accounting Standard (Continued) - The new standard also provides for several accounting policy elections, as follows:

- The Foundation has elected the policy not to separate lease and non-lease components for all assets.
- When the rate implicit in the lease is not determinable, rather than use the Foundation's incremental borrowing rate, the Foundation elected to use a risk-free discount rate for the initial and subsequent measurement of lease liabilities for all assets.
- The Foundation elected not to apply the recognition requirements to all leases with an original term of 12 months or less, for which the Foundation is not likely to exercise a renewal option or purchase the asset at the end of the lease; rather, short-term leases will continue to be recorded on a straight-line basis over the lease term.

Additional required disclosures for Topic 842 are contained in Note 12.

Subsequent events – The Foundation has evaluated subsequent events through September 27, 2023, which is the date the combined financial statements were available to be issued.

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

Years Ended March 31, 2023 and 2022

(2) Liquidity

The following table reflects the Foundation's financial assets as of March 31, 2023 and 2022, 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.

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 6,079,067	\$ 11,675,240
Receivables, net	37,487,965	41,866,669
Investments	<u>1,291,050,669</u>	<u>1,360,835,049</u>
Total financial assets	1,334,617,701	1,414,376,958
Amounts not available in the next year without restrictions:		
Loans, notes and bequest receivables after one year	(19,164,745)	(30,059,913)
Beneficial interests in split interest trusts	(7,760,129)	(8,388,282)
Investments held in trusts	(23,036,751)	(27,466,115)
Investments in real estate	(60,859,790)	(66,947,300)
Investments not convertible to cash within 12 months	<u>(406,407,094)</u>	<u>(188,709,006)</u>
Subtotal available for next year without restrictions	817,389,192	1,092,806,342
Not available due to restrictions:		
Agency funds held for others	(135,280,699)	(138,451,760)
Pooled investments held under charitable gift annuity agreements	(1,923,008)	(2,273,703)
Board designated endowment funds net of available to spend	(374,948,530)	(394,291,817)
Net of investments not convertible to cash within 12 months	<u>406,407,094</u>	<u>188,709,006</u>
Financial assets available to meet cash needs for expenditures within one year	<u>\$ 711,644,050</u>	<u>\$ 746,498,068</u>

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

Years Ended March 31, 2023 and 2022

(3) Receivables

For the years ended March 31, 2023 and 2022, receivables consisted of the following:

	2023	2022
Notes receivable, net	\$ 17,691,506	\$ 21,770,758
Bequests receivable	11,756,535	11,244,010
Beneficial interest in charitable remainder trusts	7,707,029	8,279,535
Charitable lead trusts	179,113	302,776
Other	153,782	269,590
	\$ 37,487,965	\$ 41,866,669

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:

Promissory notes assigned to the Foundation:

Note receivable, secured by a deed of trust, receivable in monthly installments of \$15,000, including interest at 2.00%; 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. In June 2020, the note was amended to include interest only payments of approximately \$4,600 through May 15, 2021. Monthly principal and interest payments of \$15,000 thereafter, with a balloon payment due May 31, 2023.

	2023	2022
	\$ 2,512,480	\$ 2,640,836

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

Years Ended March 31, 2023 and 2022

(3) Receivables (Continued)

	2023	2022
Note receivable, unsecured, all principal and accrued interest at 5.00%; the note is due in May 2018, the note was amended to extend the maturity date to May 2022. This note is past due.	25,000	25,000
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	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	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	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 4.00%; a one year payment deferral was granted on the note in December 2020; the note is due in January 2035.	4,881,266	4,958,742
Note receivable, secured by a Deed of Trust, receivable in yearly installments of principal and interest at 6.5%; with a balloon payment due in March 2028.	2,500,000	-
Note receivable, unsecured, receivable in annual interest only payments of \$150,000 at 1.21%; the note is due in July 2029.	12,368,266	12,368,266

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

Years Ended March 31, 2023 and 2022

(3) Receivables (Continued)

	2023	2022
Note receivable, secured by deed of trust , receivable in semi-annual interest only payments of approximately \$7,700; The note is due in February 2027.	100,000	100,000
<i>Notes Receivable - Community Impact Loan Program:</i>		
Note receivable, receivable in interest only payments until April 2021, monthly installments of \$12,694 including interest at 2.85% thereafter: the note is due in April 2023.	4,966	63,652
Note receivable, secured by real property, receivable in monthly installments of \$6,150 including interest at 4.00%: payment deferral granted from September 2019 through December 2020: the note is due in April 2024.	251,342	303,513
Note receivable, secured by real property, receivable in interest only payments until March 2018, at which receivable amount is changed to monthly installments of \$2,735, including interest at 4.00%: payment deferral granted from April 2020 through September 2020: the note is due in March 2025.	62,913	92,565
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 \$2,639, including interest at 4.00%: payment deferral granted from April 2020 through September 2020: the note is due in July 2023.	443,725	457,349
Note receivable, secured by securities at Chase, receivable in monthly installments of \$5,315, including interest at 4.00%: payment deferral granted from April 2020 through December 2020: the note is due in July 2028.	344,118	393,070

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

Years Ended March 31, 2023 and 2022

(3) Receivables (Continued)

	2023	2022
Note receivable, unsecured, monthly payments of \$5,596, are due including interest at 4.25%; the note is due in July 2025.	23,541	128,118
Note receivable, unsecured, receivable in interest only payments until September 2020 at which receivable amount is changed to monthly payments of \$10,981 are due including interest at 3.50%; payment deferral granted from April 2020 through September 2020: the note is due in December 2029.	791,176	893,310
Note receivable, unsecured, monthly payments of \$4,098 are due including interest at 4.25%; the note is due in August 2030.	311,484	346,603
Note receivable, unsecured, receivable in interest only payments until August 2022 at which a one-time \$400,000 principal payment will be made then receivable amount is changed to monthly payments of \$6,624 are due including interest at 4%; the note is due in September 2028.	469,693	1,000,000
<i>Notes Receivable - Affordable Housing Pre-Development Loan Program:</i>		
Loan receivable, no interest, matures upon the earlier of project completion, rehabilitation and resale of 15 foreclosed houses, or September 2012. Maturity extended. Commencing on July 1, 2023 and on each January 1 and July 1 thereafter, payments of \$7,500 are required until loan is paid in full.	75,000	75,000
Loan receivable, no interest, matures upon earlier of rehabilitation and resale of 2 foreclosed houses, or March 2012. Maturity extended. Commencing on September 1, 2022, monthly payments of \$400 are required with a balloon payment due September 2027.	46,800	70,000

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

Years Ended March 31, 2023 and 2022

(3) Receivables (Continued)

	2023	2022
Loan receivable, no interest, unsecured, matures December 2018, the maturity date was extended to December 2021. This loan was paid in full during the year ended March 31, 2023.	-	100,000
Loan receivable, no interest, unsecured, matures June 2022. This loan was paid in full during the year ended March 31, 2023.	-	75,000
Loan receivable, no interest, unsecured, matures March 2021. Maturity extended to May 2024.	100,000	100,000
Loan receivable, no interest, unsecured, matures August 2022. Maturity extended to August 2023.	100,000	100,000
Loan receivable, no interest, unsecured, matures August 2022. This loan was paid in full during the year ended March 31, 2023.	-	100,000
Loan receivable, no interest, unsecured, matures December 2022. Maturity extended to December 2023.	100,000	100,000
Loan receivable, no interest, unsecured, matures June 2023.	100,000	100,000
Loan receivable, no interest, unsecured, matures May 2024.	100,000	-
Loan receivable, no interest, unsecured, matures November 2024.	200,000	-
Loan receivable, no interest, unsecured, matures December 2024.	200,000	-

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

Years Ended March 31, 2023 and 2022

(3) Receivables (Continued)

	2023	2022
Loan receivable, no interest, unsecured, matures January 2025.	100,000	-
Notes receivables before discount and allowance	32,211,770	30,591,024
Less: Discount on notes receivable	(5,468,668)	(8,595,266)
Less: Allowance on notes receivable	(9,051,596)	(225,000)
Total notes receivables	\$ 17,691,506	\$ 21,770,758

Scheduled collections on notes receivable at March 31, 2023 are as follows:

<u>Years Ending March 31,</u>	
2024	\$ 10,283,296
2025	925,441
2026	1,309,042
2027	719,605
2028	2,471,945
Thereafter	16,502,441
Total	\$ 32,211,770

Two notes receivable comprised 54% of the total receivables as of March 31, 2023. Six notes receivable comprised 85% of the total receivables as of March 31, 2022. Interest on notes receivable is recognized over the term of the note and is calculated using the simple-interest method on principal outstanding. There was no interest and dividend income included in interest income earned on related party notes receivable for both the years ended March 31, 2023 and 2022.

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.

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

Years Ended March 31, 2023 and 2022

(3) Receivables (Continued)

Bequests Receivable

For the year ended March 31, 2023, bequests receivable included nine bequests, of which two accounted for 76% of the balance. For the year ended March 31, 2022, bequests receivable included nine bequests, of which four accounted for 83% 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. During the year ended March 31, 2022, the Foundation recorded a discount of approximately \$8,600,000 and an allowance for uncollectible notes receivable of \$200,000. For the year ended March 31, 2023, the Foundation recorded a discount of approximately \$5,500,000 and an allowance for uncollectible notes receivable of approximately \$9,000,000.

(4) Investments

Investments consist of:

	2023	2022
Pooled investments	\$ 689,199,179	\$ 797,333,880
Brokered investments	484,555,010	445,680,503
Assets held under charitable remainder trusts	24,783,537	29,163,774
Partnerships and other closely-held equity	18,909,767	18,704,037
Real estate	60,859,790	61,575,300
Group annuity contract	516,766	825,205
Cash surrender value of life insurance	559,761	558,843
Other investments	11,666,859	6,993,507
	\$ 1,291,050,669	\$ 1,360,835,049

The pooled investments include \$1,923,008 and \$2,272,703 as of March 31, 2023 and 2022, respectively, of assets held to satisfy charitable gift annuities.

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

Years Ended March 31, 2023 and 2022

(4) Investments (Continued)

Pooled Investments:

Pooled investments are comprised of the following at March 31, 2023:

	<u>Not Categorized</u>	<u>Level 1</u>	<u>Total</u>
Cash and cash equivalents	\$ 55,455,974	\$ -	\$ 55,455,974
Equities mutual funds:			
Small/mid cap funds	-	9,863,402	9,863,402
International funds	-	31,697,840	31,697,840
Equity index funds	-	155,252,225	155,252,225
Emerging markets funds	-	30,571,295	30,571,295
Fixed income funds:			
Bond funds	-	74,579,485	74,579,485
U.S. treasuries and agency securities	-	20,299,485	20,299,485
Mission related debt instruments	2,362,000	-	2,362,000
Real estate funds	5,699,587	-	5,699,587
Private debt funds	59,892,491	-	59,892,491
Private equity and hedge funds	135,100,164	-	135,100,164
Comingled trust funds	108,425,231	-	108,425,231
	<u>\$ 366,935,447</u>	<u>\$ 322,263,732</u>	<u>\$ 689,199,179</u>
Total	<u>\$ 366,935,447</u>	<u>\$ 322,263,732</u>	<u>\$ 689,199,179</u>

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

Years Ended March 31, 2023 and 2022

(4) Investments (Continued)

Pooled Investments (Continued):

Pooled investments are comprised of the following at March 31, 2022:

	<u>Not Categorized</u>	<u>Level 1</u>	<u>Total</u>
Cash and cash equivalents	\$ 104,640,513	\$ -	\$ 104,640,513
Equities mutual funds:			
Small/mid cap funds	-	10,631,028	10,631,028
International funds	-	66,116,366	66,116,366
Equity index funds	-	221,907,283	221,907,283
Emerging markets funds	-	26,046,591	26,046,591
Fixed income funds:			
Bond funds	-	59,124,780	59,124,780
U.S. treasuries and agency securities	-	16,043,893	16,043,893
Mission related debt instruments	2,439,500	-	2,439,500
Real estate funds	5,115,164	-	5,115,164
Private debt funds	50,542,852	-	50,542,852
Private equity and hedge funds	114,052,312	-	114,052,312
Comingled trust funds	120,673,598	-	120,673,598
	<u>120,673,598</u>	<u>-</u>	<u>120,673,598</u>
Total	<u><u>\$ 397,463,939</u></u>	<u><u>\$ 399,869,941</u></u>	<u><u>\$ 797,333,880</u></u>

Certain amounts are not categorized within the fair value hierarchy table above as they are valued using net asset value per share as a practical expedient. These amounts are valued based on information provided by the fund manager.

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

Years Ended March 31, 2023 and 2022

(4) Investments (Continued)

Brokered Investments:

Brokered investments are held in 156 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 at March 31, 2023:

	Not Categorized	Level 1	Level 2	Total
Cash and cash equivalents	\$ 31,853,824			\$ 31,853,824
Equities and equities mutual funds:				
Real estate funds		26,248		26,248
Mutual funds and exchange traded funds		222,966,095		222,966,095
Equity holdings		95,914,666		95,914,666
Fixed income and fixed income funds:				
Corporate bonds			42,679,002	42,679,002
Government bond funds		25,838,119		25,838,119
Alternative investments:				
Private equity, real estate and hedge funds	65,277,056			65,277,056
	<u>\$ 97,130,880</u>	<u>\$ 344,745,128</u>	<u>\$ 42,679,002</u>	<u>\$ 484,555,010</u>

External managers' investment allocation is monitored by Foundation management and the Investment Committee, and is comprised of the following aggregated categories at March 31, 2022:

	Not Categorized	Level 1	Level 2	Total
Cash and cash equivalents	\$ 20,936,486			\$ 20,936,486
Equities and equities mutual funds:				
Real estate funds		1,238,724		1,238,724
Mutual funds and exchange traded funds		258,725,581		258,725,581
Equity holdings		107,981,339		107,981,339
Fixed income and fixed income funds:				
Corporate bonds			37,723,104	37,723,104
Government bond funds		14,787,322		14,787,322
Alternative investments:				
Private equity, real estate and hedge funds	4,287,947			4,287,947
	<u>\$ 25,224,433</u>	<u>\$ 382,732,966</u>	<u>\$ 37,723,104</u>	<u>\$ 445,680,503</u>

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

Years Ended March 31, 2023 and 2022

(4) Investments (Continued)

Other Investments:

Other investments are categorized as follows:

	2023		
	Value of Investment	Valuation Method	Fair Value Level
Assets held under charitable remainder trusts			
Cash and cash equivalents	\$ 1,010,172	Fair Value	NA
Government securities	4,487,398	Fair Value	1
Equity mutual funds	9,462,293	Fair Value	1
Corporate bonds	1,911,548	Fair Value	2
Equities	7,912,126	Fair Value	1
Partnerships			
Partnerships - alternative investments	7,676,921	Net Asset Value	NA
Real estate partnerships	1,426,704	Equity Method	NA
Partnerships and other closely-held equity	9,806,142	Measurement Alternative	NA
Real estate	60,859,790	Fair Value	3
Group annuity contract	516,766	Fair Value	3
Cash surrender value of life insurance	559,761	Fair Value	3
Art Objects	9,533,720	Fair Value	4
Other investments	2,133,139	Fair Value	3
	<u>\$ 117,296,480</u>		

	2022		
	Value of Investment	Valuation Method	Fair Value Level
Assets held under charitable remainder trusts			
Cash and cash equivalents	\$ 1,492,184	Fair Value	NA
Government securities	4,425,917	Fair Value	1
Equity mutual funds	9,975,710	Fair Value	1
Fixed income mutual funds	1,212,559	Fair Value	1
Corporate bonds	2,456,245	Fair Value	2
Equities	9,396,469	Fair Value	1
Private equity and hedge funds	204,690	Measurement Alternative	NA
Partnerships			
Partnerships - alternative investments	8,512,591	Net Asset Value	NA
Real estate partnerships	3,636,704	Equity Method	NA
Partnerships and other closely-held equity	6,554,742	Measurement Alternative	NA
Real estate	61,575,300	Fair Value	3
Group annuity contract	825,205	Fair Value	3
Cash surrender value of life insurance	558,843	Fair Value	3
Art Objects	5,372,000	Fair Value	3
Other investments	1,621,507	Fair Value	3
	<u>\$ 117,820,666</u>		

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

Years Ended March 31, 2023 and 2022

(4) Investments (Continued)

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

The following table summarizes the nature and risk of these investments as of March 31, 2023:

	<u>Net Asset Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Private Equity Fund of Funds	\$ 25,900,268	\$ 7,379,460	n/a	n/a
Private Equity	65,963,437	25,765,437	n/a	n/a
Private Debt Fund	60,133,095	25,126,655	n/a	n/a
Private Real Estate Funds	6,513,793	8,760,619	n/a	n/a
Hedge Fund of Funds	75,670,217	-	Quarterly	100 days notice
Commingled Trust Fund 1	9,326,217	-	Monthly	10 days notice
Commingled Trust Fund 2	52,128,358	-	daily	1 day notice
Commingled Trust Fund 3	8,067,437	-	daily	1 day notice
Commingled Trust Fund 4	38,903,218	-	daily	2 day notice
Commingled Trust Fund 5	39,465,410	-	Daily	40 day notice
Total	<u>\$ 382,071,450</u>	<u>\$ 67,032,171</u>		

The following table summarizes the nature and risk of these investments as of March 31, 2022:

	<u>Net Asset Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Private Equity Fund of Funds	\$ 15,178,998	\$ 8,705,292	n/a	n/a
Private Equity	55,615,974	25,738,234	n/a	n/a
Private Debt Fund	50,542,852	25,412,724	n/a	n/a
Private Real Estate Funds	6,122,293	9,772,112	n/a	n/a
Hedge Fund of Funds	55,050,743	-	quarterly	100 day notice
Commingled Trust Fund 1	10,475,183	-	daily	1 day notice
Commingled Trust Fund 2	79,803,762	-	daily	1 day notice
Commingled Trust Fund 3	8,870,355	-	daily	1 day notice
Commingled Trust Fund 4	21,524,297	-	daily	2 day notice
Total	<u>\$ 303,184,457</u>	<u>\$ 69,628,362</u>		

The amounts above marked "n/a" for the redemption notice period can never be redeemed. The Foundation receives distributions through the liquidation of the underlying assets. The period of time over which the underlying assets are expected to be liquidated is unknown.

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

Years Ended March 31, 2023 and 2022

(4) Investments (Continued)

Private Equity Fund of Funds – This category includes limited partnership investments in funds that each invest in a diversified portfolio of underlying private equity funds, either directly or on the secondary market. Underlying strategies may include leveraged buyout funds, venture capital funds, growth capital funds, distressed investments and/or mezzanine investments. While the managers will make distributions over the life of the funds as exit opportunities arise, these investments are illiquid and redemptions are not permitted.

Private Equity Funds – This category includes limited partnership investments made directly in funds that make leveraged buyout or growth equity investments in companies across a variety of market capitalization sizes, geographies, sectors and industries. While the managers will make distributions over the life of the funds as exit opportunities arise, these investments are illiquid and redemptions are not permitted.

Private Debt Funds – This category includes limited partnership investments made directly in funds that make loans to companies across a variety of market capitalization sizes, geographies, sectors and industries. The funds are primarily focused on senior secured and unitranche loans, but may also include subordinated or mezzanine debt. While the managers will make distributions over the life of the funds as exit opportunities arise, these investments are illiquid and redemptions are not permitted.

Private Real Estate Funds – This category includes limited partnership investments made directly in funds that make real estate investments across a variety of property types, geographies and sectors. The funds are primarily focused on value add and opportunistic strategies. While the managers will make distributions over the life of the funds as exit opportunities arise, these investments are illiquid and redemptions are not permitted.

Hedge Fund of Funds – This category includes an investment in a private fund that invests in a diversified portfolio of underlying hedge funds across a variety of strategies including long/short equity, long/short credit, relative value, event driven and opportunistic strategies. The fund's objective is to attempt to produce consistent capital appreciation with controlled volatility and reduced risk of major drawdowns.

Commingled Trust Fund 1 – This fund seeks to achieve long-term capital appreciation by investing in a diversified portfolio of publicly traded, non-U.S. equity securities of high-quality companies that are selected with regard for both financial and sustainability criteria.

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

Years Ended March 31, 2023 and 2022

(4) Investments (Continued)

Commingled 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.

Commingled Trust Fund 3 – This fund invests at least 70% of its assets in investment grade debt and fixed income securities rated at the time of purchase at last Baa3 or BBB-. The investment objective of the fund is to maximize long-term total return, consistent with prudent investment management.

Commingled Trust Fund 4 – This fund invests all or substantially all of its assets in Dollar-denominated investment grade debt and fixed income securities rated at the time of purchase at last Baa3 or BBB-. The investment objective of the fund is to maximize long-term total return, consistent with prudent investment management.

Commingled Trust Fund 5 – This fund seeks to provide an investment return which exceeds the Secured Overnight Financing Rate (SOFR) while aiming to preserve capital. The fund invests in reverse repurchase agreements and securities borrowing agreements, under which the Fund lends money to and obtains collateral from its institutional counterparties.

(5) 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, 2023:

	Receivables from charitable lead trusts, and beneficial interest in trusts	Real estate held for investment	Investments in cash surrender value of life insurance, group annuity contract, and other Level 3	Total
Balance at April 1, 2022	\$ 8,582,311	\$ 61,575,300	\$ 8,377,555	\$ 78,535,166
Change in value of split- interest agreements	(570,156)	-	(308,439)	(878,595)
Purchases and contributions	-	7,020,000	5,789,307	12,809,307
Sales	(126,013)	(3,315,958)	(617,809)	(4,059,780)
Realized / unrealized gains / (losses)	-	(4,419,552)	(497,227)	(4,916,779)
Balance at March 31, 2023	<u>\$ 7,886,142</u>	<u>\$ 60,859,790</u>	<u>\$ 12,743,387</u>	<u>\$ 81,489,319</u>

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

Years Ended March 31, 2023 and 2022

(5) Level 3 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, 2022:

	Receivables from charitable lead trusts, and beneficial interest in trusts	Real estate held for investment	Investments in cash surrender value of life insurance, group annuity contract, and other Level 3	Total
Balance at April 1, 2021	\$ 8,785,588	\$ 27,022,100	\$ 4,861,061	\$ 40,668,749
Change in value of split- interest agreements	(30,088)	-	-	(30,088)
Purchases and contributions	-	158,760,763	3,439,809	162,200,572
Sales	(173,189)	(124,145,534)	(411,810)	(124,730,533)
Realized / unrealized gains / (losses)	-	(62,029)	488,495	426,466
Balance at March 31, 2022	<u>\$ 8,582,311</u>	<u>\$ 61,575,300</u>	<u>\$ 8,377,555</u>	<u>\$ 78,535,166</u>

(6) 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 years ended March 31, 2023 and 2022:

	Charitable Remainder Trusts	Charitable Gift Annuities	Total
Balance at March 31, 2021	\$ 14,968,712	\$ 1,621,854	\$ 16,590,566
New gifts	362,868	253,240	616,108
Annuity payments	(1,697,659)	(206,641)	(1,904,300)
Revaluation of liability	793,570	-	793,570
Balance at March 31, 2022	14,427,491	1,668,453	16,095,944
New gifts	-	-	-
Annuity payments	(1,746,786)	(129,046)	(1,875,832)
Revaluation of liability	(488,474)	(196,307)	(684,781)
Balance at March 31, 2023	<u>\$ 12,192,231</u>	<u>\$ 1,343,100</u>	<u>\$ 13,535,331</u>

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

Years Ended March 31, 2023 and 2022

(7) Property and Equipment

Property and equipment consists of:

	2023	2022
Cost:		
Furniture, fixtures and equipment	\$ 1,509,424	\$ 1,801,869
Leasehold improvements	540,651	540,651
Art objects	5,700	5,700
Total cost	2,055,775	2,348,220
Accumulated depreciation and amortization	(1,030,478)	(1,305,235)
Projects in process	-	58,200
Net property and equipment	\$ 1,025,297	\$ 1,101,185

Projects in process consist of leasehold improvements and software upgrades. Depreciation and amortization expense charged to operations was \$377,594 and \$330,399 for the years ending March 31, 2023 and 2022, respectively.

(8) 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:

	2023	2022
Grants payable to be paid in less than one year	\$ 12,097,760	\$ 8,685,680
Grants payable to be paid in one to five years	14,789,675	15,658,161
Net grants authorized but unpaid	\$ 26,887,435	\$ 24,343,841

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

Years Ended March 31, 2023 and 2022

(9) 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.

The activity for the agency funds is summarized as follows:

	2023	2022
Agency funds, beginning of year	\$ 138,451,760	\$ 128,273,611
Contributions and additions	27,938,359	55,909,057
Investment income	2,552,322	1,660,955
Realized and unrealized investment gains (losses)	(7,879,932)	3,794,749
Withdrawal of funds	(24,830,059)	(50,251,973)
Administration and investment fees	(951,751)	(934,639)
Agency funds, end of year	\$ 135,280,699	\$ 138,451,760

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

Years Ended March 31, 2023 and 2022

(10) Net Assets with Donor Restrictions

Net assets with donor restrictions consist of:

	2023	2022
Time restricted:		
Charitable remainder trusts	\$ 12,591,305	\$ 14,736,282
Beneficial interest in charitable remainder trusts	7,707,030	8,279,537
Charitable lead trusts	179,113	302,776
	\$ 20,477,448	\$ 23,318,595

Charitable remainder trusts are presented net of present value of annuity payments related to charitable remainder trusts and beneficial interest in charitable remainder trusts are considered restricted 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.

(11) Endowments

The Foundation's endowments consist of approximately 900 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 assets 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.

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

Years Ended March 31, 2023 and 2022

(11) 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, 2023, 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, 2023 and 2022 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.

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

Years Ended March 31, 2023 and 2022

(11) Endowments (Continued)

The endowment net assets composition by type of fund as of March 31, 2023 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 12,591,305	\$ 12,591,305
Board-designated endowment funds	<u>392,746,229</u>	<u>-</u>	<u>392,746,229</u>
 Total funds	 <u>\$ 392,746,229</u>	 <u>\$ 12,591,305</u>	 <u>\$ 405,337,534</u>

The change in endowment net assets for the year ended March 31, 2023 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, April 1, 2022	\$ 408,934,817	\$ 14,736,282	\$ 423,671,099
Contributions	22,674,964	-	22,674,964
Investment return	(15,461,031)	-	(15,461,031)
Change in value of charitable remainder trusts	-	(1,607,897)	(1,607,897)
Appropriation of endowment assets for expenditure	<u>(23,402,521)</u>	<u>(537,080)</u>	<u>(23,939,601)</u>
Endowment net assets, March 31, 2023	<u>\$ 392,746,229</u>	<u>\$ 12,591,305</u>	<u>\$ 405,337,534</u>

The endowment net assets composition by type of fund as of March 31, 2022 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 14,736,282	\$ 14,736,282
Board-designated endowment funds	<u>408,934,817</u>	<u>-</u>	<u>408,934,817</u>
 Total funds	 <u>\$ 408,934,817</u>	 <u>\$ 14,736,282</u>	 <u>\$ 423,671,099</u>

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

Years Ended March 31, 2023 and 2022

(11) Endowments (Continued)

The change in endowment net assets for the year ended March 31, 2022 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, April 1, 2021	\$ 353,377,595	\$ 14,831,534	\$ 368,209,129
Contributions	54,403,159	332,632	54,735,791
Investment return	23,038,291	-	23,038,291
Change in value of charitable remainder trusts	-	327,994	327,994
Appropriation of endowment assets for expenditure	<u>(21,884,228)</u>	<u>(755,878)</u>	<u>(22,640,106)</u>
Endowment net assets, March 31, 2022	<u>\$ 408,934,817</u>	<u>\$ 14,736,282</u>	<u>\$ 423,671,099</u>

(12) Leases

The Foundation leases office equipment and office space under operating lease agreements with terms expiring in various years through 2028. The agreements require monthly payments ranging from approximately \$566 to \$76,063. Certain leases contain escalation, abatement, and tenant improvement allowance provision.

Right-of-use assets represent the Foundation's right to use an underlying asset for the lease term, while lease liabilities represent the Foundation's obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the commencement date of a lease based on the net present value of lease payments over the lease term.

Certain of the Foundation's leases include options to renew or terminate the lease. The exercise of lease renewal or early termination options is at the Foundation's sole discretion. The Foundation regularly evaluates the renewal and early termination options and when they are reasonably certain of exercise, the Foundation includes such options in the lease term. Additionally, upon adoption of the new standard, the Foundation made judgments regarding lease terms for certain of its real property leases that contained auto-renewal clauses. The Foundation estimated a lease end date based on the required length of usage of the property and calculated a right-of-use asset and lease liability with the resulting estimated lease term.

In determining the discount rate used to measure the right-of-use assets and lease liabilities, the Foundation uses the rate implicit in the lease, or if not readily available, the Foundation uses a risk-free rate based on U.S. Treasury note or bond rates for a similar term.

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

Years Ended March 31, 2023 and 2022

(12) Leases (Continued)

Right-of-use assets are assessed for impairment in accordance with the Foundation's long-lived asset policy. The Foundation reassesses lease classification and remeasures right-of-use assets and lease liabilities when a lease is modified and that modification is not accounted for as a separate new lease or upon certain other events that require reassessment in accordance with Topic 842.

The Foundation made significant assumptions and judgments in applying the requirements of Topic 842. In particular, the Organization:

- Evaluated whether a contract contains a lease, by considering factors such as whether the Foundation obtained substantially all rights to control an identifiable underlying asset and whether the lessor has substantive substitution rights.
- Determined whether contracts contain embedded leases.

The Foundation does not have any material leasing transactions with any related parties.

The following table summarizes the operating lease right-of-use assets and operating lease liabilities as of March 31, 2023:

Operating lease right-of-use assets	\$ <u>3,486,301</u>
Operating lease liabilities:	
Current	\$ 894,028
Long-term	<u>2,717,789</u>
Total operating lease liabilities	<u>\$ 3,611,817</u>

Below is a summary of expense incurred pertaining to leases during the year ended March 31, 2023:

Operating lease expense	\$ 950,324
Short-term lease expense	<u>44,981</u>
Total lease expense	<u>\$ 995,305</u>

The right-of-use assets and lease liabilities were calculated using a weighted average discount rate of 2.55%. As of March 31, 2023, the weighted average remaining lease term was 4.04 years.

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

Years Ended March 31, 2023 and 2022

(12) Leases (Continued)

The table below summarizes the Foundation's approximate future minimum lease payments for years ending after March 31, 2023:

<u>Years Ending March 31,</u>	
2024	\$ 975,223
2025	905,180
2026	866,928
2027	909,831
2028	<u>152,124</u>
Total lease payments	3,809,286
Less: present value discount	<u>(197,469)</u>
Total lease liabilities	3,611,817
Less current portion	<u>(894,028)</u>
Long-term lease liabilities	<u><u>\$ 2,717,789</u></u>

Minimum future rental payments under noncancellable operating leases having remaining terms in excess of one year as of March 31, 2022 are as follows:

<u>Years Ending March 31,</u>	
2023	\$ 1,048,042
2024	975,551
2025	973,769
2026	941,885
2027	936,216
Thereafter	<u>156,538</u>
Total minimum future rental payments	<u><u>\$ 5,032,001</u></u>

Under FASB ASC 840, *Leases*, the Foundation recognized the total lease commitment for operating leases containing escalation, abatement and tenant improvement allowance provisions ratably over the life of the lease, regardless of the payment terms. The cumulative difference between the rent charged to expense and the rent paid was 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 at March 31, 2022 was \$66,921.

Total rental expense was \$823,846 for the year ended March 31, 2022.

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

Years Ended March 31, 2023 and 2022

(13) 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 contributes 6% of the eligible employees’ annual compensation after the employee’s first year of employment. ACF made contributions to the plan of \$401,696 and \$358,873 for the years ended March 31, 2023 and 2022, respectively.

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 \$33,246 and \$47,991 for the years ended March 31, 2023 and 2022, respectively. The plan also includes a provision for Rodel to make discretionary contributions to the plan. There were no discretionary contributions made during the years ended March, 31, 2023 and 2022.

Effective January 1, 2021, the Arizona Community Foundation (“ACF”) established a 457(b) retirement plan, which covers highly compensated employees. The plan allows for salary deferrals, employer matching and employer contributions. There were no employer contributions for the years ended March 31, 2023 and 2022.

(14) Notes Payable

Effective May 2013, the Foundation entered into an unsecured programmatic line of credit agreement with a California nonprofit public benefit corporation. The programmatic line of credit agreement has a maximum borrowing limit of \$5,000,000. Proceeds from the line of credit are expressly restricted to provide financing loans to nonprofit community-based organizations in Arizona. 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 was due. In October 2021, the line was converted to a promissory note for the outstanding balance of \$2,525,000. Payments on the note were scheduled as follows: \$814,888 due October 2021, \$236,816 due April 2023, and \$124,508 due August 2025, and the remainder balance due August 2026. Interest is charged at 2.0% and is payable quarterly. The balance outstanding under the agreement at March 31, 2022 was \$1,710,812 which was paid in full during the year ended March 31, 2023.

Additionally, the Foundation entered into a non-interest-bearing recoverable grant agreement in the amount of \$150,000 with an Arizona nonprofit corporation to be utilized for affordable housing grants. The agreement matures on May 31, 2023. The outstanding balance on the grant agreement at March 31, 2023 is \$150,000. There was no outstanding balance on the grant agreement at March 31, 2022.

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

Years Ended March 31, 2023 and 2022

(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 \$2,600,000. Upon maturity, all unpaid interest and principal are due. Interest is charged at LIBOR plus 2.5% (7.07% as of March 31, 2023) and payable monthly. There were no amounts outstanding on the line of credit as of March 31, 2023. There are certain financial and non-financial covenants required by the bank.

(16) Contributed Nonfinancial Assets

Contributed nonfinancial assets are as follows for the years ended March 31:

<u>Non-Financial Asset</u>	<u>Revenue Recognized as of March 31, 2023</u>	<u>Revenue Recognized as of March 31, 2022</u>	<u>Utilization in Programs / Activities</u>	<u>Donor Restrictions</u>	<u>Valuation Techniques and Inputs</u>
Art objects	\$ 5,248,720	\$ 2,822,000	Investments	None, but subject to lease restrictions	Based on fair value provided by professional appraiser operating in the greater Los Angeles metropolitan area
	<u>\$ 5,248,720</u>	<u>\$ 2,822,000</u>			

ADDITIONAL INFORMATION

INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

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

We have audited the combined financial statements of **Arizona Community Foundation, Inc. and Support Foundations** as of and for the year ended March 31, 2023, and have issued our report thereon dated September 27, 2023 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 49 and 50 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.

Baker Tilly US, LLP

Tempe, Arizona
September 27, 2023

**THE ARIZONA COMMUNITY FOUNDATION, INC.
AND
SUPPORT FOUNDATIONS
ADDITIONAL INFORMATION
COMBINING SCHEDULE OF FINANCIAL POSITION
March 31, 2023**

ASSETS

	Arizona Community Foundation	Support Foundations	Eliminations and Reclassifications	Combined
CASH AND CASH EQUIVALENTS	\$ 5,187,279	\$ 891,788	\$ -	\$ 6,079,067
PREPAID EXPENSES AND OTHER ASSETS	364,663	-	-	364,663
RECEIVABLES, net	27,584,817	10,778,148	(875,000)	37,487,965
INVESTMENTS	985,340,389	305,710,280	-	1,291,050,669
PROPERTY AND EQUIPMENT, net	1,025,297	-	-	1,025,297
OPERATING LEASE RIGHT-OF-USE ASSETS	<u>3,486,301</u>	<u>-</u>	<u>-</u>	<u>3,486,301</u>
TOTAL ASSETS	<u>\$ 1,022,988,746</u>	<u>\$ 317,380,216</u>	<u>\$ (875,000)</u>	<u>\$ 1,339,493,962</u>

LIABILITIES AND NET ASSETS

ACCOUNTS PAYABLE AND ACCRUED EXPENSES	\$ 1,993,541	\$ 20,493	\$ (875,000)	\$ 1,139,034
GRANTS PAYABLE	22,730,060	4,157,375	-	26,887,435
PRESENT VALUE OF ANNUITY PAYMENTS	13,535,331	-	-	13,535,331
NOTE PAYABLE	150,000	-	-	150,000
OPERATING LEASE LIABILITIES	3,611,817	-	-	3,611,817
AGENCY FUNDS	<u>135,280,699</u>	<u>-</u>	<u>-</u>	<u>135,280,699</u>
TOTAL LIABILITIES	177,301,448	4,177,868	(875,000)	180,604,316
NET ASSETS	<u>845,687,298</u>	<u>313,202,348</u>	<u>-</u>	<u>1,158,889,646</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,022,988,746</u>	<u>\$ 317,380,216</u>	<u>\$ (875,000)</u>	<u>\$ 1,339,493,962</u>

THE ARIZONA COMMUNITY FOUNDATION, INC.
AND
SUPPORT FOUNDATIONS
 ADDITIONAL INFORMATION
COMBINING SCHEDULE OF ACTIVITIES
 Year Ended March 31, 2023

	Arizona Community Foundation	Support Foundations	Eliminations and Reclassifications	Combined
CONTRIBUTIONS, REVENUES AND OTHER SUPPORT				
Contributions	\$ 90,085,869	\$ 1,097,869	\$ (970,879)	\$ 90,212,859
Contributed non-financial assets	5,248,720	-	-	5,248,720
Investment income	(41,097,341)	(12,687,426)	-	(53,784,767)
Interest from notes receivables	414,392	262,053	-	676,445
Change in split interest agreements	(2,273,720)	-	-	(2,273,720)
Administrative and trustee fee revenues	3,392,209	-	(1,917,725)	1,474,484
Interfund gifts	-	-	-	-
Rental income	364,792	662,774	(10,438)	1,017,128
Other income	411,298	19,804	-	431,102
TOTAL CONTRIBUTIONS, REVENUES AND OTHER SUPPORT	56,546,219	(10,644,926)	(2,899,042)	43,002,251
EXPENSES				
Program expenses:				
Grants and scholarships	75,225,077	20,661,637	(970,879)	94,915,835
Interfund grants	(1,100)	1,100	-	-
Other program expenses	13,586,165	746,512	(5,637)	14,327,040
Total program expenses	88,810,142	21,409,249	(976,516)	109,242,875
Management and general	4,662,961	2,345,498	(1,920,856)	5,087,603
Fundraising	2,966,105	300,746	(1,670)	3,265,181
TOTAL EXPENSES	96,439,208	24,055,493	(2,899,042)	117,595,659
CHANGE IN NET ASSETS	\$ (39,892,989)	\$ (34,700,419)	\$ -	\$ (74,593,408)