Heifer International Foundation

Financial Report
June 30, 2019

Contents

Independent Auditor's Report

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, 2019 and 2018, 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, 2019 and 2018, 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.

Emphasis of Matter

As described in Note 1, Heifer International Foundation adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of the Financial Statements of Not-for-Profit Entities*, during the current fiscal year. The adoption of the standard resulted in an additional footnote disclosure and significant changes to the classification of net assets and the disclosures related to net assets. The adoption was retrospectively applied to June 30, 2018, the earliest year presented. Our opinion is not modified with respect to this matter.

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, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018, is fairly stated in all material respects in relation to the financial statements as a whole.

RSM US LLP

Kansas City, Missouri
September 26, 2019

Heifer International Foundation

Statements of Financial Position
June 30, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	**$ 4,417,283**	$ 11,607,369
Contributions and bequests receivable	**330,365**	430,365
Related-party receivable	**5,558,759**	-
Prepaid expenses and other assets	**207,033**	208,204
Investments (Note 3)	**147,389,437**	133,361,316
Total assets	**$ 157,902,877**	$ 145,607,254
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	**$ 499,391**	$ 201,569
Annuities payable (Note 4)	**4,683,400**	4,943,003
Trusts payable (Note 4)	**11,239,588**	11,087,703
Refundable advances	**5,156,169**	5,132,950
Total liabilities	**21,578,548**	21,365,225
Net assets:		
Without donor restrictions:		
Board-designated	**10,734,546**	9,355,780
Undesignated	**(1,372,002)**	(2,602,393)
Total net assets without donor restrictions	**9,362,544**	6,753,387
With donor restrictions (Notes 5 and 9)	**126,961,785**	117,488,642
Net assets	**136,324,329**	124,242,029
Total liabilities and net assets	**$ 157,902,877**	$ 145,607,254

See notes to financial statements.

Heifer International Foundation

Statement of Activities
Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, gains and other support:			
Contributions:			
General	$ 1,046,567	$ 3,262,577	$ 4,309,144
Annuities and trusts	-	626,658	626,658
Investment return (Note 6)	1,897,993	8,912,641	10,810,634
Change in split-interest obligations	-	(607,068)	(607,068)
Net assets released from restrictions	2,721,665	(2,721,665)	-
Total revenue, gains and other support	5,666,225	9,473,143	15,139,368
Expenses:			
Program services (Note 7)	1,655,472	-	1,655,472
Management and general	1,401,596	-	1,401,596
Total expenses	3,057,068	-	3,057,068
Change in net assets	2,609,157	9,473,143	12,082,300
Net assets, beginning of year	6,753,387	117,488,642	124,242,029
Net assets, end of year	$ 9,362,544	$ 126,961,785	$ 136,324,329

See notes to financial statements.

Heifer International Foundation

Statement of Activities
Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, gains and other support:			
Contributions:			
General	$ 22,979	$ 7,516,669	$ 7,539,648
Annuities and trusts	-	1,021,464	1,021,464
Investment return (Note 6)	270,639	4,141,288	4,411,927
Change in split-interest obligations	-	(155,989)	(155,989)
Net assets released from restrictions	2,295,751	(2,295,751)	-
Total revenue, gains and other support	2,589,369	10,227,681	12,817,050
Expenses:			
Program services (Note 7)	1,246,721	-	1,246,721
Management and general	1,053,320	-	1,053,320
Fundraising	3,353	-	3,353
Total expenses	2,303,394	-	2,303,394
Change in net assets	285,975	10,227,681	10,513,656
Net assets, beginning of year	6,467,412	107,260,961	113,728,373
Net assets, end of year	$ 6,753,387	$ 117,488,642	$ 124,242,029

See notes to financial statements.

Heifer International Foundation

Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	**$ 12,082,300**	$ 10,513,656
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Net realized and unrealized gain on investment portfolio	**(8,071,017)**	(2,640,787)
Change in value of split-interest obligations	**607,068**	155,989
Contributions of investments	**(171,872)**	(637,984)
Contributions received restricted for long-term investment	**(3,889,235)**	(8,538,133)
Changes in operating assets and liabilities:		
Contributions and bequests receivable	**100,000**	(100,000)
Related-party receivable	**(6,080,500)**	-
Prepaid expenses and other assets	**1,171**	(10,909)
Accounts payable and accrued liabilities	**297,822**	20,834
Refundable advances	**23,219**	200,555
Annuities and trusts payable	**1,334,100**	2,846,413
Total adjustments	**(15,849,244)**	(8,704,022)
Net cash (used in) provided by operating activities	**(3,766,944)**	1,809,634
Cash flows from investing activities:		
Purchase of investments	**(32,264,702)**	(33,164,925)
Proceeds from disposition of investments	**26,479,470**	30,727,967
Net cash used in investing activities	**(5,785,232)**	(2,436,958)
Cash flows from financing activities:		
Payments received on related-party receivable	**521,741**	-
Contributions restricted for annuities and trusts	**626,658**	1,021,464
Contributions restricted for endowments	**3,262,577**	7,516,669
Payments on split-interest obligations	**(2,048,886)**	(2,009,080)
Net cash provided by financing activities	**2,362,090**	6,529,053
(Decrease) increase in cash and cash equivalents	**(7,190,086)**	5,901,729
Cash and cash equivalents:		
Beginning of year	**11,607,369**	5,705,640
End of year	**$ 4,417,283**	$ 11,607,369

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 raise and oversee financial assets to support 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, 2019 and 2018, cash equivalents consisted primarily of money market funds.

Investments and investment return: Investments are carried at fair value determined by quoted prices or other 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 net assets with donor restrictions is generally reported as 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 without donor restrictions until such deficiency is eliminated. Other investment return is reflected in the statements of activities as without donor restrictions.

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. Bequest receivables 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, 2019 and 2018. 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.

Related-party receivable: Related-party receivables are stated at the amount due from related or other parties. Draws on the notes are recorded as paid and interest is recorded as received. As of June 30, 2019, the Foundation had a note receivable balance with HPI of $5,133,259 with an interest rate of 3.5%. The note matures in November 2023. Additionally, HPI drew $425,500 on HPI's $7.5 million line of credit with the Foundation with an interest rate of 3%. Interest payments on the draw are made monthly.

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

Basis of presentation: The financial statements of the Foundation have been prepared on the accrual basis of accounting. In fiscal year 2019, the Foundation adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 985): Presentation of Financial Statements of Not-for-Profit Entities*. The new standard changes presentation and disclosure requirements with the intention of helping nonprofits provide more relevant information about their resources to donors, grantors, creditors and other financial statement users. This pronouncement decreases the number of net asset classes from three to two. The new classes are “net assets without donor restrictions” and “net assets with donor restrictions.” The changes in this new standard have been reflected in the financial statements for the fiscal years ended June 30, 2019 and 2018.

Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

***Net assets without donor restrictions*:** Net assets are classified as without donor restrictions if they are not subject to donor-imposed stipulations and are available to support the operations of the Foundation.

Board-designated net assets without donor restrictions: Net assets are classified as without donor restrictions, 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.

***Net assets with donor restrictions*:** Net assets with donor restrictions 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 restrict net investment income and gains until appropriated for expenditure.

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, 2019 or 2018.

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 3.

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

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.

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) 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.

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

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)*. ASU 2016-15 provides guidance on how certain cash receipts and cash payments should be presented and classified in the statement of cash flows with the objective of reducing existing diversity in practice with respect to these items. ASU 2016-15 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 Foundation on July 1, 2020. Early adoption is permitted. ASU 2016-15 requires a retrospective transition method. However, if it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The Foundation is currently evaluating the impact the adoption of this guidance will have on its statements of cash flows.

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 Foundation on July 1, 2020. The Foundation is currently evaluating the impact the adoption of this guidance will have on its financial statements.

Subsequent events: The Foundation has evaluated events that occurred after June 30, 2019, but prior to September 26, 2019, 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, 2019.

Note 2. Liquidity and Availability

The Foundation regularly monitors liquidity required to meet its annual operating needs and other contractual commitments while also striving to maximize the return on investment of its funds not required for annual operations. As of June 30, 2019, the following financial assets are available to meet operating needs of the 2020 fiscal year:

Financial assets at year-end:	
Cash and cash equivalents	$ 4,417,283
Contributions and bequests receivable	330,365
Related-party receivable	5,558,759
Prepaid expenses and other assets	207,033
Investments	147,389,437
Total financial assets	157,902,877
Less amounts not available to be used within one year:	
Contributions and bequests receivable	330,365
Related-party receivable less current portion	4,346,310
Prepaid expenses and other assets	207,033
Total nonfinancial assets	4,883,708
Contractual or donor-imposed restrictions:	
Contractual alternative investments	24,021,956
Mutual funds being held for annuity obligations	6,346,398
Treasury securities being held for annuity obligations	3,607,510
Corporate bonds being held for annuity obligations	2,718,655
Total contractual or donor-imposed restrictions	36,694,519
Board-designated funds not authorized for expenditure within one year:	
Board-designated for endowment	10,734,546
Financial assets not available to be used within one year	52,312,773
Financial assets available to meet general expenditures within one year	$ 105,590,104

The Foundation has various sources of liquidity at its disposal, including cash and cash equivalents and investments. See Note 3 for information about the Foundation's investments.

Note 3. Fair Value of Financial Instruments

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

Note 3. Fair Value of Financial Instruments (Continued)

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 are 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 are 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 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, 2019 and 2018, 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, 2019 and 2018, 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 3. 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, 2019 and 2018, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	June 30, 2019				
	Level 1	Level 2	Level 3	Investments Valued at Net Asset Value	Total
Investment:					
Common stock:					
Small cap	$ 649,860	$ -	$ -	$ -	$ 649,860
Mid cap	8,203,547	-	-	-	8,203,547
Large cap	33,989,259	-	-	-	33,989,259
Exchange-traded fund	2,819,563	-	-	-	2,819,563
Equity long-short	5,282,066	-	-	-	5,282,066
Emerging market equities	6,801,779	314,960	-	-	7,116,739
European equities	137,856	-	-	-	137,856
International equities other	5,430,945	-	-	-	5,430,945
U.S. equity other	21,304,591	-	-	-	21,304,591
Mutual funds	7,788,181	-	-	-	7,788,181
Treasury security	14,047,900	752,228	-	-	14,800,128
Corporate bonds	11,044,254	-	-	-	11,044,254
Municipal bonds	1,258	3,775	-	-	5,033
Alternative investments:					
Managed futures	-	-	-	4,795,459	4,795,459
Limited partnerships	-	-	-	20,634,876	20,634,876
Limited liability companies	-	-	-	2,486,035	2,486,035
Private limited company	-	-	-	901,045	901,045
Total investments	$ 117,501,059	$ 1,070,963	$ -	$ 28,817,415	$ 147,389,437
Annuities payable	$ -	$ -	$ 4,683,400	$ -	$ 4,683,400
Trusts payable	$ -	$ -	$ 11,239,588	$ -	$ 11,239,588

Note 3. Fair Value of Financial Instruments (Continued)

	June 30, 2018				
	Level 1	Level 2	Level 3	Investments Valued at Net Asset Value	Total
Investment:					
Common stock:					
Small cap	$ 683,290	$ -	$ -	$ -	$ 683,290
Mid cap	8,131,105	-	-	-	8,131,105
Large cap	31,061,106	-	-	-	31,061,106
Exchange-traded fund	2,891,125	-	-	-	2,891,125
Equity long-short	4,799,181	-	-	-	4,799,181
Emerging market equities	6,574,038	357,411	-	-	6,931,449
European equities	115,208	-	-	-	115,208
International equities other	4,961,328	-	-	-	4,961,328
U.S. equity other	20,611,227	12,882	-	-	20,624,109
Mutual funds	5,851,620	-	-	-	5,851,620
Treasury security	12,549,366	561,174	-	-	13,110,540
Corporate bonds	12,217,260	-	-	-	12,217,260
Municipal bonds	-	11,558	-	-	11,558
Alternative investments:					
Managed futures	-	-	-	4,738,332	4,738,332
Limited partnerships	-	-	-	15,457,789	15,457,789
Limited liability companies	-	-	-	1,776,316	1,776,316
Total investments	$ 110,445,854	$ 943,025	$ -	$ 21,972,437	$ 133,361,316
Annuities payable	$ -	$ -	$ 4,943,003	$ -	$ 4,943,003
Trusts payable	$ -	$ -	$ 11,087,703	$ -	$ 11,087,703

The changes in Level 3 liabilities measured at fair value on a recurring basis as of June 30, 2019, are summarized as follows:

	Annuities Payable	Trusts Payable
Balance, July 1, 2018	$ 4,943,003	$ 11,087,703
Gifts	74,481	302,248
Sales/distributions	(638,068)	(1,410,819)
Realized and unrealized gains	303,984	1,260,456
Balance, June 30, 2019	$ 4,683,400	$ 11,239,588

Note 3. Fair Value of Financial Instruments (Continued)

The changes in Level 3 liabilities measured at fair value on a recurring basis as of June 30, 2018, are summarized as follows:

	Annuities Payable	Trusts Payable
Balance, July 1, 2017	$ 4,704,087	$ 10,333,297
Gifts	491,196	845,453
Sales/distributions	(660,112)	(1,348,968)
Realized and unrealized gains	407,832	1,257,921
Balance, June 30, 2018	$ 4,943,003	$ 11,087,703

The following table sets forth additional disclosures of the Foundation's investments whose fair value is estimated using NAV per share (or its equivalent) as of June 30, 2019 and 2018:

	Fair Value at June 30		Unfunded		
Investment	2019	2018	Commitment at June 30, 2019	Redemption Frequency	Redemption Notice Period
Managed futures (A):					
ACL Alternative Fund	$ 4,795,459	$ 4,738,332	$ -	N/A	N/A
Limited partnerships (B):					
Molpus Woodlands Fund III LP	5,775,637	6,037,464	-	N/A	N/A
HarbourVest Partners Fund IX LP	4,274,957	3,775,109	710,000	N/A	N/A
Edgewater Private Equity Fund III, LP	129,793	134,618	-	N/A	N/A
Trumbull Property Growth & Income Fund	5,403,968	4,899,617	-	N/A	N/A
Accion Frontier Inclusion Fund, LP	1,106,486	610,981	259,364	N/A	N/A
WaterCredit Investment Fund 3, LP	913,228	-	280,000	N/A	N/A
JPMorgan Infrastructure	2,500,000	-	-	N/A	N/A
Accion Venture Lab	530,807	-	469,193	N/A	N/A
Limited liability company (C):					
Alwin LLC	40,031	40,031	-	N/A	N/A
Legacy Venture VII LLC	2,446,004	1,736,285	87,500	N/A	N/A
Private limited company (D):					
SIMA Off-Grid Solar and Financial Access Senior Debt Fund I, B.V.	901,045	-	98,955	N/A	N/A
	$ 28,817,415	$ 21,972,437	$ 1,905,012		

(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.

(D) SIMA Off-Grid Solar and Financial Access Senior Debt Fund I, B.V., a private limited company incorporation under the laws of the Netherlands, focuses on integrating social and financial returns.

Note 3. Fair Value of Financial Instruments (Continued)

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 $1,905,012 and $1,697,969 at June 30, 2019 and 2018, respectively.

Note 4. 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, 2019 and 2018, of $4,683,400 and $4,943,003, 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, 2019 and 2018, for a total reserve balance of approximately $8,100,000 and $7,530,000, respectively.

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 statements 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, 2019 and 2018, the Foundation had recorded $11,239,588 and $11,087,703, 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 $3,100,000 and $4,400,000 as of June 30, 2019 and 2018, 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 5. Net Assets

Net assets with donor restrictions: Net assets with donor restrictions at June 30 are available for the following purposes:

	2019	2018
Net assets with donor restrictions of which the income is expendable to support any activity of the Foundation or HPI	$ 79,792,625	$ 77,549,331
Countries and international programs	30,175,741	25,497,146
Country matching	3,029,010	2,998,055
HPI ranch and farm operations	617,880	625,626
Animals	1,727,805	1,729,888
Training	266,696	270,874
Education	728,787	739,936
Women in livestock development program	772,528	746,099
Other	1,510,285	1,246,518
Endowment income appropriated	8,340,428	6,085,169
Total	$ 126,961,785	$ 117,488,642

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:

	2019	2018
Purpose restrictions accomplished:		
Countries and international programs	$ 396,569	$ 321,269
Country matching	146,575	156,149
HPI ranch and farm operations	22,383	28,870
Animals	74,970	93,088
Training	14,446	16,501
Education	38,447	42,701
Women in livestock development program	20,620	23,983
Other	57,137	64,576
Endowment income appropriated	1,950,518	1,548,614
Total	$ 2,721,665	$ 2,295,751

Note 6. Investment Return

Total investment return for the years ended June 30, 2019 and 2018, is composed of the following:

	2019	2018
Interest and dividend income	$ 3,426,782	$ 2,468,027
Net realized and unrealized returns on investments reported at fair value	8,071,017	2,640,787
Investment management fee	(687,165)	(696,887)
	$ 10,810,634	$ 4,411,927

Note 7. 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:

	2019	2018
Contributions without donor restrictions	$ 862,578	$ 564,158
Contributions restricted for:		
Countries and international programs	424,599	333,110
Education properties operations and maintenance	49,017	38,118
Education and training	21,444	21,843
Country matching	117,259	112,439
Other purposes	71,302	71,471
	$ 1,546,199	$ 1,141,139

The Foundation and HPI both receive contributions in the form of testamentary bequests wherein HPI is named a beneficiary. HPI may at its 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 restricted endowments amounting to $0 and $6,291,372 for the years ended June 30, 2019 and 2018, 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 $181,150 and $81,216 for providing these services during the years ended June 30, 2019 and 2018, 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 $36,193 and $37,280 in rent expense for the years ended June 30, 2019 and 2018, respectively.

The Foundation's Board of Trustees has agreed to make available up to $8 million or 10% of endowment assets, whichever is greater, as a line of credit to HPI as of June 30, 2019 and 2018. The amount available as a line of credit to HPI as of June 30, 2019 and 2018, was $12.6 million and $11.5 million, respectively. 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, 2019 and 2018, HPI made no draws under the line-of-credit agreement and, therefore, paid no interest to the Foundation.

In 2018, the Foundation's Board of Trustees approved an additional line of credit to HPI, which is only available to HPI for use with their impact ventures. The Foundation has agreed to make available up to $7.5 million. Draws against the line accrue interest at 3%. During the years ended June 30, 2019 and 2018, HPI drew $425,500 and $0 under the line-of-credit arrangement for impact ventures and, therefore, paid $6,291 of interest to the Foundation.

Note 8. 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 $45,021 and $37,643 to the Plan for the years ended June 30, 2019 and 2018, respectively.

Note 9. 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, 2019 and 2018, 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 net assets restricted in perpetuity (a) the original value of gifts donated to the donor-restricted endowment, (b) the original value of subsequent gifts to the donor-restricted endowment and (c) accumulations to the donor-restricted 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 net assets restricted in perpetuity is classified as restricted by time or purpose 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 Foundation 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 Foundation 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 Foundation
- The investment and spending policies of the Foundation

Endowment net asset composition by type of fund as of June 30, 2019, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds and related earnings	$ -	$ 115,318,139	$ 115,318,139
Board-designated endowment funds and related earnings	10,734,546	-	10,734,546
Total endowment	$ 10,734,546	$ 115,318,139	$ 126,052,685

Note 9. Endowments (Continued)

Changes in endowment net assets for the year ended June 30, 2019, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 9,355,780	$ 105,700,842	$ 115,056,622
Investment return	3,897,286	7,473,559	11,370,845
Contributions	-	2,143,738	2,143,738
Current-year board designations	1,046,567	-	1,046,567
Appropriations of endowment assets for expenditures	(3,565,087)	-	(3,565,087)
Endowment net assets, end of year	$ 10,734,546	$ 115,318,139	$ 126,052,685

Endowment net asset composition by type of fund as of June 30, 2018, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds and related earnings	$ -	$ 105,700,842	$ 105,700,842
Board-designated endowment funds and related earnings	9,355,780	-	9,355,780
Total endowment	$ 9,355,780	$ 105,700,842	$ 115,056,622

Changes in endowment net assets for the year ended June 30, 2018, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 9,311,096	$ 94,900,844	$ 104,211,940
Investment return	306,163	5,020,105	5,326,268
Contributions	-	8,354,213	8,354,213
Current-year board designations	22,979	-	22,979
Appropriations of endowment assets for expenditures	(284,458)	(2,574,320)	- (2,858,778)
Endowment net assets, end of year	$ 9,355,780	$ 105,700,842	$ 115,056,622

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 reflected in net assets with donor restrictions were $8,603,933 and $9,886,516 as of June 30, 2019 and 2018, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred in previous years.

Note 9. 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% 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, 2019 and 2018, with no more than 3.230% and 3.500%, respectively, of the three-year rolling average of the calendar year-end market value of undesignated endowment funds. Further, the Foundation made available 1.770% and 1.500% for distribution to HPI for the years ended June 30, 2019 and 2018, 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 10. Functional Expense Classification

The Not-for-Profit Entities topic of the ASC requires nonprofit organizations to disclose expenses by functional classification. The Foundation allocates expenses to the functional categories based on time studies and other methods. Expenses by functional classification for the year ended June 30, 2019, are as follows:

	Program Services	Management and General	Total Expenses
Salaries and wages	$ 47,878	$ 580,307	$ 628,185
Employee benefits	13,088	154,757	167,845
Total salaries, wages and related expenses	60,966	735,064	796,030
Disbursements to HPI	1,546,199	-	1,546,199
Supplies, printing and promotion	9,825	131,617	141,442
Travel, conference and meetings	9,006	148,016	157,022
Professional and consulting	18,097	233,008	251,105
Equipment rental and maintenance	449	5,442	5,891
Occupancy costs	2,432	33,761	36,193
Facility costs	324	4,053	4,377
Support and other service	7,686	104,316	112,002
Personnel expenses	488	6,319	6,807
Total	$ 1,655,472	$ 1,401,596	$ 3,057,068

Expenses by functional classification for the year ended June 30, 2018, are as follows:

	Program Services	Management and General	Fundraising	Total Expenses
Salaries and wages	$ 54,956	$ 496,436	$ 385	$ 551,777
Employee benefits	15,636	141,248	110	156,994
Total salaries, wages and related expenses	70,592	637,684	495	708,771
Disbursements to HPI	1,141,139	-	-	1,141,139
Supplies, printing and promotion	7,085	27,757	2,226	37,068
Travel, conference and meetings	9,793	112,626	69	122,488
Professional and consulting	8,610	122,056	82	130,748
Equipment rental and maintenance	610	5,518	6	6,134
Occupancy costs	3,689	33,513	78	37,280
Facility costs	234	2,148	2	2,384
Support and other service	1,808	83,459	374	85,641
Personnel expenses	3,161	28,559	21	31,741
Total	$ 1,246,721	$ 1,053,320	$ 3,353	$ 2,303,394

Heifer International Foundation

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, 2019, the Foundation's charitable gift annuities were composed of the following:

The annuity reserve assets included the following:	
Money market funds	$ 179,238
Interest and dividends receivable	45,167
U.S. Treasury securities	3,607,510
Corporate bonds	2,718,655
Mutual funds	1,553,035
Annuity reserve assets	8,103,605
Annuities payable	(4,683,400)
Annuity surplus	$ 3,420,205

At June 30, 2018, the Foundation's charitable gift annuities were composed of the following:

The annuity reserve assets included the following:	
Money market funds	$ 135,198
Interest and dividends receivable	41,439
U.S. Treasury securities	3,001,804
Corporate bonds	2,963,078
Mutual funds	1,392,039
Annuity reserve assets	7,533,558
Annuities payable	(4,943,003)
Annuity surplus	$ 2,590,555

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