# MENNONITE EDUCATION AGENCY, INC.
# AND AFFILIATE
Elkhart, Indiana

## CONSOLIDATED
## FINANCIAL STATEMENTS
June 30, 2013 and 2012

MENNONITE EDUCATION AGENCY, INC. AND AFFILIATE
Elkhart, Indiana

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Crowe Horwath LLP
Independent Member Crowe Horwath International

# INDEPENDENT AUDITOR'S REPORT

Board of Directors
Mennonite Education Agency, Inc. and Affiliate
Elkhart, Indiana

**Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Mennonite Education Agency, Inc. and Affiliate (the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2013 and 2012, and the related consolidated statements of activities and changes in net assets and cash flows for the years 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 consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

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

An audit also involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

(Continued)

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mennonite Education Agency, Inc. and Affiliate as of June 30, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Crowe Horwath LLP

South Bend, Indiana
September 19, 2013

MENNONITE EDUCATION AGENCY, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2013 and 2012

| | 2013 | 2012 |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash and cash equivalents | $ 30,937 | $ 82,128 |
| Investments - Agencies | 136,037,958 | 128,158,479 |
| Investment in insurance reserve | 29,641 | 35,184 |
| Accounts receivable | 17,105 | 1,986 |
| Total current assets | 136,115,641 | 128,277,777 |
| | | |
| Property and equipment | | |
| Office equipment | 47,282 | 51,384 |
| Less accumulated depreciation | (25,990) | (29,321) |
| Net property and equipment | 21,292 | 22,063 |
| | | |
| Investments | 564,042 | 526,796 |
| | | |
| | $ 136,700,975 | $ 128,826,636 |
| | | |
| **LIABILITIES AND NET ASSETS** | | |
| Current liabilities | | |
| Due to Agencies | $ 136,037,958 | $ 128,158,479 |
| Accounts payable | 115,221 | 93,528 |
| Accrued payroll and related taxes | 15,258 | 10,128 |
| Current portion of capital lease obligation | 2,625 | 3,336 |
| Total current liabilities | 136,171,062 | 128,265,471 |
| | | |
| Long-term liabilities | | |
| RELE loans payable | 62,515 | 67,354 |
| Benefits payable | 60,970 | 62,169 |
| Capital lease obligation | - | 2,619 |
| Total long-term liabilities | 123,485 | 132,142 |
| | | |
| Net assets | | |
| Unrestricted: | | |
| Undesignated | 61,987 | 102,042 |
| Board designated | 113,543 | 100,614 |
| Total unrestricted | 175,530 | 202,656 |
| Temporarily restricted | 230,898 | 226,367 |
| Total net assets | 406,428 | 429,023 |
| | | |
| | $ 136,700,975 | $ 128,826,636 |

See accompanying notes to consolidated financial statements.

MENNONITE EDUCATION AGENCY, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Years ended June 30, 2013 and 2012

| | Unrestricted | Temporarily Restricted | 2013 Total | Unrestricted | Temporarily Restricted | 2012 Total |
|---|---|---|---|---|---|---|
| Revenue, support, and gains | | | | | | |
| Contributions - Conferences and Congregations | $ 179,420 | $ - | $ 179,420 | $ 180,746 | $ - | $ 180,746 |
| Contributions - Other | 119,735 | 8,006 | 127,741 | 80,258 | 4,907 | 85,165 |
| Racial ethnic leadership education | - | 44,115 | 44,115 | - | 44,895 | 44,895 |
| Hispanic pastoral leadership education | 72,592 | 73,003 | 145,595 | 64,946 | 76,366 | 141,312 |
| Bequests | 28,594 | - | 28,594 | 20,407 | - | 20,407 |
| Support from institutions | 332,105 | - | 332,105 | 329,302 | - | 329,302 |
| Consulting income | 24,645 | - | 24,645 | 180,681 | - | 180,681 |
| Investment management fees | 214,990 | - | 214,990 | 203,518 | - | 203,518 |
| Investment income | 8,851 | 5,764 | 14,615 | 7,493 | 4,977 | 12,470 |
| Other income (loss) | (4,911) | - | (4,911) | (9,543) | - | (9,543) |
| Gain on sale of equipment | - | - | - | 579 | - | 579 |
| Net realized and unrealized gains (losses) on investments | 24,648 | 16,731 | 41,379 | (22,959) | (8,547) | (31,506) |
| Net assets released from purpose and time restrictions | 143,088 | (143,088) | - | 132,828 | (132,828) | - |
| Total revenue, support, and gains | 1,143,757 | 4,531 | 1,148,288 | 1,168,256 | (10,230) | 1,158,026 |
| Program | | | | | | |
| Institutional relations | 505,313 | - | 505,313 | 472,952 | - | 472,952 |
| Racial ethnic leadership education | 25,627 | - | 25,627 | 25,538 | - | 25,538 |
| Church relations | 131,723 | - | 131,723 | 127,708 | - | 127,708 |
| Special projects | 51,053 | - | 51,053 | 160,270 | - | 160,270 |
| Hispanic pastoral leadership education | 213,698 | - | 213,698 | 183,740 | - | 183,740 |
| Total program | 927,414 | - | 927,414 | 970,208 | - | 970,208 |
| Supporting Services | | | | | | |
| General and administrative | 162,530 | - | 162,530 | 147,151 | - | 147,151 |
| Fund raising | 7,291 | - | 7,291 | 22,219 | - | 22,219 |
| First Fruits to Mennonite Church USA Executive board | 73,648 | - | 73,648 | 72,272 | - | 72,272 |
| Total supporting services | 243,469 | - | 243,469 | 241,642 | - | 241,642 |
| Total expenses | 1,170,883 | - | 1,170,883 | 1,211,850 | - | 1,211,850 |
| **Change in net assets** | (27,126) | 4,531 | (22,595) | (43,594) | (10,230) | (53,824) |
| Net assets, beginning of year | 202,656 | 226,367 | 429,023 | 246,250 | 236,597 | 482,847 |
| **Net assets, end of year** | $ 175,530 | $ 230,898 | $ 406,428 | $ 202,656 | $ 226,367 | $ 429,023 |

See accompanying notes to consolidated financial statements.

MENNONITE EDUCATION AGENCY, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended June 30, 2013 and 2012

| | 2013 | 2012 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Change in net assets | $ (22,595) | $ (53,824) |
| Adjustments to reconcile change in net assets to net cash from operating activities | | |
| Depreciation | 3,843 | 4,039 |
| Net realized and unrealized (gains) losses on investments | (41,379) | 31,993 |
| Gain on sale of equipment | - | (579) |
| Change in fair value of investment in insurance pool | 5,543 | 10,376 |
| Change in assets and liabilities | | |
| Accounts receivable | (15,119) | 25,606 |
| Accounts payable | 21,693 | (42,209) |
| Accrued payroll and related taxes | 5,130 | 702 |
| Benefits payable | (1,199) | 153 |
| Net cash from operating activities | (44,083) | (23,743) |
| **Cash flows from investing activities** | | |
| Purchases of property and equipment | (3,072) | (3,356) |
| Proceeds from sale of equipment | - | 579 |
| Proceeds from sale of investments | 87,532 | 130,914 |
| Purchases of investments | (83,399) | (13,860) |
| Net cash from investing activities | 1,061 | 114,277 |
| **Cash flows from financing activities** | | |
| Principal payments on RELE loans payable | (4,839) | (5,207) |
| Principal payments on long term debt | (3,330) | (3,199) |
| Net cash from financing activities | (8,169) | (8,406) |
| Net change in cash and cash equivalents | (51,191) | 82,128 |
| Cash and cash equivalents at beginning of year | 82,128 | - |
| **Cash and cash equivalents at end of year** | $ 30,937 | $ 82,128 |

See accompanying notes to consolidated financial statements.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of Organization: Mennonite Education Agency, Inc. and Affiliate, (the Agency), works with more than forty elementary and secondary schools, colleges, universities, and seminaries to provide a Mennonite education experience to more than 15,000 students of all ages. The organization also works with conferences, congregations, and individuals throughout the church involved in the unique qualities of Mennonite education.

The Mennonite Education Agency Investment Fund LLC (the Fund) performs the duties of the investment committee. The Agency is the sole member of the Fund, and appoints 100% of the Fund's Board of Managers. The Fund is responsible for the continued oversight and direction of the Agency's pooled endowment fund.

Basis of Consolidation: The accompanying consolidated financial statements include the accounts of Mennonite Education Agency, Inc. and Mennonite Education Agency Investment Fund LLC (collectively referred to as the Organization). All inter-organization accounts and transactions between affiliated organizations have been eliminated in consolidation.

Basis of Accounting: The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Financial Statement Presentation: The financial statements report the changes in and totals of each net asset class based on the existence of donor restrictions, as applicable. Net assets are classified as unrestricted, temporarily restricted, or permanently restricted and are detailed as follows:

> Unrestricted net assets represent the part of the net assets of the Organization that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations. The Board designated net assets represent those assets that are internally designated for special projects and student financial aid.
>
> Temporarily restricted net assets represent the part of the net assets of the Organization resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by the passage of time or by actions of the Organization.
>
> Permanently restricted net assets represent the part of the net assets of the Organization resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization. For the years ended June 30, 2013 or 2012, the Organization did not have any permanently restricted net assets.

Use of Estimates: The preparation of consolidated financial statements in conformity with U.S. GAAP 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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: Cash and cash equivalents consist of bank deposits in accounts that are federally insured up to $250,000. Additionally, for purposes of the consolidated statements of cash flows, the Organization considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Investments: Investments are valued at their fair values in the consolidated statements of financial position. Unrealized gains and losses are included in the change in net assets. See Notes 2 and 12 for additional information on the nature of the Organization's investments.

The Organization manages pooled long-term investment funds for 21 educational institutions and other church affiliated not-for-profit organizations (Investments - Agencies) along with investments owned by the Organization. These investments are carried at fair value, and are administered by Mennonite Foundation Inc., a subsidiary of Everence Board, and managed by selected investment asset managers. The objective of the pooled long-term investment funds is to maximize capital appreciation and to protect the principle portion of the fund while following socially responsible investing criteria. All asset managers are required to follow specific guidelines set forth by the Organization. The Organization also determines an allowable payout rate from the earnings on these investments.

Accounts Receivable: The Organization's accounts receivable consists primarily of amounts due from Mennonite schools and other organizations. Management periodically reviews the accounts receivable aging and writes off any accounts that appear to be uncollectible.

Allowance for Doubtful Accounts: The allowance for doubtful accounts is determined by management based on the Organization's historical losses, specific customer circumstances, and general economic conditions. Periodically, management reviews accounts receivable and adjusts the allowance based on current circumstances and charges off uncollectible receivables when all attempts to collect have failed. The Organization does not accrue interest on past due accounts.

Management has not recorded an allowance for doubtful accounts at June 30, 2013 or 2012 as they believe all amounts to be collectible.

Property and Equipment: Property and equipment are stated at cost or, if donated to the Organization, at fair value on the date of acquisition. Additions and improvements are capitalized; expenditures for routine maintenance are charged to operations. Depreciation is provided over the estimated useful lives of the various classes of assets on the straight-line method. Depreciation expense for the years ended June 30, 2013 and 2012 was $3,843 and $4,039, respectively.

Impairment of Long-Lived Assets: On an ongoing basis, the Organization reviews long-lived assets for impairment whenever events or circumstances indicate that the carrying amounts may be overstated. The Organization recognizes impairment losses if the undiscounted cash flows expected to be generated by the asset are less than the carrying value of the related asset. The impairment loss adjusts the assets to fair value. As of June 30, 2013 and 2012 management believes that no impairments existed.

Contributions: Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted revenue depending on the existence of donor restrictions and the nature of such restrictions, if they exist.

When a donor 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 consolidated statements of activities and changes in net assets as net assets released from purpose and time restrictions.

If a restriction is fulfilled in the same accounting period in which the contribution is received, the contribution is reported as unrestricted.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Fair Value of Financial Instruments: The Organization's carrying amount for its financial instruments which include cash and cash equivalents, investments - agencies, investment in insurance reserve, accounts receivable, accounts payable, RELE loans payable, benefits payable, and long term debt approximate fair value.

Income Taxes: The Agency is exempt from income taxes on income from related activities under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding state tax law. Accordingly, no provision has been made for federal or state income taxes.

U.S. GAAP requires that a tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded.

Due to its tax-exempt status, the Agency is not subject to U.S. federal income tax or state income tax. The Agency does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months. The Agency recognizes interest and/or penalties related to income tax matters in income tax expense. The Agency did not have any amounts accrued for interest and penalties at June 30, 2013 or 2012.

Since the Fund is a single member limited liability company, all income is included in the taxable income of the individual member (Agency); thus, no federal or state income taxes are included in these consolidated financial statements.

Functional Allocation of Expenses: The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Reclassifications: Certain reclassifications have been made to present last year's consolidated financial statements on a basis comparable to the current year's consolidated financial statements. These reclassifications had no effect on total net assets or the change in net assets.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to June 30, 2013 to determine the need for any adjustments to and/or disclosures within the audited consolidated financial statements for the year ended June 30, 2013. Management has performed their analysis through September 19, 2013, the date the consolidated financial statements were available to be issued.

**NOTE 2 - INVESTMENTS**

The Organization's investments are in a pooled fund which is sponsored by the Organization. The following schedule reflects the fair value at June 30, 2013 and 2012 of the investments by net asset classification. See Note 12 for more information.

| | 2013 | 2012 |
|---|---|---|
| Pooled Funds: | | |
| Unrestricted: | | |
| Undesignated | $ 229,157 | $ 209,439 |
| Designated | 112,281 | 98,291 |
| Total undesignated | 341,438 | 307,730 |
| Temporarily restricted | 222,604 | 219,066 |
| | $ 564,042 | $ 526,796 |

The following schedule summarizes the investment return for the years ended June 30, 2013 and 2012:

| | 2013 | 2012 |
|---|---|---|
| Interest and dividends | $ 14,615 | $ 12,470 |
| Net realized and unrealized gains (losses) | 41,379 | (31,506) |
| | $ 55,994 | $ (19,036) |

**NOTE 3 - INVESTMENTS-AGENCIES**

The Organization's investments are in a pooled endowment fund which is sponsored by the Organization. The following schedule reflects the fair value at June 30, 2013 and 2012 of the investments. See Note 12 for the detailed composition of the underlying assets in which the endowment pool is invested.

| | 2013 | 2012 |
|---|---|---|
| Pooled endowment funds | $ 135,157,739 | $ 126,798,196 |
| Pooled annuity funds | 880,219 | 1,360,283 |
| | $ 136,037,958 | $ 128,158,479 |

There was a planned withdraw from the pooled endowment for approximately $3,400,000 and $6,000,000 during the years ended June 30, 2013 and 2012, respectively. Another pooled endowment participant withdrew all of their funds from the pool during the year ended June 30, 2012, representing approximately $1,000,000.

**NOTE 4 - RELE LOANS PAYABLE**

The Organization's Racial/Ethnic Leadership Education (RELE) loan program is a program that provided financial aid in the form of grants and loans to underrepresented student ethnic groups within Mennonite Church USA. The RELE program included the Hispanic Education in Theology and Leadership loan program whereby eligible students qualified to have their student loans underwritten by the Organization and "forgivable" on the stipulation that they serve in an approved leadership role in a minority church or Mennonite Church agency after graduating from Goshen College. The program, administered by Goshen College, was partially funded by donor contributions as well as by the Organization. The Organization underwrote low-interest bearing government student loans which were and continue to be paid back out of an escrow account funded by the Organization. This loan program discontinued making forgivable loans during the fiscal year ended June 30, 2007. However certain loans are eligible for forgiveness through the fiscal year ending June 30, 2021. The total of the RELE loans payable resulting from the underwriting of these student loans by the Organization was $62,515 and $67,354, as of June 30, 2013 and 2012, respectively.

**NOTE 5 - BENEFITS PAYABLE**

A former CEO of Mennonite Board of Education, Inc. (the predecessor to the Agency) was also under contract with Goshen College. As a Goshen College employee, the CEO was entitled to benefits provided by the college, which included full health insurance coverage for the faculty member and spouse until the time of death. It was concluded that Goshen College would manage the benefit and assume a portion of the liability based on the employee's years of service to Goshen College, and the Agency would assume the balance. Goshen College pays 23.1% of the liability and the Agency pays 76.9% of the liability.

**NOTE 6 - CAPITAL LEASE OBLIGATION**

The Organization acquired a copier by entering into a capital lease during the year ended June 30, 2009. The copier has been recognized as an asset, with an off-setting initial capital lease obligation of $15,999. The lease calls for monthly payments in the amount of $297. Future minimum lease payments for the remainder of the lease term are as follows:

| | |
|---|---|
| 2014 | $ 2,705 |
| Less amount representing interest | (80) |
| Present value of net minimum lease payments | $ 2,625 |

**NOTE 7 - LEASE COMMITMENT**

The Organization leases office space with no stated termination date in the lease agreement. The Organization has no intentions of leaving the leased space.

**NOTE 7 - LEASE COMMITMENT** (Continued)

Minimum lease commitments are as follows:

| | |
|---|---|
| 2014 | $ 32,733 |
| 2015 | 35,381 |
| 2016 | 35,381 |
| 2017 | 35,381 |
| 2018 | 35,381 |
| | $ 174,257 |

Total rent expense was $30,087 and $26,703 for the years ended June 30, 2013 and 2012, respectively.

**NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS**

The Organization's temporarily restricted net assets are either donor-restricted for specific purposes or for use in a specified period of time. At June 30, 2013 and 2012 the restricted purposes are as follows:

| | 2013 | 2012 |
|---|---|---|
| RELE | $ 7,663 | $ 3,275 |
| LMSN | 171,714 | 157,886 |
| Peoplehood Education | 50,092 | 61,178 |
| Other | 1,429 | 4,028 |
| | $ 230,898 | $ 226,367 |

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

| | 2013 | 2012 |
|---|---|---|
| RELE | $ 24,727 | $ 26,620 |
| LMSN | 7,700 | 7,800 |
| HPLE | 73,003 | 91,366 |
| Peoplehood Education | 16,969 | 6,858 |
| MLN | 15,000 | - |
| Other | 5,689 | 184 |
| | $ 143,088 | $ 132,828 |

**NOTE 9 - EMPLOYEE BENEFIT PLAN**

The Organization contributed an amount equal to 4.00% and 5.67% percent of compensation to a retirement fund for each employee working 20 hours or more each week for the year ended June 30, 2013 and 2012, respectively. Total contributions were $17,787 and $25,353 for the years ended June 30, 2013 and 2012, respectively.

**NOTE 10 - INVESTMENT IN INSURANCE RESERVE**

The Organization is in a pool with five other entities, referred to as the Mennonite Educators Benefit Plan (MEBP), to pay for major medical expenses of covered employees. Each participating entity made an initial investment into the MEBP. The participating entities submit to the plan health care claims incurred by their employees during the fiscal year. At fiscal year end the participating entities are responsible for their proportionate share of the claims incurred. Each entity's proportionate share is determined by the MEBP.

The MEBP has established policies for determining the ownership of the net assets of the MEBP. The amount recorded as "investment in insurance reserve" has been determined based on these policies as of June 30, 2013 and 2012 to be $29,641 and $35,184, respectively. The Organization's share of income or loss of the pool is recorded in the consolidated statements of activities and changes in net assets.

Should the MEBP ever dissolve, final disposition is subject to MEBP membership policies.

**NOTE 11 - AFFILIATED ORGANIZATIONS**

The Agency is one of four church-wide program boards of Mennonite Church USA. The other affiliated program boards consist of Mennonite Mission Network, Everence, and Mennonite Publishing Network. Mennonite Church USA consists of congregations that are affiliated with one another in regional district conferences. The conferences serve as the main administrative structure for congregations. The conferences are represented at a General Assembly that meets every two years to act in matters of interest to the Mennonite Church USA constituency. The Executive Board of Mennonite Church USA functions on behalf of the General Assembly when the Assembly is not in session.

The Agency contributes 10% of its unrestricted revenue adjusted for investment management fees and net assets released from restriction to Mennonite Church USA as its contribution under the First Fruits Program. For the years ended June 30, 2013 and 2012, amounts contributed to Mennonite Church USA were $73,648 and $72,272 respectively.

Mennonite Education Agency, Inc. and Affiliate also has an affiliation with several educational institutions. In addition to appointing certain members to the institutions' boards of directors, the Organization develops certain guidelines relating to the use of endowment earnings.

**NOTE 12 - FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS**

U.S. GAAP defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Organization's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

A fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Three levels of inputs may be used to measure fair value:

Level 1: Quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access as of the measurement date.

**NOTE 12 - FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS** (Continued)

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect the Organization's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

Assets and Liabilities Measured on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below:

| | Fair Value Measurements at June 30, 2013 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Investments: | | | | |
| Cash and cash equivalents | $ 6,347,569 | $ - | $ - | $ 6,347,569 |
| Equity securities - large cap | 24,305,943 | - | - | 24,305,943 |
| Equity securities - mid cap | 11,824,436 | - | - | 11,824,436 |
| Equity securities - small cap | 9,221,543 | - | - | 9,221,543 |
| Equity securities - international | 28,310,105 | - | - | 28,310,105 |
| Equity mutual funds | 5,629,493 | 6,851,873 | - | 12,481,366 |
| Fixed income mutual funds | 24,143,366 | - | - | 24,143,366 |
| Real estate funds | 16,972 | 2,746,321 | 3,262,016 | 6,025,309 |
| Commodity mutual funds | 22,945 | 5,599,059 | - | 5,622,004 |
| Government obligations | - | 6,293,393 | - | 6,293,393 |
| Private equity fund of funds | 74,585 | - | 1,952,381 | 2,026,966 |
| Total investments | $ 109,896,957 | $ 21,490,646 | $ 5,214,397 | $ 136,602,000 |

| | Fair Value Measurements at June 30, 2012 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Investments: | | | | |
| Cash and cash equivalents | $ 7,756,341 | $ - | $ - | $ 7,756,341 |
| Equity securities - large cap | 20,659,085 | - | - | 20,659,085 |
| Equity securities - mid cap | 9,572,214 | - | - | 9,572,214 |
| Equity securities - small cap | 7,352,190 | - | - | 7,352,190 |
| Equity securities - international | 24,429,770 | - | - | 24,429,770 |
| Equity mutual funds | 5,677,676 | 6,133,953 | - | 11,811,629 |
| Fixed income mutual funds | 27,369,604 | - | - | 27,369,604 |
| Real estate funds | 66,137 | 5,521,149 | 4,737,754 | 10,325,040 |
| Commodity mutual funds | 64,750 | 6,213,333 | - | 6,278,083 |
| Government obligations | - | 1,581,874 | - | 1,581,874 |
| Private equity fund of funds | 65,434 | - | 1,484,011 | 1,549,445 |
| Total investments | $ 103,013,201 | $ 19,450,309 | $ 6,221,765 | $ 128,685,275 |

**NOTE 12 - FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS** (Continued)

A reconciliation of beginning and ending balances for the Organization's fair value measurements using Level 3 inputs is as follows:

| Level 3 Instruments | Real Estate Funds | Fund of Funds | Total |
|---|---|---|---|
| Investments at July 1, 2011 | $ 2,905,129 | $ 1,126,363 | $ 4,031,492 |
| Additions | 1,228,160 | 279,901 | 1,508,061 |
| Investment returns | 604,465 | 77,747 | 682,212 |
| Investments at June 30, 2012 | $ 4,737,754 | $ 1,484,011 | $ 6,221,765 |
| Investments at July 1, 2012 | $ 4,737,754 | $ 1,484,011 | $ 4,031,492 |
| Additions | 306,727 | 577,846 | 1,508,061 |
| Withdrawals | (3,988,451) | - | (3,988,451) |
| Investment returns | 2,205,986 | (109,476) | 682,212 |
| Investments at June 30, 2013 | $ 3,262,016 | $ 1,952,381 | $ 2,233,314 |

Inputs and Valuation Techniques

In determining fair value, management uses various valuation approaches. With respect to investments for which quoted prices in active markets are observable (Level 1 inputs), management determines fair value based on the quoted prices at the measurement date.

With respect to investments using significant observable inputs other than Level 1 prices (Level 2) or significant unobservable inputs (Level 3), management determines fair value using the net asset value (NAV). The NAVs of investment vehicles are determined on the accrual basis of accounting in conformity with U.S. GAAP. Investment managers utilize standard valuation procedures and policies to assess the fair value of the underlying investment holdings to derive NAV. For holdings in marketable securities listed on national securities exchanges, the values represent the publicly traded values. Holdings in private securities are generally valued using the mark-to-market method, which attempts to apply a fair value standard by referring to meaningful third-party transactions, comparable public market valuations, appraisals, and/or the income approach.

In most instances, the Organization possesses the ability to redeem its investment at the NAV at the measurement date (Level 2 inputs), and in some instances additional restrictions on redemption, such as lock-ups and gates, are in place such that investment redemption at NAV is not possible at the measurement date (Level 3 inputs).

*Equity Securities*

The fair values of equity securities are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs). Common stocks include a variety of large cap, mid cap, small cap, and international companies which have varying levels of capitalization.

**NOTE 12 - FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS** (Continued)

*Equity Mutual Funds*

Equity mutual funds consist of mutual funds which are primarily invested in equity securities. The fair values of mutual funds, which are readily marketable, are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs). For equity mutual funds not traded on an active market, management has full transparency to the holdings of the funds, and the fair value of these investments is based on NAV, which is determined by the managers based upon the market prices of the underlying holdings of the funds (Level 2 inputs).

*Fixed Income Mutual Funds*

Fixed income mutual funds consist of mutual funds which are primarily invested in fixed income securities. The fair values of mutual funds, which are readily marketable, are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs).

*Real Estate Funds*

Real estate funds consist of mutual funds invested in commodities and futures contracts, as well as funds invested in real estate securities and other real estate investments. The fair value of real estate mutual funds is based on several valuation techniques including NAV reported by fund managers, which is determined by managers based on the value of underlying holdings of the funds (Level 2 and 3 inputs).

*Commodities Funds*

Commodity funds consist of investments in in future contracts. The fair value of commodity mutual funds, which are readily marketable, are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1). The fair value of commodity investments is based several valuation techniques including NAV reported by fund managers, which is determined by managers based on the value of underlying holdings of the funds (Level 2 inputs). At June 30, 2013, there are no restrictions on redemption.

*Government Obligations*

Government obligations consist of investments in in government debt securities. The fair value of government obligations are based on NAV, which is determined by the managers based upon the market prices of the underlying holdings of the funds (Level 2 inputs). At June 30, 2013, there are no restrictions on redemption.

*Private Equity Fund of Funds*

Private equity fund of funds consist of secondary private equity holdings invested in various funds with investment objectives focused on steady cash returns. The fair value of private equity fund of funds, which are readily marketable, are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1). The fair value of fund of funds investments is on based several valuation techniques including NAV reported by fund managers, which is determined by managers based on the value of underlying holdings of the funds (Level 3 inputs).

**NOTE 12 - FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS** (Continued)

Fair Values Based on Calculated Net Asset Values (NAV)

The table below presents liquidity information pertaining to investments for which fair values are determined on the basis of NAV and other valuation techniques at June 30, 2013:

| | Fair Value | Redemption Frequency | Redemption Notice |
|---|---|---|---|
| Equity funds | $ 6,851,873 | Monthly | 10 days |
| Commodities funds | 5,599,059 | Daily | 1-30 days |
| Real estate funds | 6,008,337 | Gated | Currently gated |
| Government obligations | 6,293,393 | Daily | 1-30 days |
| Fund of funds | 1,952,381 | Gated | Currently gated |
| Level 2 and Level 3 | $ 26,705,043 | | |

The table below presents liquidity information pertaining to investments for which fair values are determined on the basis of NAV and other valuation techniques at June 30, 2012:

| | Fair Value | Redemption Frequency | Redemption Notice |
|---|---|---|---|
| Equity funds | $ 6,133,953 | Monthly | 10 days |
| Commodities funds | 6,213,333 | Daily | 1-30 days |
| Real estate funds | 10,258,903 | Gated | Currently gated |
| Government obligations | 1,581,874 | Daily | 2 days |
| Fund of funds | 1,484,011 | Gated | Currently gated |
| Level 2 and Level 3 | $ 25,672,074 | | |

Equity Mutual Funds: The funds' objectives are to seek long-term growth of capital through investment world wide of in publicly traded equities. At June 30, 2013, there are no restrictions on redemption. The primary objective of these funds is to achieve long-term growth of capital. In pursuing this objective, these funds invest in diversified portfolios of small cap, mid cap, and large cap equity securities in countries other than the United States. The underlying assets of these funds consist of equities that are traded on international stock exchanges throughout the world. At June 30, 2013, there are no restrictions on redemption.

Commodities Funds: The objectives of these funds are to provide an enhancement to investors' portfolios and to provide a partial inflation hedge with an attractive risk return profile as compared to other products using a commodity index as a pool of commodities. To achieve these objectives, these funds invest substantially all of their assets in future contracts. At June 30, 2013, there are no restrictions on redemption.

Real Estate Funds: These funds are designed to permit investors to commingle a portion of their assets for investment in both publicly owned real estate securities and privately owned real estate investments. Underlying assets in these funds consist of publicly traded real estate securities (in managed accounts), investment in private real estate operating companies, private real estate partnerships, and privately held real estate investment trusts (REITs). At June 30, 2013, redemption on these funds is subject to a gate.

Government Obligations: These funds seek to invest in government debt securities. The primary objective of these funds is to returns in a low risk environment. At June 30, 2013, there are no restrictions on redemption.

**NOTE 12 - FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS** (Continued)

Fund of Funds: The secondary private equity fund seeks to provide a steady cash return for investors. To achieve these objectives, these funds invest in pre-existing investor commitments for investors looking for liquidity. The Organization cannot withdrawal funds on an as needed basis, but they can sell or trade the Organization's interest provided the general partner approves. At June 30, 2013, redemption on these funds is subject to a gate.

At June 30, 2013, the Organization has $11,668,840 of unfunded commitments to fund these investments.

**NOTE 13 - ENDOWMENT COMPOSITION**

The Organization's endowment primarily consists of equity securities mutual funds. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as an endowment. As required by applicable standards, net assets associated with these endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Endowment net asset composition as of June 30, 2013 and 2012 is as follows:

2013:

| | Board Designated | Temporarily Restricted | Total |
|---|---|---|---|
| Board designated | $ 113,127 | $ - | $ 113,127 |
| Donor-restricted | - | 221,758 | 221,758 |
| Total endowment | $ 113,127 | $ 221,758 | $ 334,885 |

2012:

| | Board Designated | Temporarily Restricted | Total |
|---|---|---|---|
| Board designated | $ 98,291 | $ - | $ 98,291 |
| Donor-restricted | - | 219,064 | 219,064 |
| Total endowment | $ 98,291 | $ 219,064 | $ 317,355 |

**NOTE 13 - ENDOWMENT COMPOSITION** (Continued)

Changes in endowment net assets for years ended June 30, 2013 and 2012 were as follows:

2013:

| | Board Designated | Temporarily Restricted | Total |
|---|---|---|---|
| Beginning balance | $ 98,291 | $ 219,064 | $ 317,355 |
| Interest and dividend income | 2,902 | 5,764 | 8,666 |
| Unrealized gain on investments | 11,088 | 16,731 | 27,819 |
| Additions | 846 | 4,868 | 5,714 |
| Appropriations for expenditure | - | (24,669) | (24,669) |
| Total endowment | $ 113,127 | $ 221,758 | $ 334,885 |

2012:

| | Board Designated | Temporarily Restricted | Total |
|---|---|---|---|
| Beginning balance | $ 102,276 | $ 236,301 | $ 338,577 |
| Interest and dividend income | 2,253 | 4,978 | 7,231 |
| Unrealized loss on investments | (6,183) | (8,547) | (14,730) |
| Additions | - | 990 | 990 |
| Appropriations for expenditure | (55) | (14,658) | (14,713) |
| Total endowment | $ 98,291 | $ 219,064 | $ 317,355 |

Interpretation of UPMIFA: The Board of Directors of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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 Organization classifies as temporarily restricted net assets those donor-restricted gifts that are available to be spent for specified purposes or in specific periods, in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization 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 Organization 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 Organization
(7) The investment policies of the Organization

Return Objectives and Risk Parameters: The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Endowment assets include those assets of donor-restricted funds that the Organization must hold for a donor-specified period(s) as well as Board-designated funds.

**NOTE 13 - ENDOWMENT COMPOSITION** (Continued)

Strategies Employed for Achieving Objectives: The purpose of the endowment fund is to facilitate donors' desires to make substantial long-term gifts to the Organization to develop a significant source of revenue to support the endeavors of the Organization.

Spending Policy and How the Investment Objectives Relate to Spending Policy: Distributions shall not exceed 5% of the average net asset valuation for the previous 40 quarters in any given fiscal year.

Fund with Deficiencies: 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 UPMIFA requires the Organization to retain as a fund of perpetual duration. Cumulative deficiencies of this nature that are in excess of related temporarily restricted amounts are reported in unrestricted net assets. There were no deficiencies as of June 30, 2013 and 2012.