Heifer Project International

Consolidated Financial Report and
Supplementary Information
June 30, 2018

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Contents

Independent Auditor's Report

Board of Directors
Heifer Project International

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Heifer Project International (the Organization), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, 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 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 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. 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 auditor's 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 Organization'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 Organization'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 Heifer Project International as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary and Other Information
Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules listed in the table of contents on pages 23 and 24 and the schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), are presented for the purpose of additional analysis and are not a required part of the financial statements. These schedules are the responsibility of the Organization's management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such schedules have been subjected to the auditing procedures applied in our audits of the financial statements and certain additional procedures, including comparing and reconciling such schedules directly to the underlying accounting and other records used to prepare the financial statements, or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such schedules are fairly stated in all material respects in relation to the financial statements as a whole.

***Other Reporting Required by* Government Auditing Standards**
In accordance with *Government Auditing Standards,* we have also issued our report dated October 16, 2018, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

RSM US LLP

Kansas City, Missouri
October 16, 2018

Heifer Project International

Consolidated Statements of Financial Position
June 30, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	**$ 47,128,790**	$ 43,896,253
Restricted cash	**6,998,825**	2,937,045
Accounts and interest receivable, net of allowance and discount	**2,728,847**	2,640,157
Grant reimbursements receivable	**382,009**	297,560
Prepaid expenses and other	**2,177,696**	2,153,631
Contributions receivable, net of allowance and discount (Note 2)	**2,307,146**	2,509,867
Interest in net assets of Heifer International Foundation (Note 3)	**124,242,028**	113,728,373
Property and equipment, net of accumulated depreciation (Note 4)	**44,932,716**	46,518,000
Total assets	**$ 230,898,057**	$ 214,680,886
Liabilities and Net Assets		
Liabilities:		
Accounts payable	**$ 4,227,039**	$ 3,896,895
Accrued expenses	**4,124,768**	4,151,460
Deferred revenue	**10,152,192**	3,030,721
Bonds payable (Note 6)	**9,770,000**	10,985,000
Total liabilities	**28,273,999**	22,064,076
Commitments and contingencies (Notes 5, 6, 8 and 14)		
Net assets:		
Unrestricted	**72,547,996**	72,700,633
Temporarily restricted (Note 7)	**22,085,280**	20,307,539
Permanently restricted (Note 7)	**107,990,782**	99,608,638
Total net assets	**202,624,058**	192,616,810
Total liabilities and net assets	**$ 230,898,057**	$ 214,680,886

See notes to consolidated financial statements.

Heifer Project International

Consolidated Statement of Activities
Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:				
Contributions	$ 102,132,146	$ 3,903,248	$ -	$ 106,035,394
Federal government grants	891,699	-	-	891,699
Other grants	11,268,431	3,575,542	-	14,843,973
Educational programs	1,157,085	-	-	1,157,085
Promotional events and material sales, net of cost	464,858	-	-	464,858
Other	2,552,042	-	-	2,552,042
Change in interest in net assets of Heifer International Foundation (Note 3)	(5,150,233)	2,131,511	8,382,144	5,363,422
Net assets released from restrictions (Note 7)	7,832,560	(7,832,560)	-	-
Total revenues, gains and other support	121,148,588	1,777,741	8,382,144	131,308,473
Expenses and losses:				
Program services (Note 10)	91,054,230	-	-	91,054,230
Management and general (Note 10)	6,410,077	-	-	6,410,077
Fundraising (Note 10)	23,692,129	-	-	23,692,129
Total expenses and losses	121,156,436	-	-	121,156,436
Change in net assets	(7,848)	1,777,741	8,382,144	10,152,037
Other changes in net assets:				
Foreign currency translation adjustment	(144,789)	-	-	(144,789)
Total change in net assets	(152,637)	1,777,741	8,382,144	10,007,248
Net assets, beginning of year	72,700,633	20,307,539	99,608,638	192,616,810
Net assets, end of year	$ 72,547,996	$ 22,085,280	$ 107,990,782	$ 202,624,058

See notes to consolidated financial statements.

Heifer Project International

Consolidated Statement of Activities
Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:				
Contributions	$ 94,314,974	$ 7,528,510	$ -	$ 101,843,484
Federal government grants	1,372,181	-	-	1,372,181
Other grants	9,305,835	3,183,552	-	12,489,387
Educational programs	1,309,435	-	-	1,309,435
Promotional events and material sales, net of cost	413,106	-	-	413,106
Other	830,418	-	-	830,418
Change in interest in net assets of Heifer International Foundation (Note 3)	693,355	7,820,564	19,949,658	28,463,577
Net assets released from restrictions (Note 7)	18,084,778	(18,084,778)	-	-
Total revenues, gains and other support	126,324,082	447,848	19,949,658	146,721,588
Expenses and losses:				
Program services (Note 10)	87,191,209	-	-	87,191,209
Management and general (Note 10)	6,184,966	-	-	6,184,966
Fundraising (Note 10)	21,673,999	-	-	21,673,999
Total expenses and losses	115,050,174	-	-	115,050,174
Change in net assets	11,273,908	447,848	19,949,658	31,671,414
Other changes in net assets:				
Foreign currency translation adjustment	(62,509)	-	-	(62,509)
Total change in net assets	11,211,399	447,848	19,949,658	31,608,905
Net assets, beginning of year	61,489,234	19,859,691	79,658,980	161,007,905
Net assets, end of year	$ 72,700,633	$ 20,307,539	$ 99,608,638	$ 192,616,810

See notes to consolidated financial statements.

Heifer Project International

Consolidated Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ 10,007,248	$ 31,608,905
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	3,538,089	3,468,571
Change in allowance for bad debts	(32,652)	18,840
Amortization of pledge discount	(11,590)	21,611
Change in interest in net assets of Heifer International Foundation	(5,363,422)	(28,463,577)
(Gain) loss on disposals of equipment	(811,893)	481,466
Unrealized foreign exchange differences of fixed assets	35,623	(35,254)
Net realized and unrealized (gains) losses on investments	12,132	(32,355)
Stock donation	(1,790,473)	(1,809,120)
Proceeds from sales of donated stock	1,791,519	1,805,853
Changes in:		
Restricted cash	(4,061,780)	6,913,929
Accounts and interest receivable	(66,738)	(941,720)
Grant reimbursements receivable	(84,449)	24,997
Prepaid expenses and other	(37,243)	80,712
Contributions receivable	225,011	(589,896)
Accounts payable	275,019	621,171
Accrued expenses	(26,692)	10,363
Deferred revenue	7,121,471	1,851,135
Net cash provided by operating activities	10,719,180	15,035,631
Cash flows from investing activities:		
Purchase of property and equipment	(2,175,555)	(2,233,227)
Proceeds from disposals of property and equipment	1,054,145	142,674
Proceeds from distributions from Heifer International Foundation	1,141,139	1,443,351
Contributions to Heifer International Foundation	(6,291,372)	(749,997)
Net cash used in investing activities	(6,271,643)	(1,397,199)
Cash flows from financing activities:		
Principal payments on bonds payable	(1,215,000)	(1,170,000)
Net cash used in financing activities	(1,215,000)	(1,170,000)
Increase in cash and cash equivalents	3,232,537	12,468,432
Cash and cash equivalents—beginning of year	43,896,253	31,427,821
Cash and cash equivalents—end of year	$ 47,128,790	$ 43,896,253
Supplemental schedule of noncash operating and investing activities:		
Purchases of property and equipment in accounts payable	$ 55,125	$ 15,142
Donation of stock	1,790,473	1,809,120
	$ 1,845,598	$ 1,824,262
Supplemental disclosures of cash flow information—interest paid	$ 399,164	$ 435,895

See notes to consolidated financial statements.

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Nature of operations: Heifer Project International (the Organization or Heifer) is a global development organization on a mission to end hunger and poverty in a sustainable way. Heifer works with communities in 20 countries around the world to strengthen local economies and build secure livelihoods that help close the gap to living income for small-scale farmers.

Founded in 1944 and originally incorporated in Indiana in 1953, Heifer was registered as an Arkansas corporation in 1997 and is headquartered in Little Rock, Arkansas. Heifer's model focuses on building social capital by increasing income and assets within farming families, improving their food security and nutrition, and protecting the environment—with women's empowerment and connected communities at the very center.

Heifer strengthens local farmer organizations—helping to set them up where they do not already exist—and provides livestock and seeds, which serve as important sources of food and income. As farmers continue to grow their businesses, they pass on an animal, seeds or other assets to their neighbors, creating stronger, interdependent communities.

As their farms expand, Heifer connects farmers to markets and helps them develop the production experience and expertise to make their businesses thrive and grow. Through partnering with governments, companies and nonprofit coalitions, they develop local solutions to global problems and build strong, resilient communities.

Heifer's revenues and other support are derived principally from contributions from individuals and groups in the United States.

Principles of consolidation: The consolidated financial statements include the accounts of the Organization along with its activities carried out through international country program offices, some of which are registered as branch offices of Heifer U.S. and others of which are registered as legally separate entities (LSEs). It is the Organization's policy to consolidate financial statements for those offices that meet both control and economic interest factors as per *FASB Accounting Standards Codification* (ASC) Subtopic 958-810, Not-for-Profit Entities—Consolidation. Financial statements and supplemental schedules herein are therefore reported based on a consolidation of Heifer's U.S. domestic operations with operations of Heifer's country offices for which the control and economic interest criteria prevail. All significant intercompany accounts and transactions are eliminated in consolidation.

The table below lists Heifer's branch and LSE offices included in these consolidated financial statements:

Africa	Asia	Americas	Europe
Ghana	Bangladesh	Heifer Bolivia LSE	Armenia
Kenya	Cambodia	Heifer Ecuador LSE	
Malawi	Heifer Cambodia LSE*	Guatemala	
Rwanda	India	Haiti	
Senegal	Heifer India LSE	Honduras	
Tanzania	Nepal	Mexico	
Uganda	Heifer Nepal LSE	Nicaragua	
Zambia	Philippines	Peru	
Zimbabwe	Vietnam		

*Added to the consolidation in fiscal year 2017

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

In addition to its U.S. program and operations, Heifer's consolidated financial statements for the fiscal year ended June 30, 2018, included activity for the 27 international offices listed above. For the year ended June 30, 2017, Heifer's consolidated financial statements included activity for 29 international offices.

In addition to the consolidated branch offices and LSEs, Heifer collaborates with other LSEs connected to the Organization by relationship agreement. These entities are excluded from financial consolidation by Heifer management under ASC Subtopic 958-810. The following list includes the primary LSEs in this category. Under agreement, some of these entities carry the Heifer name, and all are involved in either project implementation using a shared Heifer model or funding of Heifer projects, and in some cases, both. Common factors for each of these entities include formation and country registration as independent entities legally separate from Heifer, an independent governing board, and a relationship agreement with Heifer. All such LSEs are encouraged to be self-supporting in their fundraising efforts and to be self-governing. The Organization does however solicit contributions under agreements to support Heifer projects with these entities.

Organization	Country
Heifer International Foundation (Note 3)	United States
Sichuan Haihui Poverty Alleviation Service Center	China
Heifer Hong Kong Ltd	Hong Kong
Stichting Heifer Nederland	Netherlands
Open Fields Foundation	Romania
International Charitable Fund (ICF)	Ukraine

Operations for the China entity are primarily programmatic in nature, and the China organization and Hong Kong organization receive no grant funding from Heifer. The organization in the Netherlands provides support to Heifer projects internationally; support from Heifer Hong Kong is concentrated on projects in China. For the fiscal years ended June 30, 2018 and 2017, respectively, $918,070 and $1,157,129 of the Organization's expenses consisted of programmatic funding provided to these unconsolidated related entities.

Heifer International Foundation (the Foundation or HIF) is a financially interrelated organization established to build an endowment to generate ongoing support for Heifer's mission, to educate people on how planned charitable giving supports Heifer's mission, and to serve as a fiduciary for the Foundation's donors. Heifer has economic interest in the net assets of HIF; however, the Foundation maintains separate control of its net assets through its own board of trustees. Heifer's limited representation on the Foundation's board does not rise to the level of control through a majority voting interest. Heifer records its interest in the net assets of the Foundation under ASC Subtopic 958-20, Not-for-Profit Entities—Financial Interrelated Entities.

Use of estimates: Preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions. Reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as reported amounts of revenues and expenses during the reporting period, are affected by such estimates, and actual results could differ.

Cash and cash equivalents: The Organization considers all liquid investments with maturities of three months or less to be cash equivalents.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Restricted cash: Heifer maintains separate cash or equivalent accounts for amounts required by agreement to be separately held. The MasterCard Foundation grant payments toward the East Africa Youth Inclusion Program (EAYIP) project, net of project expenditures, are set aside in restricted cash along with associated investment earnings. In addition, advance grant payments from The Wal-Mart Foundation for the Rural Entrepreneurs: Connecting Farm to Table project and from Cargill for the Hatching Hope project, net of project expenditures, are set aside in restricted cash.

Accounts receivable: Accounts and interest receivable consist primarily of cash advances to various subgrantees (also referred to as project holders) of the Organization's country programs. These advances are made under letters of agreement executed for project funding, and include detailed project budgets and requirements for programmatic and financial progress and routine reporting. As the project holders submit the required reports documenting the project spending, the advanced funds are then reflected in the consolidated statements of activities as program services expenses.

Accounts receivable also includes receivables from dairy farmer business associations (DFBAs) for project equipment procured by the Organization using the EADD investment fund, as well as advances to or collections by local banks providing DFBA financing. Under the agreement with the Gates Foundation, the EADD investment fund was established to provide a source of funding for initial procurement of chilling plant equipment, and funding for and then guarantee of loan financing to local farmer associations. At June 30, 2018 and 2017, $799,970 and $799,292, respectively, remained in accounts receivable from the DFBAs against which was recorded an allowance for doubtful accounts of $545,853 and $548,375 for the years ended June 30, 2018 and 2017, respectively. The allowance for doubtful accounts was established using management estimates based upon repayment performance to date and other factors.

Investments and investment return: The Organization's investments, primarily consisting of mutual funds, were $518,620 and $271,304 at June 30, 2018 and 2017, respectively. Investments in equity and debt securities having readily determinable fair values are carried at fair value. Investment return includes dividend, interest and other investment income, and realized and unrealized gains and losses on investments. In accordance with ASC Section 958-225-45-8, Not-for-Profit Entities—Income Statement, investment return is reflected in the consolidated statement of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions. Investments are recorded within prepaid expenses and other assets on the consolidated statements of financial position as of June 30, 2018 and 2017. Net investment return is recorded within other income on the consolidated statements of activities for the years ended June 30, 2018 and 2017.

Property and equipment: Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method based on estimated useful lives of three to 20 years for vehicles, furniture, fixtures, and equipment and 10 to 40 years for buildings and land improvements. Leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

Long-lived asset impairment: The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended June 30, 2018 and 2017.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Accrued expenses: Accrued expenses include expenses incurred, recognized and unpaid at the end of the period, such as compensation and related taxes, interest on long-term debt, and service fees.

Deferred revenue: Deferred revenue consists primarily of payments made by foundations, corporations or government agencies in advance of achievement of specific contractual restrictions, and deposits made in advance by participants for fee-based education programs, which generally consist of education program offerings through Heifer International Learning Centers.

Temporarily and permanently restricted net assets: Temporarily restricted net assets are those for which use has been limited by donors or grantors to a specific time period or purpose.

Permanently restricted net assets have been restricted by donors to be maintained in perpetuity. The Organization’s permanently restricted net assets consist entirely of HIF’s permanently restricted net assets, which are maintained by the Foundation in permanent endowments as specified by Foundation donors. The Foundation accounts for endowments using the standards included in ASC Subtopic 958-205, Not-for-Profit Entities—Presentation of Financial Statements and the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which was adopted by the state of Arkansas in the 2009 legislative session.

Heifer’s temporarily and permanently restricted net assets include the Organization’s interest in the net assets of HIF. While Heifer’s interest in the net assets of HIF is included in the Organization’s consolidated financial statements, availability of this asset is limited by HIF bylaws and by HIF donor stipulation.

Contributions: Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets, as are gifts having donor stipulations that are satisfied in the period the gift is received. The Organization also accounts for gifts received in response to designated mass market appeals as unrestricted revenue, yet designated for the purpose disclosed in the fundraising appeal. Therefore, such gifts are used as intended, generally within the same fiscal year, yet without applying the temporary restriction required by larger gifts accompanied by specific donor stipulation. Gifts received with a donor stipulation specifically limiting their use are reported as temporarily or permanently restricted revenue and net assets. When a donor-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 as net assets released from restrictions.

Gifts of land, buildings, equipment and other long-lived assets are reported as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily or permanently restricted revenue and net assets. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service.

Included in contributions receivable are pledges receivable, which are unconditional promises to give. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free rate applicable to the year in which the promise is received.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

The Organization receives conditional promises to give, which are not recognized as revenue or included in receivables until such time as the conditions are substantially met. Conditional promises may be given by foundations, corporations or government agencies desiring to partner with Heifer in project funding. Such funding arrangements may take the form of grant awards, contribution agreements, cooperative agreements, relationship agreements, or memorandums of understanding. Common to each of these arrangements is that payments are contingent upon achieving significant monitored and reported progress in project implementation. Cash received in advance of achievement of the contractual requirements is reported as deferred revenue. While payments may be scheduled in accordance with a budget proposal, actual payments generally vary in timing and amount based upon the progress of project activities. As of June 30, 2018 and 2017, the Organization had $34,044,202 and $38,457,272, respectively, of outstanding conditional promises to give.

Contributed services: Unpaid volunteers make significant contributions of their time, principally in fundraising activities and in the Organization's education programs. The value of these services is not recognized in the consolidated financial statements, since they do not meet certain applicable criteria specified under guidance issued under ASC Topic 958, Not-for-Profit Entities.

Government grants: Support funded by grants is generally recognized as the Organization performs the agreed-upon services and incurs outlays eligible for reimbursement under the grant agreements. ASC Section 958-605-55, Not-for-Profit Entities—Revenue Recognition, is applied in distinguishing contributions from exchange transactions and distinguishing between conditional and unconditional contributions. In applying this guidance, most grant funding is accounted for as conditional contributions. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Income taxes: Heifer is exempt from income taxes in the United States of America under section 501 of the Internal Revenue Code and a similar provision of state law. While Heifer is a tax-exempt organization, the Organization is still subject to income tax on any unrelated business taxable income. No tax liability was required to be recorded for unrelated business income as of June 30, 2018 and 2017. Certain countries in which Heifer operates do not exempt charitable companies from taxes; therefore, Heifer may be subject to taxes in those countries.

Functional allocation of expenses: The Organization's expenses have been summarized on a functional basis in the consolidated statements of activities. Costs are directly allocated to functional categories where a clear relationship exists. Heifer's international field offices exist for the direct mission purpose of international development project implementation and management. Accordingly, all costs incurred by field offices are considered programmatic for purposes of functional allocation classification as reported in the consolidated statements of activities. Other costs incurred at the Heifer headquarters level are allocated among program, management and general, and fundraising categories, directly where such relationship is clear, and indirectly based on time studies, headcount and other ratable allocation methods. The Organization conducts activities that jointly serve its education program objectives as well as fundraising and general and administrative activities. These costs, which are not specifically attributable to a single function or activity (i.e., joint costs), are allocated among functional categories using systematic, consistently applied methods in accordance with ASC Section 958-720-55, Not-for-Profit Entities—Other Expenses—Accounting for Costs of Activities that Include Fundraising.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Transactions in currency other than the U.S. dollar: The U.S. dollar is the reporting currency for the Organization. The Organization has operations in countries other than the United States that are translated to the Organization's reporting currency. Transaction gains or losses are reflected in program services expense in the consolidated statements of activities. Gains or losses upon translation of field office activities to U.S. dollar reporting are reflected as a separate line item adjustment to change in net assets as reported on the consolidated statements of activities.

Recent accounting pronouncements: In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new standard changes presentation and disclosure requirements with the intention of helping not-for-profits provide more relevant information about their resources to donors, grantors, creditors and other financial statement users. This pronouncement decreases the number of net assets classes from three to two. The new classes will be *net assets with donor restrictions* and *net assets without donor restrictions*. The standard will take effect for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Therefore, this ASU will be effective for the Organization's fiscal year ending June 30, 2019. Management is in the process of evaluating the impact of this new guidance.

The following three pronouncements, regarding revenue, will become effective for the Organization for the fiscal year ending June 30, 2020.

In February 2017, the FASB issued ASU No. 2017-05, *Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets.* This update is to clarify the scope of Subtopic 610-20 and to add guidance for partial sales of nonfinancial assets. Adoption should be concurrent with adoption of ASU No. 2014-09 (as disclosed below). Management does not anticipate that adoption of this standard will result in any significant effect to the consolidated financial statements of the Organization.

In December 2016, the FASB issued ASU No. 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*. These amendments clarify narrow aspects of the guidance issued in ASU No. 2014-09. Management does not anticipate that adoption of this standard will result in any significant effect to the consolidated financial statements of the Organization.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance is intended to improve comparability of accounting treatment for revenue recognition across geographies and industries, and to provide more useful information to financial statement readers through enhanced disclosure requirements. It replaces industry-specific guidance with a principles-based approach for revenue recognition, and is a step toward convergence of U.S. GAAP and International Financial Reporting Standards. In general, it requires revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU permits the use of either of two methods: a full retrospective, or a retrospective with the cumulative effect and additional disclosures. Management does not anticipate that adoption of this standard will result in any significant effect to the consolidated financial statements of the Organization.

The following two pronouncements, regarding the consolidated statements of cash flows, will also become effective for the Organization for the fiscal year ending June 30, 2020. Management is in the process of evaluating the impact of each new guidance.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force).* This guidance clarifies how entities should present restricted cash and restricted cash equivalents in the statement of cash flows. The guidance will be applied retrospectively, and early adoption is permitted.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force).* The new guidance is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. Early adoption is permitted, provided that all the amendments are adopted in the same period. The guidance requires application using a retrospective transition method.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective-interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The ASU is expected to impact the Organization's consolidated financial statements, as the Organization has certain operating and land lease arrangements for which it is the lessee. The standard is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Therefore, this ASU will be effective for the Organization beginning with the fiscal year ending June 30, 2021, with early adoption permitted. The Organization is in the process of evaluating the impact of this new guidance.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made.* The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) with the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU 2018-08 is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Therefore, this ASU will be effective for the Organization on July 1, 2020. The Organization is currently evaluating the impact the adoption of this guidance will have on its consolidated financial statements.

Note 2. Contributions Receivable

Contributions receivable are considered temporarily restricted as to timing, since the funds from such contributions are not available for use until received by the Organization. Contributions receivable at June 30, 2018 and 2017, consisted of the following:

	2018	2017
Due within one year	$ 1,157,582	$ 1,320,624
Due within five years	897,990	874,948
Due beyond five years	571,386	656,397
	2,626,958	2,851,969
Less:		
Allowance for uncollectible pledges	131,348	142,048
Unamortized discount	188,464	200,054
	$ 2,307,146	$ 2,509,867

Note 3. Interest in Net Assets of Heifer International Foundation

Heifer and HIF are financially interrelated entities with a common mission. HIF seeks private support for and holds net assets on behalf of Heifer. HIF's net assets include amounts that donors have stipulated be used for specified purposes of Heifer, as well as amounts donors have stipulated be held in perpetuity, with the income thereon to be used as specified by the donor. HIF transfers assets to Heifer when approved by HIF's trustees. Heifer's interest in the net assets of HIF is accounted for in a manner similar to the equity method of accounting. This interest is reflected as an asset on Heifer's consolidated statements of financial position at an amount equal to HIF's net assets held for Heifer. Heifer's overall interest in net assets of HIF was $124,242,028 and $113,728,373 at June 30, 2018 and 2017, respectively.

The Organization recognizes revenue for its change in interest in net assets of HIF after first taking into consideration the effect of any HIF distribution transactions during the year, as well as Heifer transfers to the HIF endowment. The Organization accounts for distributions from HIF to Heifer as asset transfers, decreasing the Organization's interest in the net assets of HIF. Conversely, transfers by Heifer to the HIF endowment are recognized as increases to Heifer's interest in net assets of HIF. During the years ended June 30, 2018 and 2017, Heifer's overall interest in net assets of HIF increased by $10,513,655 and $27,770,223, respectively.

The components of Heifer's net increase in interest in net assets of HIF are summarized in the following table:

	2018	2017
Beginning balance, July 1	$ 113,728,373	$ 85,958,150
HIF distributions to Heifer	(1,141,139)	(1,443,351)
Undesignated bequests transferred	6,291,372	749,997
Heifer's change in interest in net assets to HIF	5,363,422	28,463,577
Net increase in Heifer's interest in net assets	10,513,655	27,770,223
Ending balance, June 30	$ 124,242,028	$ 113,728,373

Note 3. Interest in Net Assets of Heifer International Foundation (Continued)

The Organization and HIF both receive contributions in the form of testamentary bequests wherein Heifer is named beneficiary which, unless otherwise restricted by the donor, are accounted for as unrestricted contributions to Heifer and may, at the Organization's discretion, be transferred to HIF. For the years ended June 30, 2018 and 2017, Heifer contributed bequest revenues of $6,291,372 and $749,997, respectively, to the HIF endowment. Heifer's contributions to the HIF endowment are recorded through the Organization's interest in net assets of HIF. Heifer recognizes that such transfers to the HIF endowment do not meet the FASB's definition of a contribution as per ASC Section 958-605-20, since Heifer is ultimately the beneficiary of the transfers. However, they do qualify as donor-restricted additions to HIF's endowment under the legal standards of UPMIFA as codified in Arkansas Code Annotated (ACA) §28-69-801 and following, especially ACA §28-69-802 and §28-69-804 (along with the Uniform Law Comments thereto). As required by law, HIF recognizes these transfers as donor-restricted increases to its permanent endowment fund, and thus, its permanent net assets. To ensure a meaningful financial statement presentation, Heifer management has elected to retain HIF's permanent net asset classification for these funds in recognizing the Organization's change in interest in net assets of HIF.

Heifer's permanently restricted net assets reflect the Foundation's permanently restricted net assets that are to be held and invested in perpetuity, with the income thereon to be used as specified by the donor.

The Foundation recorded permanently restricted net assets at June 30, 2018 and 2017, of $107,990,782 and $99,608,638, respectively, which make up Heifer's permanently restricted net assets.

In accordance with ASC Section 958-205-45, Losses of an Endowment Fund, the Foundation records investment losses on permanently restricted net assets against unrestricted net assets, which may result in a net negative unrestricted net asset balance recorded by HIF. The Organization applies a net negative HIF unrestricted net asset balance against its own unrestricted net assets. However, Heifer records a net positive HIF unrestricted net asset balance as temporarily restricted, which in essence recognizes that these assets remain unavailable to the Organization until authorized for distribution by the Foundation's donors and board. For the years ended June 30, 2018 and 2017, HIF reported unrestricted net assets of $6,753,387 and $6,467,412, respectively, which are included as a portion of Heifer's temporarily restricted net asset balance.

Note 4. Property and Equipment

Property and equipment is carried at cost, net of accumulated depreciation, and at June 30, 2018 and 2017, consisted of the following:

	2018	2017
Land and improvements	$ 11,613,955	$ 11,675,242
Buildings	44,505,982	44,833,575
Vehicles	5,602,385	5,598,349
Furniture, fixtures and equipment	16,415,851	15,540,807
Construction in progress	474,751	400,957
	78,612,924	78,048,930
Less accumulated depreciation	33,680,208	31,530,930
	$ 44,932,716	$ 46,518,000

Note 4. Property and Equipment (Continued)

Heifer capitalizes acquisitions of property and equipment with consideration to thresholds for useful life and amount. The Organization's capitalization thresholds vary by type of asset and location, with minimum amounts ranging between $5,000 and $10,000 and minimum useful lives between three and five years.

Depreciation expense amounted to $3,538,089 and $3,468,571 for the years ended June 30, 2018 and 2017, respectively, of which $795,177 and $711,901, respectively, relates to the depreciation expense recorded by country programs during the current and previous fiscal year. Costs, including depreciation expenses, incurred at the country-office level are included in program services costs from grants and field operations as disclosed in Note 10.

Note 5. Lines of Credit

The Organization has a revolving credit facility with HIF. The available line of credit is the greater of $8,000,000 or 10 percent of the market value of the HIF total endowment, with draws against this line of credit to have a maximum repayment term of three years and accrue interest at an agreed-upon rate no higher than the prime rate.

The Organization entered into a new line of credit agreement with HIF during 2018. The available line of credit is the greater of $7,500,000 or 10 percent of the endowment assets, whichever is greater. Draws against the line accrue interest at 3 percent and is only available to the Organization for use with any impact ventures.

The Organization made no draws, and there were no loans outstanding on the lines of credit for the years ended June 30, 2018 and 2017.

Note 6. Bonds Payable

Bond issuance: In December 2008, the City of Little Rock (the City), Arkansas (Heifer Project International) Public Facilities Board issued $5,700,000 Series 2008A Revenue Bonds and $4,300,000 Series 2008B Revenue Bonds. On December 4, 2008, the Organization entered into a contract with the City to service these bonds in accordance with terms of the Bond Purchase Agreement. The 2008A bonds bear interest at a variable rate equal to the 30-day LIBOR plus a spread not to exceed 6.25 percent per annum. Interest is payable semiannually, plus principal of $285,000 due annually through December 1, 2018. The interest rate for the 2008A bonds was 2.11 percent as of June 30, 2018 (1.49 percent as of June 30, 2017). The 2008B bonds bear interest at a fixed rate of 4.80 percent, due semiannually, plus annual principal reduction payments of various amounts through December 1, 2023. In February 2009, $9,300,000 Series 2009 Revenue Bonds were issued. The 2009 bonds bear interest at a fixed rate of 4.80 percent, due semiannually, plus annual principal reduction payments of various amounts through February 1, 2024. Proceeds from the issuance of these bonds were used to finance and refinance the Organization's capital improvements. This debt is collateralized by a lien and security interest in this same mortgaged property, including underlying real estate. All bonds are tax-exempt.

In connection with the loan agreements, the Organization is required to comply with certain conditions, including the maintenance of a debt service coverage (DSC) ratio of 1.15-to-1.0, and unrestricted, unencumbered liquid assets (liquidity) ratio of not less than 100 percent of the outstanding debt, along with a minimum unrestricted net assets financial covenant. At June 30, 2018, the Organization was in compliance with the DSC ratio, liquidity and unrestricted net assets covenants.

Note 6. Bonds Payable (Continued)

At June 30, 2018, the remaining principal balance for each of the bond series was as follows: Series 2008A—$3,135,000, Series 2008B—$2,100,000 and Series 2009—$4,535,000, for a total of $9,770,000. Aggregate annual maturities of bonds payable at June 30, 2018, are due as follows:

Years ending June 30:	
2019	$ 4,115,000
2020	1,025,000
2021	1,075,000
2022	1,125,000
2023	1,185,000
Thereafter	1,245,000
	$ 9,770,000

Note 7. Net Assets

Temporarily restricted net assets: Temporarily restricted net assets at June 30, 2018 and 2017, were available for the following purposes:

	2018	2017
Country and international programs	$ 5,834,035	$ 6,187,805
Interest in net assets of HIF	16,251,245	14,119,734
	$ 22,085,280	$ 20,307,539

Permanently restricted net assets: Permanently restricted net assets at June 30, 2018 and 2017, were restricted to the following:

	2018	2017
Investment in perpetuity, the income of which is expendable to support certain activities of Heifer and HIF	$ 107,990,782	$ 99,608,638

Net assets released from restrictions: Net assets were released from donor restrictions after incurring expenses satisfying the following restricted purpose during the years ended June 30:

	2018	2017
Country and international programs	$ 7,832,560	$ 18,084,778

Note 8. Operating Leases

The Organization has entered into noncancelable operating leases expiring in calendar years 2018 through 2023 representing leases for office space. Future minimum lease payments at June 30, 2018, were as follows:

	U.S. Offices	International Offices	Total
Years ending June 30:			
2019	$ 102,329	$ 444,173	$ 546,502
2020	93,801	270,918	364,719
2021	-	73,578	73,578
2022	-	22,150	22,150
2023	-	-	-
	$ 196,130	$ 810,819	$ 1,006,949

Rental expense for all Heifer U.S. operating leases was $148,771 and $128,232 for the years ended June 30, 2018 and 2017, respectively. Many of the Organization's international country offices lease office space, for which rental expense amounted to approximately $709,000 and $713,000 for the years ended June 30, 2018 and 2017, respectively.

Note 9. Retirement Plans

The Organization sponsors two defined contribution retirement plans: a 403(b) plan and a nonqualified offshore retirement plan. All U.S.-based employees are eligible for the 403(b) plan. Certain country directors and other staff who are based in international countries are participants in the nonqualified offshore retirement plan. During both the 2018 and 2017 fiscal years, a 3 percent employer contribution was made to the 403(b) plan as well as an employer match contribution of 2 percent for every 1 percent the employee contributed, up to a maximum of 4 percent. A 10 percent contribution was made to the nonqualified offshore retirement plan during both the 2018 and 2017 fiscal years. All contributions are based on the gross salaries of each participant in the plan. The Organization's contributions to the retirement plans were $1,241,111 and $1,182,854 for the years ended June 30, 2018 and 2017, respectively.

Note 10. Functional Expenses

The Organization classified expenses functionally for the years ended June 30, 2018 and 2017, as follows:

	2018			
	Program Services	Management and General	Fundraising	Total Expenses
Program costs—grants and field operations	$ 51,438,328	$ -	$ -	$ 51,438,328
Salaries and wages	11,108,769	2,717,549	4,707,592	18,533,910
Payroll taxes	829,820	180,915	356,418	1,367,153
Retirement plan contributions	733,284	182,324	299,816	1,215,424
Other employee benefits	1,092,737	246,307	417,970	1,757,014
Other personnel expenses	477,166	24,401	486,332	987,899
Volunteer expenses	180,487	-	1,478	181,965
Travel	1,903,394	206,447	372,285	2,482,126
Conferences and meetings	220,032	32,130	61,913	314,075
Occupancy	904,184	253,944	243,116	1,401,244
Equipment—minor purchases, rentals maintenance	915,656	432,701	531,136	1,879,493
Supplies	436,306	40,151	50,474	526,931
Printing and other media expense	3,916,917	32,826	3,270,210	7,219,953
Marketing and promotion expense	4,205,540	66,847	2,789,197	7,061,584
Accounting and audit fees	84,506	227,233	96,730	408,469
Legal fees	130,555	202,777	57,977	391,309
Other professional and consulting fees	4,608,697	253,989	4,018,570	8,881,256
Property and casualty insurance	235,446	185,090	55,676	476,212
Communications charges	411,637	121,090	197,352	730,079
Postage, shipping and freight	3,694,796	42,336	3,342,687	7,079,819
Depreciation	1,776,732	456,212	509,968	2,742,912
Interest expense	175,632	115,758	107,774	399,164
Other expenses	1,573,609	389,050	1,717,458	3,680,117
Total expenses and losses	$ 91,054,230	$ 6,410,077	$ 23,692,129	$ 121,156,436

Note 10. Functional Expenses (Continued)

	2017			
	Program Services	Management and General	Fundraising	Total Expenses
Program costs—grants and field operations	$ 51,804,188	$ -	$ -	$ 51,804,188
Salaries and wages	10,990,490	2,550,562	4,576,742	18,117,794
Payroll taxes	800,582	158,821	323,006	1,282,409
Retirement plan contributions	617,797	254,213	310,844	1,182,854
Other employee benefits	1,105,465	237,241	418,213	1,760,919
Other personnel expenses	380,240	53,857	546,793	980,890
Volunteer expenses	221,548	-	1,360	222,908
Travel	1,535,572	166,508	277,467	1,979,547
Conferences and meetings	269,013	31,416	64,430	364,859
Occupancy	848,508	264,586	260,379	1,373,473
Equipment—minor purchases, rentals maintenance	813,370	369,372	461,841	1,644,583
Supplies	489,168	66,830	96,880	652,878
Printing and other media expense	3,746,780	53,619	3,114,633	6,915,032
Marketing and promotion expense	2,215,469	63,205	2,068,560	4,347,234
Accounting and audit fees	103,192	225,838	269,454	598,484
Legal fees	74,909	171,653	33,080	279,642
Other professional and consulting fees	3,309,289	189,196	3,013,664	6,512,149
Property and casualty insurance	302,598	162,435	59,067	524,100
Communications charges	409,376	104,519	176,452	690,347
Postage, shipping and freight	3,734,709	48,910	3,025,024	6,808,643
Depreciation	1,754,616	529,141	500,740	2,784,497
Interest expense	200,512	122,051	113,333	435,896
Other expenses	1,463,818	360,993	1,962,037	3,786,848
Total expenses and losses	$ 87,191,209	$ 6,184,966	$ 21,673,999	$ 115,050,174

Note 11. Allocation of Joint Costs

Heifer conducts activities that include requests for contributions, as well as program and management and general components. Those activities include combined educational campaigns and fundraising solicitations through appeals, which include solicitations, as well as educational material that further a nonfundraising, educational program mission of the Organization. For the years ended June 30, 2018 and 2017, the costs of conducting these appeals included a total of $10,788,552 and $11,598,240, respectively, of joint costs, which are not specifically attributable to particular components of the activities. These joint costs were allocated as follows:

	2018	2017
Fundraising	$ 4,689,711	$ 4,836,724
Educational programs	6,098,841	6,761,516
	$ 10,788,552	$ 11,598,240

Note 12. Disclosures About Fair Value of Financial Instruments

ASC Topic 820, Fair Value Measurements, defines fair value as the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Topic 820 requires certain assets and liabilities to be presented within the fair value hierarchy. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs by requiring that the most observable inputs be used when available. The hierarchy is broken down into three levels based on the observability of inputs as follows:

Level 1: Valuations are based on quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2: Valuations are based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3: Valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

The following methods were used by management to estimate the fair value of financial instruments:

Cash and cash equivalents and restricted cash: The carrying amount is a reasonable estimate of fair value due to the short-term nature of these assets.

Accounts and contributions receivable: Receivables expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free rate applicable to the year in which the promise is received. For short-term receivables, the carrying amount is a reasonable estimate of fair value due to the short-term nature of the balances.

Accounts payable: The carrying amount is a reasonable estimate of fair value due to the short-term nature of these liabilities.

Investments: Investments described in Note 1 and included in prepaid expenses and other are carried on the consolidated statements of financial position at estimated fair value. All available-for-sale investments have readily determinable fair values as determined by the quoted prices in active markets for identical assets, using the market approach. The estimated fair value of these securities represents market price multiplied by the quantity held. Accordingly, all investments are classified by management as Level 1 assets in the fair value hierarchy.

Bonds payable: The fair values of the Organization’s borrowings were computed by discounting to present value of the future payments under those agreements based on market interest rates for similar agreements at year-end. The estimated fair values and carrying values of the Organization’s borrowings in aggregate were $10,205,917 and $11,821,394, respectively, at June 30, 2018 and 2017.

Note 13. Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Assets maintained in foreign countries: The Organization maintains significant assets in the countries in which it operates. These assets generally are composed of cash and property and equipment that are used in programs. At June 30, 2018 and 2017, cash balances totaling $8,737,117 and $6,739,166, respectively, were held by banks in foreign countries, and property and equipment with a net carrying value of approximately $3,120,273 and $2,940,186, respectively, was held by foreign program offices.

Cash balances that are held in the denominations of the foreign country are subject to valuation adjustments based on exchange rates in effect at any given time. These cash accounts are not insured by the Federal Deposit Insurance Corporation and may not be insured by any other means. Transfers of funds back to the United States may be restricted due to local market conditions or the laws governing such transactions in the country where the assets are maintained.

Note 14. Contingencies

Legal: The Organization is a party to certain legal proceedings arising in the normal course of business. Management believes the ultimate outcome of pending legal matters will not be material to the financial condition and future operations of the Organization. Liability insurance is maintained as coverage against risks arising in the normal course of its business.

Grants: The Organization has received grants for specific purposes that are subject to review and audit by the grantor. Such audits could lead to a request for reimbursement to the grantor for expenditures disallowed under the terms of the grant. Organization management believes the disallowances, if any, will be immaterial to the consolidated financial statements.

Guarantees: As of June 30, 2018 and 2017, the Organization has guaranteed the loans of seven farmers' cooperatives operating within current Heifer projects. The amount of the guarantee at June 30, 2018 and 2017, is $907,682 and $612,003, respectively.

Note 15. Subsequent Events

In accordance with ASC Topic 855, the Organization determined there were no required subsequent events to report through October 16, 2018.

Supplementary Information

Heifer Project International

Consolidating Statement of Financial Position
June 30, 2018

	Headquarters	Africa	Asia	Americas	Europe	Eliminations	Total
Assets							
Cash and cash equivalents	$ 38,391,673	$ 5,170,656	$ 1,164,406	$ 2,128,353	$ 273,702	$ -	$ 47,128,790
Restricted cash	6,998,825	-	-	-	-	-	6,998,825
Accounts and interest receivable	1,225,077	707,807	400,059	395,904	-	-	2,728,847
Intercompany account receivable	56,091	102,336	596	3,518	-	(162,541)	-
Grant reimbursement receivable	83,591	99,733	27,038	164,481	7,166	-	382,009
Prepaid expenses and other	1,645,667	423,296	59,264	44,017	5,452	-	2,177,696
Contributions receivable	2,307,146	-	-	-	-	-	2,307,146
Interest in net assets of Heifer International Foundation	124,242,028	-	-	-	-	-	124,242,028
Property and equipment, net of accumulated depreciation	41,812,442	2,036,347	471,265	823,565	3,305	(214,208)	44,932,716
Total assets	$ 216,762,540	$ 8,540,175	$ 2,122,628	$ 3,559,838	$ 289,625	$ (376,749)	$ 230,898,057
Liabilities and Net Assets							
Liabilities:							
Accounts payable	$ 1,716,014	$ 706,476	$ 485,291	$ 1,316,528	$ 2,730	$ -	$ 4,227,039
Intercompany accounts payable	66,958	44,362	-	-	2	(111,322)	-
Accrued expenses	1,492,824	1,327,077	482,216	672,830	149,821	-	4,124,768
Deferred revenue	7,782,351	1,965,780	176,168	227,893	-	-	10,152,192
Bonds payable	9,770,000	-	-	-	-	-	9,770,000
Total liabilities	20,828,147	4,043,695	1,143,675	2,217,251	152,553	(111,322)	28,273,999
Net assets:							
Unrestricted	65,858,331	4,496,480	978,953	1,342,587	137,072	(265,427)	72,547,996
Temporarily restricted	22,085,280	-	-	-	-	-	22,085,280
Permanently restricted	107,990,782	-	-	-	-	-	107,990,782
Total net assets	195,934,393	4,496,480	978,953	1,342,587	137,072	(265,427)	202,624,058
Total liabilities and net assets	$ 216,762,540	$ 8,540,175	$ 2,122,628	$ 3,559,838	$ 289,625	$ (376,749)	$ 230,898,057

Heifer Project International

Consolidating Statement of Activities (Unrestricted)
Year Ended June 30, 2018

	Headquarters	Africa	Asia	Americas	Europe	Eliminations	Total
Revenues, gains and other support:							
Contributions	$ 101,145,359	$ 19,713,220	$ 6,705,511	$ 11,287,043	$ 230,565	$ (36,949,552)	$ 102,132,146
Federal government grants	389,507	295,343	-	36,609	170,240	-	891,699
Other grants	4,532,562	4,891,808	629,241	1,214,820	-	-	11,268,431
Educational programs	1,157,085	-	-	-	-	-	1,157,085
Promotional events and material sales, net of cost	464,858	-	-	-	-	-	464,858
Other	934,956	279,586	292,062	928,605	1,931	114,902	2,552,042
Change in interest in net assets of Heifer International Foundation	(5,150,233)	-	-	-	-	-	(5,150,233)
Net assets released from restrictions	7,832,560	-	-	-	-	-	7,832,560
Total revenues, gains and other support	111,306,654	25,179,957	7,626,814	13,467,077	402,736	(36,834,650)	121,148,588
Expenses and losses:							
Program services	81,770,058	25,032,581	7,617,828	13,254,325	276,004	(36,896,566)	91,054,230
Management and general	6,410,077	-	-	-	-	-	6,410,077
Fundraising	23,692,129	-	-	-	-	-	23,692,129
Total expenses and losses	111,872,264	25,032,581	7,617,828	13,254,325	276,004	(36,896,566)	121,156,436
Change in net assets from operations	(565,610)	147,376	8,986	212,752	126,732	61,916	(7,848)
Other changes in net assets:							
Foreign currency translation adjustment	(6,679)	(71,952)	(23,580)	(45,319)	2,993	(252)	(144,789)
Total change in net assets	(572,289)	75,424	(14,594)	167,433	129,725	61,664	(152,637)
Net assets, beginning of year	66,430,620	4,421,056	993,547	1,175,154	7,347	(327,091)	72,700,633
Net assets, end of year	$ 65,858,331	$ 4,496,480	$ 978,953	$ 1,342,587	$ 137,072	$ (265,427)	$ 72,547,996

Heifer Project International

Consolidated Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor Program Title/Pass-Through Number	Catalog of Federal Domestic Assistance Number	Expenditures Recognized	Passed Through to Subrecipients
U.S. Department of Agriculture:			
Arkansas Multi-farm CSA Project Connect—15-LFPP-AR-0043	10.172	$ 46,159	$ -
U.S. Agency for International Development cluster:			
Passed through International Livestock Research Institute (ILRI-CGIAR)—Value Chain Development (Dairy Value Chain) linked to CRP on Livestock and Fish—USA081	98.001	298,307	-
Passed through Fuller Center for Armenia Housing—Partnership for Rural Prosperity Program—AID-111-A-13-00002	98.001	170,240	-
Passed through University of Florida—Feed the Future Innovation Lab for Livestock Systems AID-OAA-L-15-0003	98.001	186,406	-
Passed through University of Florida—LSIL: Feeding Support Toll Development for Enhancing Dairy Animal Productivity for Improved Livelihood of Smallhold Dairy Farmers in Nepal AID-OAA-L-15-0003	98.001	74,893	-
Passed through University of Florida—LSIL: Improving Dairy Animal Productivity and Income of Dairy Farmers through Effective Control of Mastitis Disease AID-OAA-L-15-003	98.001	73,101	-
Passed through Tufts University—Feed the Future Innovation Lab for Nutrition AID-OAA-L-10-00006	98.001	62,152	12,000
Passed through Fintrac Inc.—Inversion Estrategica de Honduras (INVEST-H) N/A	98.001	10,937	-
Total U.S. Agency for International Development		876,036	12,000
Inter-American Foundation:			
Passed through Programa de Reconstruccion Rural (PRR) Basic Grain Production and Commercialization in Western Honduras/HIHN PRR-HO-286	85.750	25,736	-
Total expenditures of federal awards		$ 947,931	$ 12,000

See notes to consolidated schedule of expenditures of federal awards.

Note 1. Basis of Accounting

The accompanying consolidated schedule of expenditures of federal awards includes the accounts of Heifer Project International (the Organization) for the year ended June 30, 2018, and is presented on the accrual basis of accounting. All federal awards received directly from federal agencies, as well as federal awards passed through other governmental agencies, are included in the schedule. The information in this schedule is presented in accordance with the requirements of Subpart F of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements. Because the schedule presents only a selected portion of the operations of the Organization, it is not intended to, and does not, present the net assets, changes in net assets, or cash flows of the Organization.

Note 2. Significant Accounting Policies

Expenditures of federal awards are recognized in the accounting period when the liability is incurred and approved for reimbursement. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Indirect Cost Rate

The Organization has elected not to use the 10 percent de minimus indirect cost rate allowed under the Uniform Guidance.

Heifer Project International

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2018

Finding Number	Comment	Status	Corrective Action or Other Explanation

None reported.

Heifer Project International

Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

I. SUMMARY OF AUDITOR'S RESULTS

A. Financial Statements

1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

2. Internal control over financial reporting:

• Material weakness(es) identified?	Yes	_____	No	X
• Significant deficiency(ies) identified?	Yes	_____	None reported	X
• Noncompliance material to the financial statements noted?	Yes	_____	No	X

B. Federal Awards

1. Internal control over major programs:

• Material weakness(es) identified?	Yes	_____	No	X
• Significant deficiency(ies) identified?	Yes	_____	None reported	X

2. Type of auditor's report issued on compliance for major federal program: Unmodified

• Any findings disclosed that are required to be reported in accordance with Title 2 CFR 200 516(a)?	Yes	_____	No	X

3. Identification of major program:

CFDA Number	Name of Federal Program
98.001	USAID Foreign Assistance for Programs Overseas

Dollar threshold used to distinguish between Type A and Type B programs: $750,000

Auditee qualified as low-risk auditee?	Yes	X	No	_____

(Continued)

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2018

II. FINANCIAL STATEMENT FINDINGS

A. Internal Control

None reported

B. Compliance Findings

None reported

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

A. Internal Control

None reported

B. Instances of Noncompliance

None reported

RSM US LLP

Independent Auditor's Report

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Directors
Heifer Project International

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Heifer Project International (the Organization), which comprise the consolidated statement of financial position as of June 30, 2018, the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 16, 2018.

Internal Control Over Financial Reporting
In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Kansas City, Missouri
October 16, 2018

RSM US LLP

Independent Auditor's Report

**Report on Compliance for the Major Federal Program and
Report on Internal Control Over Compliance**

Board of Directors
Heifer Project International

Report on Compliance for the Major Federal Program
We have audited Heifer Project International's (the Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended June 30, 2018. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility
Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility
Our responsibility is to express an opinion on compliance for the Organization's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on the Major Federal Program
In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

Report on Internal Control Over Compliance
Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

RSM US LLP

Kansas City, Missouri
October 16, 2018