Heifer International Foundation

Financial Report
June 30, 2017

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Contents

Independent Auditor's Report

To the Board of Trustees
Heifer International Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of Heifer International Foundation, which comprise the statements of financial position as of June 30, 2017 and 2016, the related statements of activities 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 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. 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable 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 International Foundation as of June 30, 2017 and 2016, and the results of its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as of and for the years ended June 30, 2017 and 2016, as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information as of and for the years ended June 30, 2017 and 2016, has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information 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, the information as of and for the years ended June 30, 2017 and 2016, is fairly stated in all material respects in relation to the financial statements as a whole.

RSM US LLP

Kansas City, Missouri
October 3, 2017

Heifer International Foundation

Statements of Financial Position
June 30, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	**$ 5,705,640**	$ 6,855,815
Contributions and bequests receivable	**330,365**	330,365
Prepaid expenses and other assets	**197,295**	274,655
Investments (Note 2)	**127,645,587**	98,135,343
Total assets	**$ 133,878,887**	$ 105,596,178
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	**$ 180,735**	$ 205,116
Annuities payable (Note 3)	**4,704,087**	4,836,797
Trusts payable (Note 3)	**10,333,297**	9,728,728
Refundable advances	**4,932,395**	4,867,387
Total liabilities	**20,150,514**	19,638,028
Net assets:		
Unrestricted:		
Board designated	**9,311,096**	9,067,521
Undesignated	**(2,843,684)**	(7,076,560)
Unrestricted	**6,467,412**	1,990,961
Temporarily restricted (Notes 4 and 8)	**7,652,323**	4,308,209
Permanently restricted (Notes 4 and 8)	**99,608,638**	79,658,980
Net assets	**113,728,373**	85,958,150
Total liabilities and net assets	**$ 133,878,887**	$ 105,596,178

See notes to financial statements.

Heifer International Foundation

Statement of Activities
Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains and other support:				
Contributions:				
General (Note 9)	$ 102,327	$ -	$ 20,417,525	$ 20,519,852
Annuities and trusts	-	-	179,117	179,117
Investment return (Note 5)	5,410,569	4,813,835	-	10,224,404
Change in split-interest obligations	-	-	(646,984)	(646,984)
Net assets released from restrictions	1,469,721	(1,469,721)	-	-
Total revenue, gains and other support	6,982,617	3,344,114	19,949,658	30,276,389
Expenses:				
Program services (Note 6)	1,514,451	-	-	1,514,451
Management and general	987,917	-	-	987,917
Fundraising	3,798	-	-	3,798
Total expenses	2,506,166	-	-	2,506,166
Change in net assets	4,476,451	3,344,114	19,949,658	27,770,223
Net assets, beginning of year	1,990,961	4,308,209	79,658,980	85,958,150
Net assets, end of year	$ 6,467,412	$ 7,652,323	$ 99,608,638	$ 113,728,373

See notes to financial statements.

Heifer International Foundation

Statement of Activities
Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains and other support:				
Contributions:				
General	$ 628,231	$ -	$ 4,858,866	$ 5,487,097
Annuities and trusts	-	-	891,922	891,922
Investment return (Note 5)	761,359	345,186	-	1,106,545
Change in split-interest obligations	-	-	(926,848)	(926,848)
Net assets released from restrictions	1,613,984	(1,613,984)	-	-
Total revenue, gains and other support	3,003,574	(1,268,798)	4,823,940	6,558,716
Expenses:				
Program services (Note 6)	1,840,879	-	-	1,840,879
Management and general	702,195	-	-	702,195
Fundraising	2,786	-	-	2,786
Total expenses	2,545,860	-	-	2,545,860
Change in net assets	457,714	(1,268,798)	4,823,940	4,012,856
Net assets, beginning of year	1,533,247	5,577,007	74,835,040	81,945,294
Net assets, end of year	$ 1,990,961	$ 4,308,209	$ 79,658,980	$ 85,958,150

See notes to financial statements.

Heifer International Foundation

Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ 27,770,223	$ 4,012,856
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation expense	-	6,302
Net realized and unrealized (gain) loss on investment portfolio	(9,049,110)	(168,209)
Change in value of split-interest obligations	646,984	926,848
Contributions of investments	(17,283,107)	(412,949)
Contributions received restricted for long-term investment	(20,596,642)	(5,750,788)
Changes in operating assets and liabilities:		
Contributions and bequests receivable	-	16,026
Prepaid expenses and other assets	77,360	(32,258)
Accounts payable and accrued liabilities	(24,381)	(13,973)
Refundable advances	65,008	1,213,908
Annuities and trusts payable	1,714,315	1,421,997
Total adjustments	(44,449,573)	(2,793,096)
Net cash (used in) provided by operating activities	(16,679,350)	1,219,760
Cash flows from investing activities:		
Purchase of investments	(138,266,974)	(30,112,698)
Proceeds from disposition of investments	135,088,947	27,709,440
Proceeds from sale of land held for sale	-	300,000
Net cash used in investing activities	(3,178,027)	(2,103,258)
Cash flows from financing activities:		
Contributions restricted for annuities and trusts	179,117	891,922
Contributions restricted for endowments	20,417,525	4,858,866
Payments on split-interest obligations	(1,889,440)	(1,842,249)
Net cash provided by financing activities	18,707,202	3,908,539
(Decrease) increase in cash and cash equivalents	(1,150,175)	3,025,041
Cash and cash equivalents:		
Beginning of year	6,855,815	3,830,774
End of year	$ 5,705,640	$ 6,855,815

See notes to financial statements.

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

Nature of operations: Heifer International Foundation (the Foundation) is a nonprofit organization whose mission is to build an endowment to generate ongoing support for the work of Heifer Project International (HPI), to educate people on how planned charitable giving supports HPI's work, and to serve as a fiduciary for the Foundation's donors. The Foundation's office is located in Little Rock, Arkansas.

Cash equivalents: The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2017 and 2016, cash equivalents consisted primarily of money market funds.

Investments and investment return: Investments are carried at fair value determined by quoted prices or the observable inputs, as available. Donated investments are initially valued at the fair value at time of donation. Investment return includes dividends, interest and other investment income, net of investment management fees; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

Investment income and appreciation on permanently restricted net assets is generally reported as temporarily restricted until these funds are appropriated for expenditure, generally when requested for spending by the ultimate recipient. Investment income and appreciation on donor-restricted endowment funds whose fair value has fallen below the fair value of the original gift are reported as unrestricted until such deficiency is eliminated. Other investment return is reflected in the statements of activities as unrestricted.

The Foundation maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated monthly to the individual endowments based on the relationship of the fair value of each endowment to the total fair value of the pooled investment accounts, as adjusted for additions to or deductions from those accounts.

Contributions and bequests receivable: Contributions and bequests receivable are stated at the amount due from donors or other parties. Bequests are reported when the Foundation is named as beneficiary of an insurance policy upon death of the insured. The Foundation provides an allowance for receivables in which collection is doubtful. The allowance is based upon a review of outstanding receivables and specific knowledge of the circumstances surrounding the receivable. An allowance was not deemed necessary as of June 30, 2017 and 2016. As most contributions receivable consist of bequests, amounts due to the Foundation are paid upon settlement of the estate. Receivables are written off based on the specific circumstances of the related receivable.

Net asset classifications: The Foundation distinguishes between unrestricted, temporarily restricted and permanently restricted net assets and changes in net assets in the accompanying financial statements. A description of these net asset classifications is as follows:

***Unrestricted net assets*:** Net assets are classified as unrestricted if they are not subject to donor-imposed stipulations and are available to support the operations of the Foundation.

Unrestricted Board-designated net assets: Net assets are classified as unrestricted, as they are not subject to donor-imposed stipulations, but the Foundation's Board has designated them to be used for programs in certain countries.

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

Temporarily restricted net assets**:** Temporarily restricted net assets include gifts and investment income and gains that can be expended but for which restrictions have not been met. Those restrictions include time and purpose restrictions imposed by donors, and restrictions imposed by law that restricts net investment income and gains until appropriated for expenditure.

Permanently restricted net assets**:** Permanently restricted net assets have been restricted by donors to be maintained by the Foundation in perpetuity.

Contributions: Gifts of cash and other assets are classified and reported in the appropriate restriction category based upon the existence or absence of donor restrictions.

Spending policy: The Foundation's spending is governed by the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which was approved by the Uniform Law Commission to serve as a guideline for states to use in enacting legislation. The state of Arkansas has enacted UPMIFA, which requires nonprofit foundations with donor-restricted endowed funds to follow certain standards when making investment and spending policy decisions.

Income tax status: The Foundation is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. Uncertain tax positions, if any, are recorded in accordance with *FASB Accounting Standards Codification* (ASC) Topic 740, Income Taxes, which requires the recognition of a liability for tax positions taken that do not meet the more-likely-than-not standard that the position will be sustained upon examination by the taxing authorities. There is no liability for uncertain tax positions recorded at June 30, 2017 or 2016.

Forms 990 filed by the Foundation are subject to examination by the Internal Revenue Service (IRS) up to three years from the extended due date of each return.

Fair value of financial instruments: The estimated fair values of the Foundation's short-term financial instruments, including receivables and payables arising in the ordinary course of business, approximate their individual carrying amounts due to the relatively short period of time between their origination and expected realization. The Foundation's estimate of the fair value of investments and split-interest agreement liabilities is further described in Note 2.

Functional allocation of expenses: The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the program, management and general, and fundraising categories based on time studies and other methods.

Use of estimates: The preparation of 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 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, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Fundraising costs: Fundraising costs are expensed as incurred.

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

Significant estimates and concentrations: U.S. GAAP requires disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Split-interest obligations: The Foundation has entered into a number of split-interest obligations that require estimation of the liability (recorded in annuities payable and trusts payable on the statements of financial position). The methods used in estimating these liabilities are discussed in Note 4. Events could occur that would materially change this estimated liability in the near term.

Investments: The Foundation has significant investments in securities, which are subject to price fluctuations. This risk is mitigated through a diversified portfolio and regular monitoring procedures.

Recent accounting pronouncements: Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606),* requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This guidance will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard permits the use of either the retrospective or cumulative effect transition method. In August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of ASU 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2018. The Foundation is evaluating the effect the standard will have on its financial statements and related disclosures. The Foundation has not yet selected a transition method and has not determined the effect of the standard on ongoing financial reporting.

In February 2016, the FASB issued ASU No. 2016-02 *Leases (Topic 842).* The guidance in this ASU supersedes the leasing guidance in ASC Topic 840, Leases*.* Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal year 2020. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Foundation is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

In August 2016, the FASB issued 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 Foundation’s fiscal year ending June 30, 2019. Management is in the process of evaluating the impact of this new guidance.

Subsequent events: The Foundation has evaluated events that occurred after June 30, 2017, but prior to October 3, 2017, the date the financial statements were issued. The Foundation did not identify any events or transactions during this period that require recognition or disclosure in the financial statements for the year ended June 30, 2017.

Note 2. Fair Value of Financial Instruments

Fair value measurements: The Foundation accounts for financial instruments using the standards included in ASC Topic 820, Fair Values Measurements and Disclosures. This topic provides a framework for measuring fair value under generally accepted accounting principles and applies to all financial instruments that are being measured and reported on a fair value basis.

As defined in ASC 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Foundation uses various methods, including market, income and cost approaches. Based on these approaches, the Foundation often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Foundation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Foundation is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values.

Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes United States agency securities, municipal bonds and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2: Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities.

Level 3: Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models, and similar techniques, and not based on market exchange, dealer or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

For the years ended June 30, 2017 and 2016, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation methodologies used for instruments measured at fair value:

Investment securities: The fair value of investment securities is the market value based on quoted market prices when available, or market prices provided by recognized broker-dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument. For the years ended June 30, 2017 and 2016, securities held by the Foundation are classified as Level 1 and Level 2.

Alternative investments: The fair value of alternative investments is measured at net asset value (NAV) using the practical expedient.

Annuities and trusts payable: The fair value of annuities and trusts payable is at respective present values, based on the life expectancies of any live beneficiaries.

Note 2. Fair Value of Financial Instruments (Continued)

The following tables summarize assets and liabilities measured at fair value on a recurring basis as of June 30, 2017 and 2016, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	June 30, 2017				
	Level 1	Level 2	Level 3	Investments Valued at Net Asset Value	Total
Investment:					
Common stock:					
Small cap	$ 732,332	$ -	$ -	$ -	$ 732,332
Mid cap	6,735,617	-	-	-	6,735,617
Large cap	29,192,733	-	-	-	29,192,733
Preferred stock	225,442	-	-	-	225,442
Exchange-traded fund	3,423,550	-	-	-	3,423,550
Emerging market equities	5,589,682	-	-	-	5,589,682
European equities	95,864	-	-	-	95,864
International equities other	4,748,437	-	-	-	4,748,437
U.S. equity other	18,970,631	-	-	-	18,970,631
Mutual funds	10,752,501	-	-	-	10,752,501
Treasury security	8,474,240	-	-	-	8,474,240
Federal agency	4,855,688	702,390	-	-	5,558,078
Corporate bonds	11,521,843	8,262	-	-	11,530,105
Municipal bonds	-	14,789	-	-	14,789
Sovereign states	-	375,821	-	-	375,821
Bank deposits	571,540	-	-	-	571,540
Alternative investments:					
Managed futures	-	-	-	10,961,902	10,961,902
Limited partnerships	-	-	-	8,611,692	8,611,692
Limited liability company	-	-	-	1,080,631	1,080,631
Total investments	$ 105,890,100	$ 1,101,262	$ -	$ 20,654,225	$ 127,645,587
Annuities payable	$ -	$ -	$ 4,704,087	$ -	$ 4,704,087
Trusts payable	$ -	$ -	$ 10,333,297	$ -	$ 10,333,297

Note 2. Fair Value of Financial Instruments (Continued)

June 30, 2016	Level 1	Level 2	Level 3	Investments Valued at Net Asset Value	Total
Investment:					
Common stock:					
Small cap	$ 9,273,891	$ -	$ -	$ -	$ 9,273,891
Large cap	13,303,762	-	-	-	13,303,762
Preferred stock	441,652	-	-	-	441,652
Mutual funds	18,222,682	-	-	-	18,222,682
U.S. agency securities	4,906,707	-	-	-	4,906,707
Corporate bonds	16,454,595	26,981	-	-	16,481,576
Municipal bonds	823,077	506,027	-	-	1,329,104
Mortgage-backed securities	3,216,438	2,433,832	-	-	5,650,270
Pooled investments—mutual funds	-	14,306,516	-	-	14,306,516
Alternative investments:					
Limited partnerships	-	-	-	13,447,373	13,447,373
Limited liability company	-	-	-	771,810	771,810
Total investments	$ 66,642,804	$ 17,273,356	$ -	$ 14,219,183	$ 98,135,343
Annuities payable	$ -	$ -	$ 4,836,797	$ -	$ 4,836,797
Trusts payable	$ -	$ -	$ 9,728,728	$ -	$ 9,728,728

The changes in Level 3 liabilities measured at fair value on a recurring basis as of June 30, 2017, are summarized as follows:

	Annuities Payable	Trusts Payable
Balance, July 1, 2016	$ 4,836,797	$ 9,728,728
Gifts	94,387	74,305
Sales/distributions	(645,114)	(1,244,326)
Realized and unrealized gains	418,017	1,774,590
Balance, June 30, 2017	$ 4,704,087	$ 10,333,297

The changes in Level 3 liabilities measured at fair value on a recurring basis as of June 30, 2016, are summarized as follows:

	Annuities Payable	Trusts Payable
Balance, July 1, 2015	$ 4,861,870	$ 9,197,059
Gifts	96,600	1,160,419
Sales/distributions	(637,376)	(1,204,873)
Realized and unrealized gains	515,703	576,123
Balance, June 30, 2016	$ 4,836,797	$ 9,728,728

Note 2. Fair Value of Financial Instruments (Continued)

The following tables set forth additional disclosures of the Foundation's investments whose fair value is estimated using NAV per share (or its equivalent) as of June 30, 2017 and 2016:

Investment	Fair Value at June 30 2016	Fair Value at June 30 2017	Unfunded Commitment at June 30, 2017	Redemption Frequency	Redemption Notice Period
Managed futures (A):					
ACL Alternative Fund	$ -	$ 4,734,109	$ -	N/A	N/A
Limited partnerships (B):					
Molpus Woodlands Fund III LP	6,090,190	6,227,793	-	N/A	N/A
HarbourVest Partners Fund IX LP	3,187,759	3,552,830	1,507,500	N/A	N/A
Edgewater Private Equity Fund III, LP	135,180	142,315	-	N/A	N/A
Trumbull Property Growth & Income Fund	4,034,244	4,541,743	-	N/A	N/A
Accion Frontier Inclusion Fund	-	374,804	611,259	N/A	N/A
Limited liability company (C):					
Alwin LLC	44,217	40,031	-	N/A	N/A
Legacy Venture VII LLC	727,593	1,040,600	647,500	N/A	N/A
	$ 14,219,183	$ 20,654,225	$ 2,766,259		

(A) ACL Alternative Fund is a segregated account and was incorporated as an open-ended investment company in Bermuda on January 4, 2002.

(B) These limited partnerships have different investment objectives. The largest focuses on timberland investments, and the others focus on private equity companies and other limited partnerships.

(C) Legacy Venture VII LLC invests in a select group of top venture capital funds that in turn invest in promising companies, and Alwin LLC was formed for the purposes of owning, operating and developing real property.

In connection with the alternative investments noted above, the Foundation is obligated under the investment contracts to advance funding up to contractual levels, upon call by the general partner. The remaining commitments to be funded, which include commitments to unfunded partnerships, were $2,766,259 and $3,912,500 at June 30, 2017 and 2016, respectively.

Note 3. Annuities and Trusts Payable

The Foundation has been the recipient of gift annuities that require future payments to the donor or their named beneficiaries. The contributed assets received from the donor are recorded at fair value. The Foundation had a liability at June 30, 2017 and 2016, of $4,704,087 and $4,836,797, respectively, which represents the present value of the estimated future annuity obligations. The liability has been determined using mortality tables and the applicable federal rate in effect at the time the contribution was made. In accordance with state regulations regarding annuities, the Foundation maintains an annuity reserve to ensure assets are available to meet annuity obligations. Assets of the annuity reserve are included in cash and cash equivalents, interest receivable, investments, and certificate of deposit on the statements of financial position as of June 30, 2017 and 2016, for a total reserve balance of approximately $7,570,000 and $7,620,000, respectively.

Note 3. Annuities and Trusts Payable (Continued)

The Foundation administers various charitable remainder trusts. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the designated beneficiary's lifetime or a stated term. At the end of the trust's term, a portion or all of the remaining assets are available for the Foundation's use based upon the donor's designation at the time of the establishment of the trust. The portion of the trust attributable to the future interest of the Foundation is recorded in the statements of activities as permanently restricted contributions in the period the trust is established. Assets held in the charitable remainder trusts are recorded at fair value in the Foundation's statement of financial position. On an annual basis, the Foundation revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments is calculated using the applicable IRS section 752 federal interest rate in effect at the time of the contribution and applicable mortality tables. At June 30, 2017 and 2016, the Foundation had recorded $10,333,297 and $9,728,728, respectively, in trust liabilities due to the beneficiaries for the remainder of the stated or expected term of the trust.

In addition, the Foundation calculates the liability for any portion of the remaining assets of the trust or annuity's term that is due to other organizations. This liability is recorded by the Foundation as refundable advances. The portion of refundable advances related to trust and annuity agreements was approximately $4,250,000 and $4,281,000 as of June 30, 2017 and 2016, respectively. The remaining balance in refundable advances on the accompanying statements of financial position relates to interest-free loans, agency funds and advised gift funds.

Note 4. Net Assets

Temporarily restricted net assets: Temporarily restricted net assets at June 30 are available for the following purposes and represent unappropriated earnings on permanent endowments:

	2017	2016
Countries and international programs	$ 1,562,389	$ 932,792
Country matching	393,288	226,021
HPI ranch and farm operation	100,088	96,591
Animals	393,925	242,802
Training	167,449	165,545
Education	190,214	183,018
Women in livestock development program	97,649	93,594
Other HPI activities	4,747,321	2,367,846
Total	$ 7,652,323	$ 4,308,209

Note 4. Net Assets (Continued)

Permanently restricted net assets: Permanently restricted net assets of which the income is expendable to support at June 30 are restricted to the following:

	2017	2016
Any activity of the Foundation or HPI	$ 69,213,730	$ 67,400,489
Countries and international programs	23,300,185	5,256,948
Country matching	2,650,857	2,650,857
HPI ranch and farm operation	549,202	549,202
Animals	1,404,624	1,397,500
Training	118,609	118,609
Education	580,319	580,319
Women in livestock development program	568,833	515,188
Other	1,222,279	1,189,868
Total	$ 99,608,638	$ 79,658,980

Net assets released from restrictions: Net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes or by occurrence of other events specified by donors for the years ended June 30:

	2017	2016
Purpose restrictions accomplished:		
Countries and international programs	$ 343,949	$ 342,339
Country matching	46,935	46,441
HPI ranch and farm operations	30,242	32,436
Animals	97,681	98,282
Training	17,943	17,709
Education	46,360	45,797
Women in livestock development program	25,590	27,832
Other	60,896	77,193
Endowment income appropriated	800,125	925,955
Total	$ 1,469,721	$ 1,613,984

Note 5. Investment Return

Total investment return for the years ended June 30, 2017 and 2016, is composed of the following:

	2017	2016
Interest and dividend income	$ 1,762,510	$ 1,503,405
Net realized and unrealized returns on investments reported at fair value	9,049,110	168,209
Investment management fee	(587,216)	(565,069)
	$ 10,224,404	$ 1,106,545

Note 6. Related-Party Transactions

The Foundation and HPI are financially interrelated organizations. HPI authorizes the Foundation to solicit contributions on its behalf. In the absence of donor restrictions, the Foundation has discretionary control over the amounts and timing of its distributions to HPI.

The Foundation incurs various program-related costs during the year. The most significant of these costs are contributions to HPI. The Foundation's contributions to HPI during the years ended June 30 are reported in the Foundation's financial statements as program services as follows:

	2017	2016
Unrestricted	$ 717,928	$ 1,055,366
Contributions temporarily restricted for:		
Countries and international programs	444,196	437,664
Education properties operations and maintenance	27,594	27,945
Education and training	27,061	26,647
Country matching	140,987	139,481
Other purposes	85,585	82,101
	$ 1,443,351	$ 1,769,204

The Foundation and HPI both receive contributions in the form of testamentary bequests wherein HPI is named a beneficiary. HPI may at their discretion transfer undesignated bequests where HPI is listed as the beneficiary to the Foundation, unless otherwise restricted by the donor. A portion of these bequests was transferred to the Foundation and recorded by the Foundation as contributions to permanently restricted endowments amounting to $749,997 and $4,367,161 for the years ended June 30, 2017 and 2016, respectively.

In addition, the Foundation has contracted for services from HPI, such as access to certain information systems and support, marketing services, and processing of payroll and accounts payable. The Foundation paid HPI $97,917 and $31,438 for providing these services during the years ended June 30, 2017 and 2016, respectively. In October 2010, the Foundation entered into a lease agreement with HPI, with a term of three years and options to extend for up to an additional four years. In accordance with the lease agreement, the Foundation paid $34,987 and $36,193 in rent expense for the years ended June 30, 2017 and 2016, respectively.

The Foundation's Board of Trustees has agreed to make available up to $8 million or 10 percent of endowment assets, whichever is greater, as a line of credit to HPI as of June 30, 2017 and 2016. The amount available as a line of credit to HPI as of June 30, 2017 and 2016, was $8 million. Draws against the line accrue interest at an agreed-upon interest rate no greater than prime as set by Regions Bank. During the years ended June 30, 2017 and 2016, HPI made no draws under the line-of-credit arrangement and, therefore, paid no interest to the Foundation.

Note 7. Retirement Plans

The Foundation sponsors a defined contribution retirement plan (the Plan) that covers substantially all employees of the Foundation. The employer contributions to the Plan are discretionary. The Foundation contributed $31,185 and $30,016 to the Plan for the years ended June 30, 2017 and 2016, respectively.

Note 8. Endowments

The Foundation accounts for endowments using the standards included in the Not-for-Profit Entities topic of the ASC, as well as UPMIFA.

As of June 30, 2017 and 2016, the Foundation administers approximately 1,000 endowments, most of which are donor-restricted endowment funds, and the remainder are funds designated by the Board of Trustees to function as endowments. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law: The Board of Trustees of the Foundation has interpreted 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 Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Board of Trustees of the Foundation 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:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment and spending policies of the organization

Endowment net asset composition by type of fund as of June 30, 2017, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds and related earnings	$ (10,486,764)	$ 7,652,323	$ 97,735,285	$ 94,900,844
Board-designated endowment funds and related earnings	9,311,096	-	-	9,311,096
Total endowment	$ (1,175,668)	$ 7,652,323	$ 97,735,285	$ 104,211,940

Note 8. Endowments (Continued)

Changes in endowment net assets for the year ended June 30, 2017, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (4,678,057)	$ 4,308,209	$ 77,148,698	$ 76,778,850
Investment return	6,319,615	3,344,114		9,663,729
Contributions	-	-	20,586,587	20,586,587
Current-year board designations	102,329	-	-	102,329
Appropriations of endowment assets for expenditures	(2,919,555)	-	-	(2,919,555)
Endowment net assets, end of year	$ (1,175,668)	$ 7,652,323	$ 97,735,285	$ 104,211,940

Endowment net asset composition by type of fund as of June 30, 2016, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds and related earnings	$ (13,745,578)	$ 4,308,209	$ 77,148,698	$ 67,711,329
Board-designated endowment funds and related earnings	9,067,521	-	-	9,067,521
Total endowment	$ (4,678,057)	$ 4,308,209	$ 77,148,698	$ 76,778,850

Changes in endowment net assets for the year ended June 30, 2016, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (4,844,360)	$ 5,577,007	$ 72,209,248	$ 72,941,895
Investment return	961,580	345,186	-	1,306,766
Contributions	-	-	4,939,450	4,939,450
Current-year board designations	628,232	-	-	628,232
Appropriations of endowment assets for expenditures	(1,423,509)	(1,613,984)	-	(3,037,493)
Endowment net assets, end of year	$ (4,678,057)	$ 4,308,209	$ 77,148,698	$ 76,778,850

Funds 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 Foundation to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature that are reported in unrestricted net assets were $10,489,160 and $13,745,578 as of June 30, 2017 and 2016, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred in previous years.

Note 8. Endowments (Continued)

Risk objectives and risk parameters: The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of attributed earnings to HPI and to support the current and future operations of the Foundation. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce an average annual return, net of investment manager fees and after inflation, which will grow the investment over a reasonable time period and preserve the purchasing power of the assets. Actual returns in any given year may vary from this objective.

Strategies employed for achieving objectives: To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending policy and how the investment objectives relate to spending policy: The Foundation has a policy of making available for appropriation 5 percent of the average market value of the income-producing assets in restricted-use endowments as attributed income to HPI for the immediately following fiscal year. Average market value is calculated based on the market value as of the three preceding calendar year-ends. Additionally, the Foundation funded its operating budget for the years ended June 30, 2017 and 2016, with no more than 2.905 percent and 2.652 percent, respectively, of the three-year rolling average of the calendar year-end market value of undesignated endowment funds. Further, the Foundation made available 3.095 percent and 3.348 percent for distribution to HPI for the years ended June 30, 2017 and 2016, respectively, from undesignated endowment funds. In establishing this policy, the Foundation considered the long-term expected return and goals of the endowment. This policy can be revised at the discretion of the Board of Trustees.

Note 9. Concentrations

The Foundation receives contributions primarily from individuals and estates in the form of cash and bequests. During the year ended June 30, 2017, the Foundation received approximately $18 million in contributions from one estate, which represents approximately 88 percent of total contributions to the endowment.

Heifer International Foundation

Supplementary Schedule of Functional Expenses
Year Ended June 30, 2017

	Program Services	Management and General	Fundraising	Total Expenses
Salaries and wages	$ 36,050	$ 466,945	$ -	$ 502,995
Employee benefits	9,354	121,145	-	130,499
Total salaries, wages and related expenses	45,404	588,090	-	633,494
Disbursements to HPI	1,443,351	-	-	1,443,351
Supplies, printing and promotion	6,126	27,863	2,228	36,217
Travel, conference and meetings	4,593	84,142	-	88,735
Professional and consulting	7,757	154,482	245	162,484
Equipment rental and maintenance	355	4,569	4	4,928
Occupancy costs	2,531	32,376	80	34,987
Facility costs	239	3,722	2	3,963
Support and other service	3,235	81,531	1,239	86,005
Personnel expenses	860	11,142	-	12,002
Total	$ 1,514,451	$ 987,917	$ 3,798	$ 2,506,166

Heifer International Foundation

Supplementary Schedule of Functional Expenses
Year Ended June 30, 2016

	Program Services	Management and General	Fundraising	Total Expenses
Salaries and wages	$ 38,248	$ 345,465	$ -	$ 383,713
Employee benefits	10,292	92,956	-	103,248
Total salaries, wages and related expenses	48,540	438,421	-	486,961
Disbursements to HPI	1,769,204	-	-	1,769,204
Supplies, printing and promotion	7,319	30,096	2,262	39,677
Travel, conference and meetings	4,146	47,985	-	52,131
Professional and consulting	3,244	48,383	33	51,660
Equipment rental and maintenance	610	5,519	2	6,131
Occupancy costs	3,576	32,544	76	36,196
Facility costs	178	1,952	-	2,130
Depreciation	623	5,666	13	6,302
Support and other service	2,260	80,980	400	83,640
Personnel expenses	1,179	10,649	-	11,828
Total	$ 1,840,879	$ 702,195	$ 2,786	$ 2,545,860

Supplementary Schedules of Annuity Reserve Assets

The following disclosures were made in accordance with the disclosure requirements of the Arkansas Code of 1987 Annotated Official Edition 23-63-201. At June 30, 2017, the Foundation's charitable gift annuities were composed of the following:

The annuity reserve assets included the following:		
Money market funds	$	135,445
Interest and dividends receivable		38,230
U.S. Treasury securities		3,558,008
Corporate bonds		2,914,831
Mutual funds		927,718
Annuity reserve assets		7,574,232
Annuities payable		(4,704,087)
Annuity surplus	$	2,870,145

At June 30, 2016, the Foundation's charitable gift annuities were composed of the following:

The annuity reserve assets included the following:		
Money market funds	$	111,077
Interest and dividends receivable		58,868
U.S. Treasury securities		1,459,316
Preferred stocks		118,492
Municipal bonds		543,755
Mortgage-backed securities		1,004,209
Corporate bonds		4,001,308
Mutual funds		322,953
Annuity reserve assets		7,619,978
Annuities payable		(4,836,797)
Annuity surplus	$	2,783,181

The Foundation has elected the reserve valuation method for establishing its annuity reserves.

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