MARICOPA COUNTY COMMUNITY COLLEGE DISTRICT FOUNDATION

FINANCIAL STATEMENTS

Year Ended June 30, 2022

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CONTENTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

MARICOPA COUNTY COMMUNITY COLLEGE DISTRICT FOUNDATION

Opinion

We have audited the financial statements of ***Maricopa County Community College District Foundation*** (the "Foundation"), which comprise the statement of financial position as of June 30, 2022 and the related statements of activities and change in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of June 30, 2022, and the changes in its net assets and its cash flows for the year 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 ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. 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 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for 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 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 GAAS 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 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 GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 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 Foundation's 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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's 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.

Mayer Hoffman McCann P.C.

October 10, 2022

MARICOPA COUNTY COMMUNITY
COLLEGE DISTRICT FOUNDATION

STATEMENT OF FINANCIAL POSITION

June 30, 2022

A S S E T S

CASH AND CASH EQUIVALENTS	$	3,480,963
PLEDGES RECEIVABLE, net of discount and allowance		598,857
INVESTMENTS		53,392,260
CASH SURRENDER VALUE OF LIFE INSURANCE		223,542
SCHOLARSHIPS PAID IN ADVANCE		11,140
OTHER ASSETS		19,562
TOTAL ASSETS	$	57,726,324

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

ACCOUNTS AND SCHOLARSHIPS PAYABLE	$	654,073
DEFERRED REVENUE		283,812
CHARITABLE GIFT ANNUITY LIABILITY		230,587
TOTAL LIABILITIES		1,168,472
NET ASSETS		
Without donor restrictions		1,850,782
With donor restrictions		54,707,070
TOTAL NET ASSETS		56,557,852
TOTAL LIABILITIES AND NET ASSETS	$	57,726,324

See Notes to Financial Statements

MARICOPA COUNTY COMMUNITY
COLLEGE DISTRICT FOUNDATION

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

Year Ended June 30, 2022

	Without donor restrictions	With donor restrictions	Total
SUPPORT AND REVENUE			
Contributions of financial assets	$ -	$ 12,851,501	$ 12,851,501
Contributed space and services	1,577,621	-	1,577,621
Investment loss	(1,648,207)	(3,485,228)	(5,133,435)
Change in cash surrender value of life insurance	-	(20,308)	(20,308)
Total support and revenue before net assets released from restriction	(70,586)	9,345,965	9,275,379
Net assets released from restrictions	6,326,969	(6,326,969)	-
TOTAL SUPPORT AND REVENUE	6,256,383	3,018,996	9,275,379
EXPENSES			
Program support	2,725,720	-	2,725,720
Scholarship expenses	2,949,860	-	2,949,860
Salaries, wages, and benefits	1,422,657	-	1,422,657
Office space	154,964	-	154,964
Professional services	324,981	-	324,981
Office expenses	64,295	-	64,295
Information technology	183,856	-	183,856
Community engagement	39,476	-	39,476
Other expenses	18,936	-	18,936
TOTAL EXPENSES	7,884,745	-	7,884,745
CHANGE IN NET ASSETS	(1,628,362)	3,018,996	1,390,634
NET ASSETS, BEGINNING OF YEAR	3,479,144	51,688,074	55,167,218
NET ASSETS, END OF YEAR	$ 1,850,782	$ 54,707,070	$ 56,557,852

See Notes to Financial Statements

MARICOPA COUNTY COMMUNITY COLLEGE DISTRICT FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2022

	Program Services				Supporting Services		
	General/ Academic	Special Populations	Workforce Development	Total Programs	Management & General	Fundraising	Total
Program support	$ 998,177	$ 1,099,642	$ 627,901	$ 2,725,720	$ -	$ -	$ 2,725,720
Scholarship expenses	1,908,158	758,214	283,488	2,949,860	-	-	2,949,860
Salaries, wages, and benefits	-	-	-	-	750,312	672,345	1,422,657
Office space	-	-	-	-	154,964	-	154,964
Professional services	-	-	-	-	324,981	-	324,981
Office expenses	-	-	-	-	64,295	-	64,295
Information technology	-	-	-	-	183,856	-	183,856
Community engagement	-	-	-	-	-	39,476	39,476
Other expenses	-	-	-	-	18,936	-	18,936
TOTAL EXPENSES	$ 2,906,335	$ 1,857,856	$ 911,389	$ 5,675,580	$ 1,497,344	$ 711,821	$ 7,884,745

MARICOPA COUNTY COMMUNITY COLLEGE DISTRICT FOUNDATION

STATEMENT OF CASH FLOWS

Year Ended June 30, 2022

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ 1,390,634
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Net realized/unrealized investment losses	6,269,556
Change in discount on pledges receivable	(390)
Contributions restricted for endowment	(6,327,901)
Decrease in cash surrender value of life insurance	20,308
Change in charitable gift annuity liability	(41,673)
Changes in operating assets and liabilities:	
Increase in pledges receivable	(26,821)
Decrease in scholarships paid in advance	32,493
Decrease in other assets	1,430
Increase in accounts and scholarships payable	230,222
Increase in deferred revenue	283,812
Net cash provided by operating activities	1,831,670
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investments	(47,200,847)
Proceeds from sales of investments	41,303,837
Net cash used in investing activities	(5,897,010)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from contributions restricted for endowment	6,379,786
Net cash provided by financing activities	6,379,786
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,314,446
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,166,517
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 3,480,963

(1) Foundation 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 significant accounting policies followed by the Foundation 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* ("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 their financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

The Foundation maintains its accounts on the accrual basis of accounting. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Foundation. These net assets may be used at the discretion of the Foundation's management and the board of directors.

Net assets with donor restrictions – Net assets subject to stipulations imposed by donors and grants. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Management's use of estimates – The preparation of 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 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").

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

Contributions received – The Foundation accounts for contributions received in accordance with FASB ASC 958-605*, Not-for-Profit Entities – Revenue Recognition*. In accordance with ASC 958-605, the Foundation evaluates grants and contributions for evidence of the transfer of commensurate value from the Foundation to the grantor or resource provider. The transfer of commensurate value from the Foundation to the grantor or resource provider may include instances when a) the goods or services provided by the Foundation directly benefit the grantor or resource provider or are for the sole use of the grantor or resource provider or b) the grantor or resource provider obtains proprietary rights or other privileges from the goods or services provided by the Foundation. When such factors exist, the Foundation accounts for the grants or contributions as exchange transactions under ASC 606, *Revenue from Contracts with Customers*, or other appropriate guidance. In the absence of these factors, the Foundation accounts for the award under the contribution accounting model.

In the absence of the transfer of commensurate value from the Foundation to the resource provider, the Foundation evaluates the contribution for criteria indicating the existence of measurable barriers to entitlement for the Foundation or the right of return to the resource provider. A barrier to entitlement is subject to judgment and generally represents an unambiguous threshold for entitlement that provides clarity to both the Foundation and resource provider whether the threshold has been met and when. These factors may include measurable performance thresholds or limited discretion on the part of the Foundation to use the funds. Should the existence of a measurable barrier to entitlement exist and be accompanied by a right of return of the funds to the resource provider or release of the resource provider from the obligation, the contribution is treated as a conditional contribution. If both the barrier to entitlement and right of return do not exist, the contribution is unconditional.

The Foundation recognizes amounts received from unconditional contributions at the time the Foundation receives notification of the award. Contributions that include conditions imposed by the grantor or resource provider are recognized when those conditions are met by the Foundation.

During 2022, the Foundation received payments from several grants that are conditional in nature and the revenue can only be recognized once the Foundation has met the specified conditions, such as incurring qualified expenses or achieving specific milestones. As of June 30, 2022, unearned conditional grant revenue associated with these grants is $283,812 and is included in deferred revenue in the accompanying statement of financial position. Additionally, the Foundation is the recipient of certain conditional promises to give that will be recognized upon the satisfaction of the grant conditions, which include achieving specific performance milestones or raising matching contributions. As of June 30, 2022, conditional promises to give that have not been recognized because the conditions have not been met totaled $584,347.

In accordance with FASB ASC 958-605, contributions received are recorded as contributions without donor restrictions or contributions 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 depending on the nature of the restriction. 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 statement of activities and change in net assets as net assets released from restrictions.

Approximately $37,000 in contributions were received from members of the Board of Directors and Foundation staff during the year ended June 30, 2022. Approximately $3,500 of pledges receivable are due from Board Members and Foundation staff as of June 30, 2022.

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

As of June 30, 2022, 67% of the Foundation's unconditional promises to give were due from two donors. For the year ended June 30, 2022, approximately 37% of contributions were from a single donor.

Contributions received without donor restrictions 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. Contributions received with donor restrictions 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. Contributions received with donor restrictions that are perpetual in nature require the principal be invested in perpetuity; the distributable income from the related investments is reflected as net assets with donor restrictions in the statement of activities and change in net assets as specified by the donor.

Unconditional promises to give (pledges) 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 credit worthiness of the other parties, 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 support from contributions. Collectibility of promises to give is determined by management based on historical information. At June 30, 2022, promises to give presented on the statement of financial position are net of an allowance for uncollectible pledges of $12,982, and a discount of $37,124. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Contributions made – The Foundation adopted the amendments of FASB Accounting Standards Update ("ASU") No. 2018-08, Not-For-Profit Entities (Topic 958), *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* in 2021 on a modified prospective basis for contributions made. In accordance with ASU 2018-08, conditional scholarship grants are not recorded until the students meet the terms of the conditions (typically enrollment). As the Foundation funds scholarships annually prior to June 30 and in advance of enrollment, the Foundation records scholarships paid in advance, representing prepaid conditional scholarships.

Change in donor intent – From time to time, the Foundation receives requests by donors or their designees to change the use for which the donor's original gift was intended. These donor requests may result in the reclassification of net assets between net assets with donor restrictions and net assets without donor restrictions.

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

Administration fees – The Foundation charges an administration fee to defray part of the cost of managing restricted accounts held by the Foundation. A fee of 2% is charged on all new gifts, except endowment gifts. On January 1st of each year, an investment management fee of 200 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. During the year ended June 30, 2022, the Board of Directors approved a transfer of operational reserves of $153,841 to effectively offset administration fees charged to the funds. Total fees of $805,230 were charged by the Foundation, and this resulted in the net assets of $651,389 to be released from restriction for the year ended June 30, 2022.

Donated materials, facilities and services – Donated materials are reflected as contributions in the statement of activities and change in net assets at their estimated fair value at the date of receipt. Donated services are recognized as contributions in accordance with FASB ASC 958-605 if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased. 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.

Investments – The Foundation accounts for its investments in accordance with FASB ASC 958-320, *Not-for-Profit Entities – Investments – Debt Securities* and FASB ASC 958-321, *Not-for-Profit Entities – Investments – Equity Securities*. In accordance with FASB ASC 958-320 and 958-321, the Foundation carries its investments in equity and debt at fair value.

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.

Investment return (including interest, dividends, unrealized gains and losses, and realized gains and losses on investments, and investment fees) is included in operations.

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.

Functional expenses – The costs of providing various program support and supporting services have been summarized by natural class in the statement of activities and change in net assets. The statement of functional expenses presents the expenses by function and nature. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to program and supporting services on the basis of personnel activity and other appropriate allocation methods. Expenses that are allocated include salaries, wages, and benefits that are allocated by time and effort. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Foundation and are allocated based on personnel activity or other appropriate indicators.

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

Fair value measurement – FASB ASC 820, *Fair Value Measurement*, establishes a common definition for fair value to be applied under GAAP 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.

Level 3: Unobservable inputs for the asset or liability.

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. Management believes that none of the income in 2022 is UBTI.

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 2019, 2020 and 2021 are subject to examination by the IRS generally for three years after they were filed. As of the date of this report, the fiscal 2022 returns had not yet been filed.

Recent accounting pronouncements – In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842).* ASU 2016-02 requires that a lease liability and related right-of-use-asset representing the lessee's right to use or control the asset be recorded on the balance sheet upon the commencement of all leases except for short-term leases. Leases will be classified as either finance leases or operating leases, which are substantially similar to the classification criteria for distinguishing between capital leases and operating in existing lease accounting guidance. As a result, the effect of leases in the statement of activities and change in net assets and the statement of cash flows will be substantially unchanged from the existing lease accounting guidance. The ASU is effective for fiscal years beginning after December 15, 2021. Early adoption is permitted. The Foundation is currently evaluating the effect that the adoption of this standard will have on the financial statements.

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

In September 2020, the FASB issued ASU No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU 2020-07 requires that gifts-in-kind be presented as a separate line item on the statement of activities. Additionally, gifts-in-kind are to be disaggregated into categories based on the type of gift received, with the following disclosures made for each category:

- Qualitative information about whether the contributed nonfinancial assets were either monetized or utilized during the reporting period. If utilized, the entity will be required to disclose a description of the programs or other activities in which those assets were used.
- The entity's policy (if any) about monetizing rather than utilizing contributed nonfinancial assets.
- A description of any donor-imposed restrictions associated with the contributed nonfinancial assets.
- A description of the valuation techniques and inputs used to arrive at a fair value measure, in accordance with the requirements in Topic 820, *Fair Value Measurement*, at initial recognition.
- The principal market (or most advantageous market) used to arrive at a fair value measure if it is a market in which the recipient entity is prohibited by a donor-imposed restriction from selling or using the contributed nonfinancial assets.

ASU 2020-07 is required to be adopted for annual reporting periods beginning after June 15, 2021 and shall be applied retrospectively to all periods presented. The Foundation implemented ASU 2020-07 during the year ended June 30, 2022.

Subsequent events – The Foundation has evaluated subsequent events through October 10, 2022, which is the date the financial statements were available to be issued.

(2) Pledges receivable

Pledges receivable consist of the following at June 30, 2022:

Receivable in less than one year	$ 309,713
Receivable in one to five years	339,250
Total pledges receivable	648,963
Less discount to net present value	(37,124)
Less allowance for uncollectable pledges	(12,982)
Net pledges receivable	$ 598,857

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 2%.

(3) Investments

Investments consist of the following at June 30, 2022:

Equity funds:	
Common stock funds - United States	$ 5,604,188
Common stock funds - emerging markets	1,019,889
Common stock funds - international	1,803,982
Exchange traded funds - global region	4,203,120
Exchange traded funds - international	3,733,613
Exchange traded funds - United States	7,219,509
Fixed Income funds:	
Government agencies - United States	511,406
Corporate bonds - United States	2,433,191
Exchange traded funds - fixed income	15,145,395
Real estate funds - United States	890,118
Partnerships - United States	8,937,145
Hedge equity funds - United States	1,281,072
Money market funds	609,632
Total investments	$ 53,392,260

The following summarizes the investment loss for the year ended June 30, 2022:

	Without donor restrictions	With donor restrictions	Total
Interest and dividends	$ 313,198	$ 987,014	$ 1,300,212
Net realized and unrealized losses	(1,925,666)	(4,343,890)	(6,269,556)
Brokerages fees	(35,739)	(128,352)	(164,091)
Total investment loss	$ (1,648,207)	$ (3,485,228)	$ (5,133,435)

Investment earnings (losses) from endowments are classified as net assets with donor restrictions.

(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 $2,245,000 as of June 30, 2022. These policies are recorded at their cash surrender values. Policy earnings and expenses are included in the statement of activities and change in net assets as a change in cash surrender value of life insurance. The cash surrender values and policy benefits of these policies are restricted in perpetuity and are included in net assets with donor restriction as of June 30, 2022 in the accompanying financial statements. Upon the termination of the insurance policies, the Foundation will invest the proceeds into the endowment funds.

(5) Split-interest agreements

The Foundation currently administers seven 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 are $230,587 at June 30, 2022. The assets aggregating approximately $590,000 held under these split-interest agreements at June 30, 2022 are held in the Pool and invested in proportion to the amounts in Note 3.

(6) Contributed services

The District provides administration services consisting of office space and administrative salaries to the Foundation without charge as follows:

Contribution	Used For	Amount
Salaries, wages and benefits	Adminstration and fundraising	$ 1,422,657
Office space	Adminstration	154,964
Total contributions of nonfinancial assets		$ 1,577,621

Salaries, wages and benefits are valued based upon the actual salary and benefits cost incurred by the District that are then allocated to the Foundation based upon estimated level of effort provided to the Foundation (Level 2 inputs). Office space is valued using average local market rate of office rents of similar class and quality (Level 2 inputs).

(7) Fair value measurement

The following table sets forth the level, within the fair value hierarchy of the Foundation's assets and liabilities subject to recurring fair value measurement, including investments measured at net asset value ("NAV") as a practical expedient, as of June 30, 2022:

	Level 1	Investments Measured at NAV	Total
Equity funds:			
Common stock funds - United States	$ 5,604,188	$ -	$ 5,604,188
Common stock funds - emerging markets	1,019,889	-	1,019,889
Common stock funds - international	1,803,982	-	1,803,982
Exchange traded funds - global region	4,203,120	-	4,203,120
Exchange traded funds - international	3,733,613	-	3,733,613
Exchange traded funds - United States	7,219,509	-	7,219,509
Fixed Income funds:		-	
Government agencies - United States	511,406	-	511,406
Corporate bonds - United States	2,433,191	-	2,433,191
Exchange traded funds - fixed income	15,145,395	-	15,145,395
Real estate funds - United States	890,118	-	890,118
Partnerships - United States	-	8,937,145	8,937,145
Hedge equity funds - United States	868,488	412,584	1,281,072
Money market funds	609,632	-	609,632
	$ 44,042,531	$ 9,349,729	$ 53,392,260

The Foundation did not have any Level 2 or Level 3 investments as of June 30, 2022. The Foundation has no other assets or liabilities subject to fair value measurement other than at initial recognition.

In accordance with FASB ASC 820, the Foundation is required to disclose the nature and risks of the investments reported at NAV. Investments reported at NAV as a practical expedient are excluded from the fair value hierarchy as per ASU 2015-07.

The following table summarizes the nature and risk of investments reported at NAV as a practical expedient as of June 30, 2022:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Partnerships - United States				
Makena Capital Associates	$ 2,736,695	$ -	Annual	One year
Makena Endowment Fund	6,200,450	-	Annual	One year
Hedge equity funds - United States				
Northern Trust Alpha Strategies fund	412,584	-	Quarterly	60 days prior to Quarter
Total	$ 9,349,729	$ -		

(7) Fair value measurement (continued)

Makena Capital Associates and Endowment fund – The Makena Endowment Portfolio are feeder funds which invest substantially all of their assets into masters funds. The primary objective of the master funds is to achieve capital appreciation in a wide range of asset classes through proprietary asset allocation and careful selection of third-party investment managers. The redemption period for these funds does not begin until after an initial two year lock up period that started in July 2015. Additionally, the fund manager limits redemptions to maintain sufficient liquidity within the funds to satisfy funding commitments for side pocket investments made by the fund on behalf of investors through the date of the redemption notification. The remaining redemptions occur as the side pocket investments mature.

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.

(8) Net assets with donor restrictions

Net assets with donor restrictions consist of the following at June 30, 2022:

Restricted for purposes or periods:	
Scholarship awards and program support	$ 12,335,433
Accumulated endowment earnings subject to spending policy	6,620,241
	18,955,674
Restricted in perpetuity:	
Pledges receivable	98,753
Cash surrender value of life insurance	223,542
Endowment fund subject to the Foundation's spending policy	35,429,101
Total net assets restricted in perpetuity	35,751,396
Total net assets with restrictions	$ 54,707,070

Net assets released from restriction for the year ended June 30, 2022 consisted of the following:

Program support	$ 2,725,720
Scholarships	2,949,860
Administrative fees	651,389
Total net assets released from restriction	$ 6,326,969

(9) Endowments

The Foundation’s endowments include only donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

(9) Endowments (continued)

In September 2008, the State of Arizona enacted ARS§10-11801 et seq Management of Charitable Funds Act ("MCFA"). The Board of Directors of the Foundation has interpreted MCFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions to be held in perpetuity (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 as net assets with donor restrictions to be held in perpetuity are classified as net assets with donor restriction for purpose or periods 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, 2022 are as follows:

	With donor restrictions
Endowment net assets, July 1, 2021	$ 40,774,493
Contributions and pledge collections	6,379,786
Interest and dividends, net of fees	858,662
Realized and unrealized losses	(4,343,890)
Appropriation of endowment assets for expenditure	(1,619,709)
Endowment net assets, June 30, 2022	$ 42,049,342

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.

(9) Endowments (continued)

The Foundation's policy is to distribute, for the stated purpose of each fund, 4.25% for the year ended June 30, 2022 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 were below the original contributed amount, 4.25% of the three-year average at the end of the year were not eligible for disbursement for the year ended June 30, 2022. 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 year ended June 30, 2022, earnings of approximately $1,419,000 were eligible to be distributed for scholarships and program support. The unused funds of approximately $271,000 were maintained in the endowment funds to be used for future disbursements as of June 30, 2022. For the year ended June 30, 2022, the Foundation transferred approximately $153,000 from operational reserves in order to reduce the appropriation of endowment assets for expenditures.

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. The Foundation does not charge administrative fees to underwater funds, however will continue to spend for programs or scholarships as requested. These deficiencies resulted primarily from unfavorable market fluctuations. The balance of these funds as of June 30, 2022 is as follows:

Total corpus of underwater funds	$ 8,938,824
Less: asset value of underwater funds	(8,343,079)
Underwater fund balance	$ 595,745

(10) Liquidity and availability of resources

As of June 30, 2022, the Foundation's financial assets available within one year of the statement of financial position date for general expenditure are as follows:

Cash and cash equivalents	$ 3,480,963
Pledges receivable due within one year	309,713
Investments available to be liquidated with one year	44,455,115
Total financial assets available within one year	48,245,791
Adjusted by	
Amounts unavailable for general expenditure within one year, due to:	
Donor restrictions for specific purposes not expected to be met in one year	(7,947,554)
Endowment funds subject to spending policies	(42,049,342)
Investments held to fund split interest agreements	(590,000)
Permanent pledges receivable due within one year	(83,834)
Total amounts unavailable for general expenditure within one year	(50,670,730)
Estimated endowment earnings to be appropriated for use within one year	2,424,939
Financial assets available to meet cash needs for general expenditure within one year	$ -

(10) Liquidity and availability of resources (continued)

The Foundation monitors its cash flows to ensure the fulfillment of all obligations. As part of their liquidity plan, excess cash is invested in short term investments, primarily mutual funds and fixed income investments, so as to have readily liquid investments available as needed. The Foundation's investments could be readily liquidated without significant penalty to fund operating cash flow needs, except as noted above. The Foundation's cash needs to fund general expenditures is mitigated due to the contribution of services and office space from the District. General expenses for fiscal 2022 totaled approximately $632,000 and were funded through investment returns and administrative fees. All other expenses for fiscal 2022 were funded through donated services or donor restricted net assets as the donor restrictions were satisfied.

The Foundation's spending policy, as described above, allows for annual expenditures of 4.25% of the 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. Additionally, administration fees of 2% will be charged to funds during the year ended June 30, 2022. As such, estimated endowment earnings and fees to be appropriated for use within one year has been estimated as an approximate $2.4 million increase to financial assets available to meet cash needs for general expenditure within one year.