MARICOPA COUNTY COMMUNITY COLLEGE DISTRICT FOUNDATION

FINANCIAL STATEMENTS

Year Ended June 30, 2013

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

MARICOPA COUNTY COMMUNITY COLLEGE DISTRICT FOUNDATION

We have audited the accompanying financial statements of ***Maricopa County Community College District Foundation*** (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ***Maricopa County Community College District Foundation*** as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited ***Maricopa County Community College District Foundation's*** 2012 financial statements, and our report dated September 14, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Mayer Hoffman McCann P.C.

Phoenix, Arizona
September 13, 2013

MARICOPA COUNTY COMMUNITY COLLEGE DISTRICT FOUNDATION

STATEMENT OF FINANCIAL POSITION

June 30, 2013
(with comparative totals at June 30, 2012)

A S S E T S

	2013	2012
CASH AND CASH EQUIVALENTS	$ 573,363	$ 384,266
PLEDGES RECEIVABLE, net of discount and allowance	710,928	712,898
INVESTMENTS	25,670,056	21,194,862
INVESTMENTS HELD FOR OTHER	5,419,431	2,803,995
CASH HELD FOR ENDOWMENT PURPOSES	855,544	2,923,377
CASH SURRENDER VALUE OF LIFE INSURANCE	496,545	503,522
OTHER ASSETS	49,607	12,522
TOTAL ASSETS	$ 33,775,474	$ 28,535,442

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

	2013	2012
ACCOUNTS PAYABLE	$ 374,818	$ 228,832
CHARITABLE GIFT ANNUITY LIABILITY	242,108	181,799
INVESTMENTS HELD FOR OTHER	5,419,431	2,803,995
TOTAL LIABILITIES	6,036,357	3,214,626
NET ASSETS		
Unrestricted	812,745	1,142,604
Temporarily restricted	9,554,620	7,976,094
Permanently restricted	17,371,752	16,202,118
TOTAL NET ASSETS	27,739,117	25,320,816
TOTAL LIABILITIES AND NET ASSETS	$ 33,775,474	$ 28,535,442

See Notes to Financial Statements

MARICOPA COUNTY COMMUNITY COLLEGE DISTRICT FOUNDATION

STATEMENT OF ACTIVITIES

Year Ended June 30, 2013
(with comparative totals for the year ended June 30, 2012)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2013	Totals 2012
SUPPORT AND REVENUE					
Contributions	$ -	$ 2,859,480	$ 1,079,399	$ 3,938,879	$ 3,133,934
Contributed services	718,569	-	-	718,569	662,838
Investment return	18,169	1,394,870	-	1,413,039	271,336
Decrease in cash surrender value of life insurance	-	-	(6,977)	(6,977)	(12,902)
Management fees	12,000	-	-	12,000	8,445
Total support and revenue before special events and net assets released from restrictions	748,738	4,254,350	1,072,422	6,075,510	4,063,651
Special events revenue	-	201,750	-	201,750	207,800
Less cost of direct donor benefits	-	(105,242)	-	(105,242)	(92,075)
Gross profit from special events	-	96,508	-	96,508	115,725
Change in donor intent	-	(100,000)	100,000	-	
Net assets released from restrictions	2,695,107	(2,695,107)	-	-	-
TOTAL SUPPORT AND REVENUE	3,443,845	1,555,751	1,172,422	6,172,018	4,179,376
EXPENSES AND (GAINS) LOSSES					
Program expenses					
Scholarships and program support	2,476,359	-	-	2,476,359	2,574,733
Supporting services					
Fundraising	225,156	-	-	225,156	295,727
General and administrative	1,072,189	-	-	1,072,189	1,063,932
(Gain) loss from uncollectible pledges	-	(22,775)	2,788	(19,987)	32,562
TOTAL EXPENSES AND (GAINS) LOSSES	3,773,704	(22,775)	2,788	3,753,717	3,966,954
CHANGE IN NET ASSETS	(329,859)	1,578,526	1,169,634	2,418,301	212,422
NET ASSETS, BEGINNING OF YEAR	1,142,604	7,976,094	16,202,118	25,320,816	25,108,394
NET ASSETS, END OF YEAR	$ 812,745	$ 9,554,620	$ 17,371,752	$ 27,739,117	$ 25,320,816

See Notes to Financial Statements

MARICOPA COUNTY COMMUNITY COLLEGE DISTRICT FOUNDATION

STATEMENT OF CASH FLOWS

Year Ended June 30, 2013
(with comparative totals for the year ended June 30, 2012)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 2,418,301	$ 212,422
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net realized/unrealized investment losses (gains)	(972,696)	482,662
Loss (gain) from uncollectable pledges	(19,987)	32,562
Change in discount on pledges receivable	(18,000)	51,800
Contributions restricted for long-term investment	(917,551)	(963,185)
Decrease in cash surrender value of life insurance	6,977	12,902
Change in charitable gift annuity liability	60,309	5,833
Changes in operating assets and liabilities:		
Decrease (increase) in pledges receivable	(153,753)	(579,169)
Decrease (increase) in other assets	(37,085)	10,755
Increase (decrease) in accounts payable	145,986	(218,155)
Net cash provided by (used in) operating activities	512,501	(951,573)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(6,596,625)	(28,477,393)
Proceeds from sales of investments	3,094,127	30,316,232
Change in investments held for other	(2,450,874)	(1,651,237)
Purchase of investments held for other	2,450,874	1,651,237
Change in cash held for endowment purposes	2,067,833	(1,828,875)
Net cash provided by (used in) investing activities	(1,434,665)	9,964
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for long-term investment	1,111,261	963,185
Net cash provided by financing activities	1,111,261	963,185
NET CHANGE IN CASH AND CASH EQUIVALENTS	189,097	21,576
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	384,266	362,690
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 573,363	$ 384,266
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Unrealized gains (losses) on investments held for other	$ 164,562	$ 53,297

See Notes to Financial Statements

(1) Organization operations and summary of significant accounting policies

Nature of operations – The ***Maricopa County Community College District Foundation*** ("Foundation") was incorporated in 1976 under the laws of the state of Arizona. The Foundation's purpose is to solicit private contributions to support the students and programs of the Maricopa County Community College District ("District"). The Foundation acts as trustee for private donations to assure that contributions are distributed in the manner specified by the donor. The Foundation also supports the formation of new academic programs, instructional innovations, and facilities. The breakdown of funds distributed for the years are as follows:

	2013	2012
Scholarship awards	$ 1,585,718	$ 1,758,289
Program support	890,641	816,444
Total scholarships and program support	$ 2,476,359	$ 2,574,733

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

The Financial Accounting Standards Board ("FASB") sets U.S. generally accepted accounting principles ("GAAP") to ensure consistent reporting. References to GAAP are to the FASB *Accounting Standards Codification* ("FASB ASC").

Basis of presentation – The 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 financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Prior year summarized information – The 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 U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2012 from which the summarized information was derived.

Management's use of estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents – Cash includes cash and, at times, cash equivalents consisting of highly liquid financial instruments purchased with original maturities of three months or less. Deposits at each institution are insured in limited amounts by the Federal Deposit Insurance Corporation (FDIC).

Contributions – The Foundation accounts for contributions in accordance with FASB ASC 958-605*, Not-for-Profit Entities – Revenue Recognition*. In accordance with FASB ASC 958-605, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

(1) Organization operations and summary of significant accounting policies (continued)

Approximately $169,300 and $420,300 in contributions were received from members of the Board of Directors and Foundation staff during the years ended June 30, 2013 and 2012, respectively. Approximately $298,000 and $359,000 of pledges receivable are due from Board Members and Foundation staff as of June 30, 2013 and 2012, respectively.

For the year ended June 30, 2013, approximately 16% of the Foundation’s contribution revenue was received from one donor. The Foundation did not have a concentration of contribution revenue greater than 10% from a major donor for the year ended June 30, 2012. As of June 30, 2013, approximately 21% of the Foundation’s unconditional promises to give were due from two donors. As of June 30, 2012, approximately 12% of the Foundation’s uncollected promises to give were due from one donor.

Unrestricted contributions are distributed as scholarships, as designated by the Board of Directors of the Foundation, or used to further the objectives of the Foundation and to secure current or future endowments through fundraising activities and programs. Temporarily restricted contributions are distributed according to donor specification, generally as scholarships to attendees of Maricopa County Community Colleges or to support programs and projects to advance these colleges. Permanently restricted contributions require the principal be invested in perpetuity; the distributable income from the related investments is reflected as temporarily restricted in the statement of activities as specified by the donor.

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 other parties, the organization’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 support from contributions.

Conditional promises to give are recognized when the conditions on which they depend are substantially met. In 2013, the Foundation entered into two revocable bequest agreements with two donors for $10,000 each. The Foundation will recognize the contribution revenue of these awards 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. The Foundation also received a conditional grant from a donor in the amount of $970,950. The full amount will be paid in two installments, with the second installment conditional upon the donor’s approval of the Foundation’s progress specific to the grant’s stipulations. The Foundation received the first installment payment in 2013 in the amount of $618,367 and has recognized this amount as contribution revenue in the statement of activities.

(1) Organization operations and summary of significant accounting policies (continued)

Administration fees – The Foundation charges an administration fee to defray part of the cost of managing restricted accounts held by the Foundation. A 1% fee is charged on all new gifts, except endowment gifts. On January 1st of each year, an investment management fee of 75 basis points is charged on all accounts. This fee is not charged to endowment funds, if doing so would reduce the fund below its corpus. Total fees charged by the Foundation were $188,026 and $148,279, for the years ended June 30, 2013 and 2012, respectively. A total of $176,026 and $139,834 were included in net assets released from restrictions for the years ended June 30, 2013 and 2012, respectively.

Effective July 1, 2013, the Foundation increased the new gift fee from 1% to 2% and the investment management fee from 0.75% to 2%. These fees continue to exclude endowment gifts and funds, if including the endowment fund would reduce the fund below its corpus.

Management fees – The Foundation recognized $12,000 and $8,445 of management fees on investments held for other for the years ended June 30, 2013 and 2012, respectively.

Special events – The Foundation conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event. Unless a verifiable, objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to the Foundation. The direct costs of the special events, which ultimately benefit the donor rather than the Foundation, are recorded as cost of direct donor benefits. All proceeds received in excess of the direct costs are recorded as gross profit from special events in the accompanying statement of activities.

Donated materials and services – Donated materials and professional services are reflected as contributions in the accompanying financial statements at their estimated values at the date of receipt. No amounts have been reflected in the financial statements for certain donated volunteer services because they did not qualify for recording under the guidelines of FASB ASC 958-605; however, a substantial number of volunteers have donated significant amounts of their time in the Foundation's program services.

Contributions of donated non-monetary assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance non-financial assets, or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

Functional allocation of expenses – The costs of providing the Foundation’s various programs have been summarized on a functional basis in the accompanying statement of activities. Certain costs have been allocated among the programs and supporting services benefited based on an analysis of time and expense. Fundraising expenses include those expenses related to the overall solicitation of contributions to the Foundation.

Investments – The Foundation accounts for its investments in accordance with FASB ASC 958-320, Not-for-Profit Entities – Investments – Debt and Equity Securities and FASB ASC 958-325, Not-for-Profit Entities – Investments – Other. In accordance with FASB ASC 958-320, the Foundation carries its investments in equity securities that have readily determinable fair values, and all investments in debt securities, at fair value. In accordance with FASB ASC 958-325, the Foundation has elected to carry its other investments at fair value.

(1) Organization operations and summary of significant accounting policies (continued)

The combined individual funds participate in a common equity investment pool (the Pool) by contributing their investable assets and receiving an ownership interest in the Pool. The ownership interest in the Pool is based on the ratio of the market value of the individual fund's investable assets to the total market value of the Pool. The ratio is used to allocate earnings activities among individual general and endowment funds.

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 financial statements.

Income tax status – The Foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the Code) and, therefore, there is no provision for income taxes for the entity. In addition, the Foundation qualifies for the charitable contribution deduction under Section 170 of the Code and has been deemed not to be a private foundation. Income determined to be unrelated business taxable income (UBTI) would be taxable. None of the income in 2013 and 2012 has been determined to be unrelated business taxable income.

The Foundation evaluates its uncertain tax positions, if any, on a continual basis through review of its policies and procedures, review of its regular tax filings, and discussions with outside experts. The Foundation's federal Return of Organization Exempt from Income Tax (Form 990) for the fiscal years 2010, 2011 and 2012 are subject to examination by the IRS generally for three years after they were filed.

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

Subsequent events – The Foundation has evaluated subsequent events through September 13, 2013, which is the date the financial statements were available to be issued.

MARICOPA COUNTY COMMUNITY COLLEGE DISTRICT FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2013
(with comparative totals for the year ended June 30, 2012)

(2) Pledges receivable

Pledges receivable consist of the following at June 30:

	2013	2012
Pledges receivable:		
Receivable in less than one year	$ 257,491	$ 241,381
Receivable in one to five years	491,929	565,879
Receivable in more than five years	31,000	-
Total pledges receivable	780,420	807,260
Less discounts to net present value	(55,117)	(60,000)
Less allowance for unrealizable pledges	(14,375)	(34,362)
Net pledges receivable	$ 710,928	$ 712,898

Pledges receivable that are expected to be collected in more than one year have been discounted to their present value using a discount rate of 5%.

(3) Investments

Investments consist of the following at June 30:

	2013	2012
Equity funds:		
Common stock funds - United States	$ 6,685,383	$ 5,550,677
Common stock funds - emerging markets	2,222,602	1,403,558
Common stock funds - International	3,004,769	2,548,114
Exchange traded funds – global region	1,062,467	-
Fixed Income funds:		
Government agencies - United States	11,482,710	7,412,618
Corporate bonds - United States	2,126,545	1,794,850
Corporate bonds - other	245,882	239,130
Fixed income ETF – United States	-	2,220,779
Real estate funds:		
Real estate - United States	499,964	1,109,368
Hedge funds:		
Hedge equity funds - United States	2,739,949	-
Commodity funds:		
Commodity funds – United States and global	1,019,216	1,573,391
Other investments	-	146,372
Total investments	$ 31,089,487	$ 23,998,857

The following summarizes the investment return for the year ended June 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	$ 140,913	$ 448,651	$ -	$ 589,564
Net realized and unrealized gains (losses)	(90,016)	1,062,712	-	972,696
Brokerages fees	(32,728)	(116,493)	-	(149,221)
Total	$ 18,169	$ 1,394,870	$ -	$ 1,413,039

(3) Investments (continued)

The following summarizes the investment return for the year ended June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	$ 309,765	$ 581,605	$ -	$ 891,370
Net realized and unrealized gains (losses)	29,756	(512,418)	-	(482,662)
Brokerages fees	(33,247)	(104,125)	-	(137,372)
Total	$ 306,274	$ (34,938)	$ -	$ 271,336

(4) Cash surrender value of life insurance

The Foundation is the beneficiary of certain Life Endowment life insurance policies, the face amounts of which total approximately $2,795,000. These policies are recorded at their cash surrender values. Policy earnings and expenses are included in the statement of activities as a change in cash surrender value of life insurance. The cash surrender values and policy benefits of these policies are permanently restricted and are included in permanently restricted net assets as of June 30, 2013 and 2012 in the accompanying financial statements. Upon the termination of the insurance policies, the Foundation will invest the proceeds into the endowment funds. During the year ended June 30, 2013, the Foundation received cash proceeds of $54,771 as benefits for a terminated insurance policy which have been invested in the endowment.

(5) Split-interest agreements

The Foundation currently administers eight charitable gift annuities. The assets contributed under the charitable gift annuities are carried at fair value. Contribution support is 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 are used for calculating the available deduction for income tax purposes. The liabilities are adjusted for the accretion of the discount and other changes in the estimates of future benefits. The present value of the estimated annuity payments associated with the gift annuities is $242,108 and $181,799 at June 30, 2013 and 2012, respectively. The assets aggregating approximately $451,000 and $329,000 held under these split-interest agreements at June 30, 2013 and 2012 respectively, are held in the Pool and invested in proportion to the amounts in Note 3.

During 2006, the Foundation became the irrevocable beneficiary of one charitable remainder unitrust. The charitable remainder unitrust provided for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets would have been available for the Foundation's use. A temporarily restricted contribution and beneficial interest in charitable remainder unitrust is recorded in the period the trust is established. At June 30, 2011, based upon available information, the portion of the trust attributable to the present value of the expected future benefits to be received by the Foundation was $58,477. At June 30, 2012, the portion of the trust attributable to the present value of the expected future benefits to be received by the Foundation was determined to be $0, therefore the Foundation recorded an unrealized loss of $58,477 during the year ended June 30, 2012.

(6) Restricted net assets

Temporarily restricted net assets are available primarily for scholarship awards.

Permanently restricted net assets are to provide a permanent endowment, with the investment income restricted primarily for scholarship awards (see Note 10 - Endowments).

(7) Contributed services

The District provides administration services consisting of office space and administrative salaries to the Foundation without charge. The fair value of these contributed services totals $718,569 and $662,838 for the years ended June 30, 2013 and 2012, respectively, and is reflected in the statement of activities as contributed services and administrative expenses.

(8) Investments held for other

FASB ASC 958-605 establishes standards for transactions in which a not-for-profit organization 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 establishes a fund at another not-for-profit organization with its own funds and specifies itself as the beneficiary of that fund, the recipient not-for-profit organization must account for the transfer of such assets as a liability.

Included in investments held for other are assets held in an investment for the benefit of Friends of Public Radio Arizona ("FPRAZ"), a 501(c) (3) not-for-profit organization, under a Funds Administration agreement. FPRAZ is the named beneficiary of the fund with purpose of the fund to support FPRAZ's mission on behalf of KJZZ/KBAQ Radio at Rio Salado College, a Maricopa Community College. The Foundation has invested the funds into the Pool with earnings activity being allocated to the investments held for other using the same allocation method as all of the other funds invested in the Pool. The Foundation charges an administrative service fee of 0.50% to all new gifts into the fund. Under the Funds Administration agreement, the Foundation has waived the customary 0.75% administration fee charged against all funds under management. In accordance with FASB ASC 958-605, a liability has been established equivalent to the fair value of the assets.

Both the liability and the assets are measured at fair value. The inputs used to determine the fair value of the invested assets are based upon the nature of the assets held within the Pool. The inputs used to determine the fair value of the liability are based upon the fair value of the assets of the Pool and the agency fund's ownership interest in the Pool. Since the fair value of the liability is based primarily upon the observable inputs used during the valuation of the assets but not based upon identical inputs for identical agency liabilities, a Level 2 classification has been assigned for the inputs used to determine the fair value of the assets held for other liability.

The activity for the agency fund is summarized as follows:	2013	2012
Agency fund, beginning of year	$ 2,803,995	$ 1,099,461
Contributions	2,400,000	1,600,000
Interest and dividends, net of brokerage fees	62,874	59,297
Realized and unrealized investment gains, net	164,562	53,692
Management fees	(12,000)	(8,455)
Agency fund, end of year	$ 5,419,431	$ 2,803,995

(9) Fair value measurements

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

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

Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability. Assets reported at NAV using the practical expedient provisions are considered Level 2 when the Foundation has the ability to redeem its investment at net assets value or its equivalent at the measurement date or within a reasonably short period of time subsequent to the measurement date.

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

The following table summarizes the valuation of the Foundation's assets and liabilities subject to measurements at fair value by the above FASB ASC 820 categories as of June 30, 2013:

	Level 1	Level 2	Level 3	Total
Equity funds:				
Common stock funds - emerging markets	$ -	$ 2,222,602	$ -	$ 2,222,602
Common stock funds - International	-	3,004,769	-	3,004,769
Common stock funds - United States	776,200	5,909,183	-	6,685,383
Exchange traded funds - global region	1,062,467	-	-	1,062,467
Fixed Income funds:				
Government agencies - United States	1,491,936	9,990,774	-	11,482,710
Corporate bond - other	245,882	-	-	245,882
Corporate bond - United States	2,126,545	-	-	2,126,545
Real estate funds:				
Real estate - United States	499,964	-	-	499,964
Hedge funds:				
Hedge equity funds - United States	-	-	2,739,949	2,739,949
Commodity funds:				
Commodity funds - United States and global	1,019,216	-	-	1,019,216
Total investments	7,222,210	21,127,328	2,739,949	31,089,487
Investments held for other liability	-	(5,419,431)	-	(5,419,431)
	$ 7,222,210	$ 15,707,897	$ 2,739,949	$ 25,670,056

(9) Fair value measurements (continued)

The following table summarizes the valuation of the Foundation's assets and liabilities subject to measurements at fair value by the above FASB ASC 820 categories as of June 30, 2012:

	Level 1	Level 2	Level 3	Total
Equity funds:				
Common stock funds - emerging markets	$ -	$ 1,403,558	$ -	$ 1,403,558
Common stock funds - International	-	2,548,114	-	2,548,114
Common stock funds - United States	-	5,550,677	-	5,550,677
Fixed Income funds:				
Government agencies - United States	-	7,412,618	-	7,412,618
Corporate bond - other	239,130	-	-	239,130
Corporate bond - United States	1,794,850	-	-	1,794,850
Fixed income ETF - United States	2,220,779	-	-	2,220,779
Real estate funds:				
Real estate - United States	1,109,368	-	-	1,109,368
Commodity funds:				
Commodity funds - United States and global	1,573,391	-	-	1,573,391
Other investments	146,372	-	-	146,372
Total investments	7,083,890	16,914,967	-	23,998,857
Investments held for other liability	-	(2,803,995)	-	(2,803,995)
	$ 7,083,890	$ 14,110,972	$ -	$ 21,194,862

The table below sets forth a summary of changes in the fair value of the Foundation's assets measured using Level 3 inputs for the year ended June 30, 2013:

Balance, beginning of year	$ -
Purchases	2,524,960
Unrealized gains	214,989
Balance, end of year	$ 2,739,949

The Foundation has no other assets or liabilities subject to fair value measurement other than at initial recognition.

(9) Fair value measurements (continued)

In accordance with FASB ASC 820, the Foundation is required to disclose the nature and risks of the investments reported at NAV. The following table summarizes the nature and risk of these investments as of June 30, 2013.

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Government agencies fund – United States				
Common Daily Aggregate Bond Index fund	$ 9,990,774	$ -	Daily	One business day
Common stock funds – emerging markets				
Emerging markets fund	2,222,602	-	Daily	One business day
Common stock funds – International				
International securities fund	1,300,338	-	Daily	One business day
Ex-US equity fund	1,704,431	-	Daily	One business day
Common stock funds – United States				
S&P 500 Index fund	3,199,126	-	Daily	One business day
Large cap fund	1,511,030	-	Daily	One business day
Mid cap fund	581,787	-	Daily	One business day
Small cap fund	617,240	-	Daily	One business day
Hedge funds – United States				
Northern Trust Equity Long/Short fund	1,108,362	-	N/A	N/A
Northern Trust Alpha Strategies fund	1,631,587	-	N/A	N/A
Total	$ 23,867,277	$ -		

(9) Fair value measurements (continued)

The following table summarizes the nature and risk of these investments as of June 30, 2012.

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Government agencies fund – United States				
Common Daily Aggregate Bond Index fund	$ 7,412,618	$ -	Daily	One business day
Common stock funds – emerging markets				
Emerging markets fund	1,403,558	-	Daily	One business day
Common stock fund – International				
Ex-US equity fund	1,436,963	-	Daily	One business day
International securities fund	1,111,151	-	Daily	One business day
Common stock funds – United States				
S&P 500 Index fund	3,391,153	-	Daily	One business day
Large cap fund	1,273,849	-	Daily	One business day
Small cap fund	449,655	-	Daily	One business day
Mid cap fund	436,020	-	Daily	One business day
Total	$ 16,914,967	$ -		

Common daily aggregate bond index fund – The primary objective is to hold a portfolio representative of the overall United States bond and debt market, as characterized by the Barclays Capital Aggregate Bond Index. This Fund may participate in securities lending.

Emerging markets fund – The policy is to invest in emerging market securities, directly or through funds but not limited to common funds maintained by Northern Trust ("the Trustee") or its affiliates, using one or more advisors to recommend specific investments. While emerging markets equity will be the predominant asset class, this Fund may invest in other asset classes from time to time, including but not limited to short term investment funds and cash equivalents, and may be highly concentrated in specific sectors or securities.

Ex-US equity fund – The primary objective is to provide investment results that approximate the overall performance of the MSCI All-Country World ex-US Equity Index. This Fund may participate in securities lending.

International Securities fund – The policy is to invest in non-U.S. equity markets, directly or through funds including but not limited to common funds maintained by the Trustee or its affiliates, using one or more advisors to recommend specific investments. While non-U.S. equity securities will be the predominant asset class, this Fund may invest in other asset classes from time to time, including but not limited to short term investment funds and cash equivalents, and the Fund may be highly concentrated in specific sectors or securities.

(9) Fair value measurements (continued)

S&P 500 Index fund – The primary objective is to approximate the risk and return characteristics of the S&P 500 Index. This Index is commonly used to represent the large cap segment of the U.S. equity market. This fund may participate in securities lending.

Large cap fund – The policy is to invest in U.S. equity markets, directly or through funds including but not limited to common funds maintained by the Trustee or its affiliates, using one or more advisors to recommend specific investments. While U.S. equity securities will be the predominant asset class, this Fund may invest in other asset classes from time to time, including but not limited to short term investment funds and cash equivalents. Characteristically, the Fund will have a large market capitalization core orientation and may be highly concentrated in specific sectors or securities.

Small cap fund – The policy is to invest in U.S. equity markets, directly or through funds including but not limited to common funds maintained by the Trustee or its affiliates, using one or more advisors to recommend specific investments. While U.S. equity securities will be the predominant asset class, this Fund may invest in other asset classes from time to time, including but not limited to short term investment funds and cash equivalents. Characteristically, the Fund will have a small market capitalization core orientation and may be highly concentrated in specific sectors or securities.

Mid cap fund – The policy is to invest in U.S. equity markets, directly or through funds including but not limited to common funds maintained by the Trustee or its affiliates, using one or more advisors to recommend specific investments. While U.S. equity securities will be the predominant asset class, this Fund may invest in other asset classes from time to time, including but not limited to short term investment funds and cash equivalents. Characteristically, the Fund will have a mid market capitalization core orientation and may be highly concentrated in specific sectors or securities.

Northern Trust Equity Long/Short fund – The primary objective is to achieve attractive risk-adjusted returns through investments in an equity long/short focused portfolio of assets. The fund is a globally diversified long/short strategy fund of hedge funds that seeks to target equity-like returns over a full market cycle with less volatility and more downside protection than long-only equity. Although common unit holders will not have the right to redeem their units, at its discretion the Board of Trustees of the fund intends to make quarterly tender offers for its common units at the net asset value as of the applicable tender date. Holders are required to make the request for redemption at least sixty days in advance.

Northern Trust Equity Alpha Strategies fund – The primary objective is to seek risk-adjusted rates of return through investment in a diversified portfolio of assets. The fund is an actively managed multi-strategy fund of hedge funds that seeks to generate risk-adjusted returns with significant capital preservation, low correlation to traditional markets, and muted volatility. Although common unit holders will not have the right to redeem their units, at its discretion the Board of Trustees of the fund intends to make quarterly tender offers for its common units at the net asset value as of the applicable tender date. Holders are required to make the request for redemption at least sixty days in advance.

(10) Endowments

The Foundation's endowments include only donor-restricted endowment funds. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

In September 2008, the State of Arizona enacted ARS§10-11801 et seq Management of Charitable Funds Act (MCFA). The Board of Directors of the Foundation has interpreted MCFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by MCFA. In accordance with MCFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the Foundation and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the Foundation
(7) The investment policies of the Foundation

The changes in endowment net assets for the year ended June 30, 2013 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2012	$ (83,212)	$ 3,691,442	$ 15,511,874	$ 19,120,104
Contributions and pledge collections	-	-	1,011,261	1,011,261
Change in donor intent	-	-	100,000	100,000
Investment return:				
Interest and dividends, net of fees	-	332,158	-	332,158
Realized and unrealized gains	30,485	1,062,712	-	1,093,197
Appropriation of endowment assets for expenditure	-	(659,343)	-	(659,343)
Endowment net assets, June 30, 2013	$ (52,727)	$ 4,426,969	$ 16,623,135	$ 20,997,377

(10) Endowments (continued)

The changes in endowment net assets for the year ended June 30, 2012 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2011	$ (59,038)	$ 4,245,894	$ 14,654,689	$ 18,841,545
Contributions and pledge collections	-	-	963,185	963,185
Investment return:				
Interest and dividends, net of fees	-	581,605	-	581,605
Realized and unrealized losses	(24,174)	(512,418)	-	(536,592)
Appropriation of endowment assets for expenditure	-	(623,639)	(106,000)	(729,639)
Endowment net assets, June 30, 2012	$ (83,212)	$ 3,691,442	$ 15,511,874	$ 19,120,104

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or MCFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were $52,727 and $83,212 as of June 30, 2013 and 2012, respectively. These deficiencies resulted primarily from unfavorable market fluctuations.

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Under this policy, and with assistance of professional investment advisors, the endowment assets are invested in a manner that is intended to produce results while assuming a moderate level of investment risk.

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that consists of equity-securities, corporate bonds, and government securities.

The Foundation’s policy is to distribute, for the stated purpose of each fund, 5% of a three-year average of the market value of each endowed fund that is above the original contributed amount as calculated at the end of each year. For funds that are below the original contributed amount, 3% of the three-year average at the end of the year will be eligible for disbursement. Actual investment earnings, in excess of (or less than) distribution, are added to (subtracted from) the endowment principal and available for future disbursements. If these amounts are not fully disbursed within a one-year period, the remaining amounts are transferred back to the endowment funds. For the years ended June 30, 2013 and 2012 earnings of $855,760 and $784,737, respectively, were eligible to be distributed. For the years ended June 30, 2013 and 2012, $539,534 and $382,327, respectively, was distributed and is included in appropriation of endowment assets for expenditure above. The unused funds of $316,226 and $402,410 were transferred back to the endowment funds to be used for future disbursements.