# ARKANSAS COMMUNITY FOUNDATION, INC.

## COMBINED FINANCIAL STATEMENTS

June 30, 2018 and 2017

WITH

## INDEPENDENT AUDITOR'S REPORT

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HoganTaylor LLP
CPAs + ADVISORS

# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Arkansas Community Foundation, Inc.

**Report on the Combined Financial Statements**

We have audited the accompanying combined financial statements of Arkansas Community Foundation, Inc. and its combined affiliates, which comprise the combined statements of financial position as of June 30, 2018, the related combined statements of activities and cash flows for the year then ended, and the related notes to the combined financial statements.

**Management's Responsibility for the Combined Financial Statements**

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined financial statements based on our audit. We conducted our audit 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 combined financial statements are free from material misstatement.

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

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

**Opinion**

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Arkansas Community Foundation, Inc. and its combined affiliates as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

The combined financial statements of Arkansas Community Foundation, Inc. as of and for the year ended June 30, 2017, were audited by JPMS Cox PLLC (JPMS Cox). JPMS Cox merged with HoganTaylor LLP effective January 1, 2018. The JPMS Cox report dated November 8, 2017, expressed an unmodified opinion on those combined financial statements as of and for the year ended June 30, 2017.

HoganTaylor LLP

Little Rock, Arkansas
November 14, 2018

## ARKANSAS COMMUNITY FOUNDATION, INC.

## COMBINED STATEMENTS OF FINANCIAL POSITION

### June 30, 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 17,850,278 | $ 20,366,032 |
| Certificates of deposit | 259,874 | - |
| Contributions receivable (Notes 3 and 4) | 5,784,310 | 621,768 |
| Investments at fair value (Note 4) | 286,310,959 | 293,897,535 |
| Beneficial interests in charitable trusts, net of unamortized discount of $2,511,158 and $2,341,821 for 2018 and 2017, respectively (Notes 3 and 4) | 6,987,298 | 7,493,692 |
| Annuity insurance contracts receivable, net of unamortized discount of $22,386 and $18,152 for 2018 and 2017, respectively (Notes 3, 4, and 6) | 281,772 | 309,290 |
| Cash surrender value of life insurance | 442,561 | 668,080 |
| Other receivables (Note 3) | 2,000,000 | 2,003,723 |
| Investments at cost (Note 5) | 3,944,735 | 3,476,983 |
| Property and equipment, operating, net (Note 7) | 746,740 | 83,822 |
| Property and equipment, held-for-sale, net (Note 7) | 3,652,700 | 6,586,056 |
| Total assets | $ 328,261,227 | $ 335,506,981 |
| **Liabilities and Net Assets** | | |
| Liabilities: | | |
| Scholarships and other payables | $ 2,438,108 | $ 2,518,339 |
| Annuity contracts payable (Notes 4 and 6) | 538,481 | 586,730 |
| Agency arrangement liabilities (Note 4) | 38,285,238 | 34,051,556 |
| Total liabilities | 41,261,827 | 37,156,625 |
| Net assets: | | |
| Unrestricted: | | |
| Undesignated | 18,773,593 | 18,090,647 |
| Field of interest | 29,782,758 | 28,971,886 |
| Donor advised | 154,270,168 | 171,590,059 |
| Donor designated | 66,098,043 | 66,148,761 |
| Total unrestricted | 268,924,562 | 284,801,353 |
| Temporarily restricted | 18,074,838 | 13,549,003 |
| Total net assets | 286,999,400 | 298,350,356 |
| Total liabilities and net assets | $ 328,261,227 | $ 335,506,981 |

**ARKANSAS COMMUNITY FOUNDATION, INC.**

**COMBINED STATEMENT OF ACTIVITIES**

**Year ended June 30, 2018**

| | Unrestricted | Temporarily Restricted | Total |
|---|---|---|---|
| **Support and Revenue** | | | |
| Support: | | | |
| Contributions | $ 16,648,894 | $ 9,239,527 | $ 25,888,421 |
| Less amounts received on behalf of agency liabilities | (2,678,058) | - | (2,678,058) |
| Net contributions raised | 13,970,836 | 9,239,527 | 23,210,363 |
| Revenue: | | | |
| Interest and dividends | 5,520,845 | - | 5,520,845 |
| Realized and unrealized gains on investments, net | 11,301,922 | - | 11,301,922 |
| Change in value of beneficial interests in charitable trusts | (18,488) | 195,480 | 176,992 |
| Net revenue before allocation of investment income to agency liabilities | 16,804,279 | 195,480 | 16,999,759 |
| Less amount allocated to agency liabilities | (2,659,657) | - | (2,659,657) |
| Net revenue | 14,144,622 | 195,480 | 14,340,102 |
| Net assets released from restriction | 4,909,172 | (4,909,172) | - |
| Net support and revenue | 33,024,630 | 4,525,835 | 37,550,465 |
| Expenses: | | | |
| Grants and programs expenses: | | | |
| Grants distributed | 41,610,803 | - | 41,610,803 |
| Less amounts distributed on behalf of agency liabilities | (741,196) | - | (741,196) |
| Total grants | 40,869,607 | - | 40,869,607 |
| Program expenses | 3,447,369 | - | 3,447,369 |
| Total grant and program expenses | 44,316,976 | - | 44,316,976 |
| Other expenses: | | | |
| Impairment loss on property held for sale (Note 7) | 2,933,356 | - | 2,933,356 |
| Management and general | 775,274 | - | 775,274 |
| Development | 875,815 | - | 875,815 |
| Total other expenses | 4,584,445 | - | 4,584,445 |
| Total expenses | 48,901,421 | - | 48,901,421 |
| Change in net assets | (15,876,791) | 4,525,835 | (11,350,956) |
| Net assets, beginning of year | 284,801,353 | 13,549,003 | 298,350,356 |
| Net assets, end of year | $ 268,924,562 | $ 18,074,838 | $ 286,999,400 |

## ARKANSAS COMMUNITY FOUNDATION, INC.

## COMBINED STATEMENT OF ACTIVITIES

### Year ended June 30, 2017

| | Unrestricted | Temporarily Restricted | Total |
|---|---|---|---|
| **Support and Revenue** | | | |
| Support: | | | |
| Contributions | $ 48,018,838 | $ 4,919,115 | $ 52,937,953 |
| Less amounts received on behalf of agency liabilities | (3,407,975) | - | (3,407,975) |
| Net contributions raised | 44,610,863 | 4,919,115 | 49,529,978 |
| Revenue: | | | |
| Interest and dividends | 5,354,322 | - | 5,354,322 |
| Realized and unrealized losses on investments, net | 17,722,206 | - | 17,722,206 |
| Change in value of beneficial interests in charitable trusts | (7,220) | 70,083 | 62,863 |
| Net revenue before allocation of investment income to agency liabilities | 23,069,308 | 70,083 | 23,139,391 |
| Less amount allocated to agency liabilities | (2,818,425) | - | (2,818,425) |
| Net revenue | 20,250,883 | 70,083 | 20,320,966 |
| Net assets released from restriction | 2,913,236 | (2,913,236) | - |
| Net support and revenue | 67,774,982 | 2,075,962 | 69,850,944 |
| Expenses: | | | |
| Grants and program expenses: | | | |
| Grants distributed | 23,183,468 | - | 23,183,468 |
| Less amounts distributed on behalf of agency liabilities | (622,753) | - | (622,753) |
| Total grants | 22,560,715 | - | 22,560,715 |
| Program expenses | 2,611,007 | - | 2,611,007 |
| Total grant and program expenses | 25,171,722 | - | 25,171,722 |
| Other expenses: | | | |
| Management and general | 746,941 | - | 746,941 |
| Development | 660,633 | - | 660,633 |
| Total other expenses | 1,407,574 | - | 1,407,574 |
| Total expenses | 26,579,296 | - | 26,579,296 |
| Change in net assets | 41,195,686 | 2,075,962 | 43,271,648 |
| Net assets, beginning of year | 243,605,667 | 11,473,041 | 255,078,708 |
| Net assets, end of year | $ 284,801,353 | $ 13,549,003 | $ 298,350,356 |

**ARKANSAS COMMUNITY FOUNDATION, INC.**

**COMBINED STATEMENTS OF CASH FLOWS**

**Years ended June 30, 2018 and 2017**

| | 2018 | 2017 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Change in net assets | $ (11,350,956) | $ 43,271,648 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Contributions of investments and other assets | (2,181,295) | (1,027,274) |
| Contributions of property | (285,000) | - |
| Depreciation | 47,396 | 264,367 |
| Realized and unrealized gains on investments, net | (11,301,922) | (17,722,206) |
| Change in value of beneficial interests in charitable trusts | (176,992) | (62,863) |
| Change in value of cash surrender value of life insurance | 239,568 | - |
| Loss on disposal of property and equipment | 3,292 | 795 |
| Impairment of held for sale property | 2,933,356 | - |
| Changes in: | | |
| Contributions receivable | (5,162,542) | 5,853,468 |
| Beneficial interests in charitable trusts | 701,874 | 1,192,949 |
| Other receivables | 3,723 | (3,723) |
| Scholarships and other payables | (80,231) | (94,704) |
| Agency arrangement liabilities | 4,233,682 | 5,315,991 |
| Net cash (used in) provided by operating activities | (22,376,047) | 36,988,448 |
| **Cash Flows from Investing Activities** | | |
| Disbursement of other receivable | - | (1,000,000) |
| Purchase of property and equipment | (428,606) | (28,706) |
| Purchase of certificates of deposit | (259,874) | - |
| Purchase of investments | (123,347,502) | (114,192,589) |
| Sale of investments | 143,930,430 | 79,694,023 |
| Net purchases and payments received from annuity insurance contracts receivable | 56,181 | 56,180 |
| Net receipts from and payments on annuity contracts payable | (90,336) | (91,103) |
| Net cash provided by (used in) investing activities | 19,860,293 | (35,562,195) |
| Net (decrease) increase in cash and cash equivalents | (2,515,754) | 1,426,253 |
| Cash and cash equivalents, beginning of year | 20,366,032 | 18,939,779 |
| Cash and cash equivalents, end of year | $ 17,850,278 | $ 20,366,032 |
| **Noncash Activities** | | |
| Contributions of investments and other assets | $ 2,181,295 | $ 1,027,274 |
| Contributions of property, net | $ 285,000 | $ - |

See notes to combined financial statements.

## Note 1 – Organization

Arkansas Community Foundation, Inc. was incorporated in 1976 as the only statewide community foundation in Arkansas and today is one of the ten largest foundations and grant makers in the state of Arkansas. Arkansas Community Foundation, Inc. was established by a number of civic and philanthropic leaders from throughout Arkansas with leadership and initial resources from the Winthrop Rockefeller Foundation, and is organized exclusively for charitable, benevolent, scientific, religious, and educational purposes for the benefit of the people of Arkansas. Over 2,000 charitable funds have been developed through both statewide efforts and 28 county-level affiliate offices directly serving 44 counties. Arkansas Community Foundation, Inc. meets national standards set by the Council on Foundations for operational quality, donor services, and accountability in the community foundation sector.

## Note 2 – Summary of Significant Accounting Policies

Combination and basis of presentation

The accompanying combined financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and include the accounts of Arkansas Community Foundation, Inc. and its affiliated supporting organization: Arkansas Gift Foundation, Inc. (collectively, the Foundation). In previous years, Chamberlin Family Foundation, Inc. was an affiliated supporting organization, but the organization dissolved in December 2017 at which time the remaining assets of the organization were distributed to a donor advised fund at Arkansas Community Foundation, Inc. Arkansas Community Foundation, Inc. was established under the provisions of Section 509(a)(1) of the Internal Revenue Code (the Code). The Arkansas Gift Foundation was organized under the provisions of Section 509(a)(3) of the Code as a tax-exempt organization whose sole purpose is to further the mission of the Foundation. The net assets of the affiliated supporting organizations totaled approximately $3,180,000 and $6,270,000 as of June 30, 2018 and 2017, respectively. All significant inter-organizational transactions and accounts have been eliminated in the accompanying combined financial statements.

Cash and cash equivalents

For purposes of the accompanying combined statements of cash flows, the Foundation considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Concentrations

At times throughout the year, the Foundation may maintain its bank accounts at levels in excess of Federal Deposit Insurance Corporation insured limits. Management believes that its policies are adequate to minimize potential credit risk. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect the Foundation's account balances.

The Foundation received contributions from one organization totaling approximately 32% and 57% of its contributions during the years ended June 30, 2018 and 2017, respectively. Additionally, this same organization comprised of 93% of the Foundation's contribution receivables as of June 30, 2018.

Contributions receivable

Unconditional promises to give cash and other assets are reported at fair value on the date the promise is received, which is then treated as cost. The gifts are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. Bequests are recorded as revenue at the time an irrevocable right to the gift has been established and the proceeds are measurable.

Investments at fair value

The Foundation carries its investments at fair value determined primarily by quoted prices on the last day of the fiscal year, with interest, dividends, and realized and unrealized gains and losses recognized in the accompanying combined statements of activities. Investments are maintained both individually and in various pools. Income resulting from pooled investments is allocated to the various fund groups based on the fair value of each fund's assets as a percentage of the total fair value of all assets invested in the pool, calculated on a daily basis. Thus, additional contributions to, and expenses of, individual funds are taken into consideration as of the day of receipt or payment.

Beneficial interests in charitable trusts

The Foundation is the irrevocable beneficiary of charitable remainder and charitable lead trusts for which the Foundation does not act as trustee. The Foundation reflects the present value of the future benefits to be received from the trusts as assets in the accompanying combined statements of financial position.

Fair value of financial instruments

The estimated fair value of the Foundation's short-term financial instruments, including cash and cash equivalents, receivables, and payables arising in the ordinary course of business, approximate their individual carrying amounts based on the nature of the financial instrument and due to the relatively short period of time between origination and expected realization for receivables and payables.

Fair value measurements

The Foundation follows a framework for measuring fair value under U.S. GAAP and establishing disclosures about fair value measurements. This framework applies to all financial instruments that are being measured and recognized at fair value on a recurring and non-recurring basis.

Investments at cost

Investments at cost consist primarily of investments in interests of closely held companies and real estate held for sale, and are carried at cost or appraised value as of the date of contribution as no readily determinable fair value was available at year-end and a reasonable estimate of fair value could not be made without incurring excessive costs.

Spending policy

The state of Arkansas has enacted 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. UPMIFA requires not-for-profit organizations with donor-restricted endowed funds to follow certain standards when making investment and spending policy decisions. Management and the board of directors of the Foundation have determined that the Foundation's net assets do not meet the definition of a donor-restricted endowment under UPMIFA. The Foundation has adopted investment and spending policies for endowment assets designed to support current and future needs of the communities it serves. The Foundation has adopted a spending policy to determine the annual amount of grants available for distribution from funds held as endowments. The current spending policy was developed and approved by the board of directors of the Foundation.

Annuity insurance contracts receivable

The values of the annuity insurance contracts receivable were determined based on the present value of the remaining annuity payments to be received.

Cash surrender value of life insurance

The Foundation is the beneficiary of three life insurance policies. These life insurance policies are reflected at their cash surrender values at fiscal year-end.

Other receivables

The other receivables balance consists of three community investment loans totaling $2,000,000. Other receivables are stated at the amount of the unpaid principal, less allowance for losses. Management determines the allowance for losses by evaluating the recipients' financial condition as well as current economic conditions. No allowance for losses was deemed necessary at June 30, 2018 or 2017.

The Foundation loaned $1,000,000 to Southern Bancorp Community Partners, a 501(c)(3) financial development and lending organization, who uses the money to expand its revolving loan fund to provide small business loans, micro-loans and consumer loans in underserved communities in Arkansas and Mississippi. The receivable has a stated interest rate of 1.5% and is payable to the Foundation in quarterly, interest only installments beginning on June 30, 2015, with the remaining interest and principal due in full at maturity on June 30, 2025.

The Foundation loaned $750,000 to Communities Unlimited, Inc., a 501(c)(3) community development and lending organization, who uses the money to fund a revolving loan fund that supports entrepreneurship, homeownership, and economic opportunities. Communities Unlimited, Inc. may make draws on the loan balance in $250,000 increments not to exceed $1,000,000. The receivable has a stated interest rate of 1.5% and is payable to the Foundation in quarterly, interest only installments beginning on June 30, 2016, with the remaining interest and principal due in full at maturity on June 30, 2026.

The Foundation loaned $250,000 to FORGE, Inc., a 501(c)(3) community-based revolving loan fund serving the Ozark Mountains, which uses the money to support start-up businesses, families in need, and small farmers. The receivable has a stated interest rate of 2% and is payable to the Foundation in quarterly, interest only installments beginning on March 31, 2017, with the remaining interest and principal due December 31, 2026.

Property and equipment

Property and equipment are recorded at cost, if purchased, and at fair value on the date of receipt, if contributed. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. The Foundation capitalizes property and equipment purchases that exceed $1,000.

Property held-for-sale

Property classified as held-for-sale on the combined statements of financial position includes only those properties available for immediate sale in their present condition and for which management believes that it is probable that a sale of the property will be completed within one year. Properties held-for-sale are carried at the lower of cost or fair value less estimated selling costs. No depreciation expense is recognized on properties held-for-sale once they have been classified as such. As of June 30, 2018, property held-for-sale includes land of approximately $942,700 and buildings of approximately $2,710,000.

Annuity contracts payable

The values of the annuity contracts payable were determined based on the present value of the remaining annuity payments to be made.

Agency arrangement liabilities

Agency arrangement liabilities represent obligations of the Foundation to distribute assets received from a resource provider within the guidelines specified by the resource provider. As these assets were transferred by not-for-profit organizations to the Foundation and the not-for-profit organizations specified themselves or an affiliate as the beneficiary of those assets, the transfer of such assets is accounted for as a liability regardless of any variance power retained by the Foundation. The liability has been established at the fair value of the funds.

All financial activity related to these funds for the years ended June 30, 2018 and 2017, is segregated in the accompanying combined statements of activities.

Net assets classification

The Foundation classifies net assets as follows:

Unrestricted net assets include all net assets not classified as temporarily restricted, including those with donor-imposed designations, as a result of variance power, which gives the Foundation the ability to modify donor restrictions in cases where those restrictions are unable to be fulfilled or are inconsistent with the charitable needs of the community. Contributions with restrictions met in the same reporting period are reported as increases in unrestricted net assets.

Unrestricted net assets are comprised of the following categories of donor designations:

*Undesignated* – Unrestricted net assets categorized as undesignated are the result of contributions made by donors who do not specify the charitable causes or charitable organizations to be benefited by the grant distributions, leaving the grant making decisions to the Foundation. The amount classified as undesignated includes grant making funds for both statewide and local affiliate distribution.

*Field of interest* – Unrestricted net assets categorized as field of interest are the result of contributions made to support an area of interest specified by the donor, such as education, the arts, the environment, youth services, or to support a specific geographic area, such as a county or town.

*Donor advised* – Unrestricted net assets categorized as donor advised are the result of contributions made by donors who provide suggestions to the Foundation regarding the spending of grant distributions.

*Donor designated* – Unrestricted net assets categorized as donor designated are the result of contributions made to provide annual grants to specific public charities named by the donor.

Temporarily restricted net assets are the result of grant funds designated for spending in a future year or that are subject to donor-imposed stipulations that may or will be met by action of the Foundation, contributions of beneficiary interests in charitable trusts of which the use by the Foundation is limited to future time periods, and multi-year pledged contributions. As the stipulated time restrictions set forth under the grants, beneficial interests in charitable trusts, and pledge agreements are met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying combined statements of activities as net assets released from restriction.

Administrative fees

The Foundation's operating costs are funded through administrative fees charged to its funds. The majority of administrative fees charged by the Foundation range from 0.5% – 2.0%; however, the fees increase up to 5% for scholarship funds and 10.0% for special project funds. For endowed and supporting organization funds, the rates are applied to the average market value. For non-endowed funds, the rates are applied to the amount of each gift. The Foundation has established a minimum annual fee of $100 for endowed funds and $500 for term endowed funds. Special project funds have a minimum fee of $500.

Income taxes

The Foundation is a publicly supported organization exempt from federal income taxation under Section 501(c)(3) of the Code and is classified as other than a private foundation. The Foundation is also exempt from state income taxes under similar provisions of state law. Accordingly, no provision for income taxes is included in the accompanying combined financial statements.

Functional expenses

Functional expenses have been allocated between program, management and general, and development based on an analysis of personnel time utilized for the related activities and on a specific review of direct expenses.

Program expenses are the operating expenses associated with processing grants and performing various philanthropic services, maintaining relationships with current donors, special projects, or other activities that have a programmatic focus.

Management and general expenses are those activities that are not identifiable with a specific program or development activity but are necessary in the conduct of such activities and to the Foundation's existence. These expenses include Foundation management, board oversight and accounting expenses, as well as any expenses that are not considered to be program or development expenses.

Development expenses are those expenses associated with identifying and soliciting new donors, cultivating and working with donor advisors in securing gifts, public awareness, outreach, marketing the Foundation's donor services, and other fundraising activities.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the combined financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reporting results of consolidated operations.

Recent accounting pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, requiring 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. The updated standard will replace most existing U.S. GAAP revenue recognition guidance when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date,* which defers the effective date of ASU 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2018, for non-public entities. Early adoption is allowed for annual reporting periods beginning after December 15, 2016. The Foundation has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the combined financial statements.

In May 2015, the FASB issued ASU 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent).* The amendments in ASU 2015-07 remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value (NAV) per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the NAV per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The standard is effective for fiscal years beginning after December 15, 2016. Amendments will be applied retrospectively. Earlier application is permitted, but was not elected. The Foundation adopted the applicable ASU 2015-07 and has concluded that the adoption did not have a significant impact on the Foundation's financial statements as the ASU primarily simplifies disclosures and reporting presentation.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This guidance changes how entities account for equity investments that do not result in consolidation and are not accounted for under the equity method of accounting. Entities will be required to measure these investments at fair value at the end of each reporting period and recognize changes in fair value in net income. A practicability exception will be available for equity investments that do not have readily determinable fair values; however, the exception requires entities to adjust the carrying amount for impairment and observable price changes in orderly transactions for the identical or a similar investment of the same issuer. This guidance also changes certain disclosure requirements and other aspects of current U.S. GAAP. ASU 2016-01 is effective for fiscal years beginning after December 15, 2018. The Foundation does not anticipate that this new standard will have a material effect on the combined financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in *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 years beginning after December 15, 2019, including interim periods within those fiscal years. 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 adopting this new standard on its combined financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 amends the FASB's current guidance on the measurement of impairment of financial instruments such as loans and held-to-maturity debt securities. ASU 2016-13 requires the implementation of an impairment model (known as the current expected credit loss (CECL) model) that is based on expected losses rather than the incurred loss model required by existing guidance. ASU 2016-13 requires entities to recognize as an allowance an estimate of expected credit losses, which the FASB believes will result in more timely recognition of such losses. Upon adoption, ASU 2016-13 will require a cumulative effect adjustment to retained earnings as of the beginning of the earliest period presented. ASU 2016-13 is effective for years beginning after December 15, 2020. Early adoption is permitted for years beginning after December 15, 2018. The Foundation has not yet determined the impact that adoption of ASU 2016-13 will have on its combined 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*. This ASU simplifies and improves how a not-for-profit entity (NFP) classifies its net assets, as well as the information it presents in financial statements and notes concerning liquidity, financial performance and cash flows. Among other requirements, this ASU primarily requires NFPs to present on the face of the statement of financial position amounts for two classes of net assets (i.e. net assets with donor restrictions and net assets without donor restrictions) rather than the currently required three classes. ASU 2016-14 is to be applied retrospectively, and is effective for years beginning after December 15, 2017, with early adoption permitted. The Foundation is currently evaluating the effect that the updated standard will have on the combined financial statements and related disclosures.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments,* to address diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments provide guidance on specific cash flow issues. The ASU is effective for fiscal years beginning after December 15, 2018, and should be applied using a retrospective transition method to each period presented. Early adoption is permitted. The Foundation is currently evaluating the effect that the updated standard will have on the combined financial statements.

Subsequent events

The Foundation has evaluated subsequent events for recognition and disclosure through November 14, 2018, the date the combined financial statements were available to be issued.

## Note 3 – Contributions Receivable, Beneficial Interests in Charitable Trusts, Annuity Insurance Contracts Receivable, and Other Receivables

Contributions receivable are all due within one year as of June 30, 2018, and therefore are not discounted. At June 30, 2018, beneficial interests in charitable trusts consisted of amounts due under three charitable lead trusts and three charitable remainder trusts.

The Foundation's receivables and beneficial interests in charitable trusts are expected to be collected as follows as of June 30:

| | 2018 | 2017 |
|---|---|---|
| Contributions receivable | $ 5,784,310 | $ 621,768 |
| Beneficial interests in charitable trusts | 9,498,456 | 9,835,513 |
| Annuity insurance contracts receivable | 304,158 | 327,442 |
| Other receivables | 2,000,000 | 2,003,723 |
| Total receivables before unamortized discount | 17,586,924 | 12,788,446 |
| Less: Unamortized discount on beneficial interest in charitable trusts and annuity insurance contracts receivable | (2,533,544) | (2,359,973) |
| Net receivables | $ 15,053,380 | $ 10,428,473 |
| Less than one year | $ 6,264,417 | $ 1,381,178 |
| One to five years | 1,917,083 | 1,882,115 |
| More than five years | 9,405,424 | 9,525,153 |
| Total | $ 17,586,924 | $ 12,788,446 |

Contributions receivable, beneficial interests in charitable trusts, and annuity insurance contracts receivable were discounted, as applicable, at the Daily Treasury Yield Curve Rate. The rate used for contributions receivable is determined at the date of the contribution. The rate used for beneficial interests in charitable trusts, annuity insurance contracts receivable, and the related unamortized discount is adjusted annually. The resulting gain or loss from the adjustment to the unamortized discount is reflected in the accompanying combined statements of activities under temporarily restricted funds as a change in value of beneficial interests in charitable trusts. The Foundation uses the allowance method to estimate uncollectible receivables. There were no receivables estimated to be uncollectible at June 30, 2018 or 2017.

**Note 4 – Fair Value of Financial Instruments**

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 based on the lowest level of input that is significant to the fair value measurement:

Level 1 – Valuations for assets and liabilities traded in active exchange markets. Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuation methodology utilizes inputs other than quoted prices included with Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by market data by correlation or other means. If the asset or liability has a specified (contractual) term, the input must be observable for substantially the full term of the asset or liability.

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. Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

For the years ended June 30, 2018 and 2017, the application of valuation techniques applied to similar assets and liabilities has been consistent. Following is a description of the valuation methodologies used for instruments measured at fair value.

*Domestic and international equity and fixed income securities* – The fair value is based on the closing price reported on the active market in which the individual securities are traded.

*Equity securities mutual funds, fixed income securities mutual funds, and balanced mutual funds* – The fair value is based on the closing price reported on the active market on which the individual securities are traded. Additionally, there are funds whose values are based on the NAV of shares held by the Foundation at year end.

*Limited partnerships, collective trust, hedge funds, and private equity securities and funds* – The fair value is based on the NAV of shares held by the Foundation at year end, with the exception of private equity securities, which are based on a net present value of future cash flows, an earnings ratio, and a tangible book ratio.

*Beneficial interests in charitable trusts and annuity insurance contracts receivable* – The fair value is based on the net present value of estimated future cash flows.

*Agency arrangement liabilities* – The fair value is based on the present value of the estimated future cash payments.

*Annuity contracts payable* – The fair value is based on estimated amounts due to income beneficiaries, which is based on the net present value of estimated future cash payments.

*Contributions receivable* – The fair value is based on the net present value of future cash flows at a discount rate determined at the date the unconditional promise is received. Only contributions with payments receivable in excess of one year at the time of the contribution are recorded on a discounted basis.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Fair value on a recurring basis

The balances of assets measured at fair value on a recurring basis within the fair value hierarchy as of June 30, 2018, are as follows:

| | Level 1 | Level 2 | Level 3 | NAV* | Total |
|---|---|---|---|---|---|
| Domestic equity securities | $ 4,278,181 | $ - | $ - | $ - | $ 4,278,181 |
| International equity securities | 95,887 | - | - | - | 95,887 |
| Domestic fixed income securities | 3,583,451 | - | - | - | 3,583,451 |
| Equity securities mutual funds | 150,402,384 | - | - | - | 150,402,384 |
| Fixed income securities mutual funds | 63,131,302 | - | - | - | 63,131,302 |
| Balanced mutual funds | 6,009,395 | - | - | - | 6,009,395 |
| Collective trust | - | - | - | 8,946,183 | 8,946,183 |
| Limited partnerships | - | - | - | 16,889,344 | 16,889,344 |
| Hedge funds | - | - | - | 21,363,642 | 21,363,642 |
| Private equity securities and funds | - | - | 5,052,000 | 6,559,190 | 11,611,190 |
| Investments at fair value | 227,500,600 | - | 5,052,000 | 53,758,359 | 286,310,959 |
| Beneficial interests in charitable trusts | - | - | 6,987,298 | - | 6,987,298 |
| Annuity insurance contracts receivable | - | - | 281,772 | - | 281,772 |
| Total assets at fair value | $ 227,500,600 | $ - | $ 12,321,070 | $ 53,758,359 | $ 293,580,029 |

* In accordance with Subtopic 810-10, certain investments that were measured at NAV per share (or its equivalent) have not been classified in the fair value hierarchy. The fair values presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented on the combined statements of financial position.

The balances of liabilities measured at fair value on a recurring basis within the fair value hierarchy as of June 30, 2018, are as follows:

| | Level 1 | Level 2 | Level 3 | NAV | Total |
|---|---|---|---|---|---|
| Agency arrangement liabilities | $ - | $ 38,285,238 | $ - | $ - | $ 38,285,238 |
| Annuity contracts payable | - | - | 538,481 | - | 538,481 |
| Total liabilities at fair value | $ - | $ 38,285,238 | $ 538,481 | $ - | $ 38,823,719 |

Fair value on a non-recurring basis

The balance of assets measured at fair value on a non-recurring basis within the fair value hierarchy as of June 30, 2018, is as follows:

| | Level 1 | Level 2 | Level 3 | NAV | Total |
|---|---|---|---|---|---|
| Contributions receivable | $ - | $ - | $ 5,784,310 | $ - | $ 5,784,310 |

Fair value on a recurring basis

The balances of assets measured at fair value on a recurring basis within the fair value hierarchy as of June 30, 2017, are as follows:

| | Level 1 | Level 2 | Level 3 | NAV* | Total |
|---|---|---|---|---|---|
| Domestic equity securities | $ 3,225,396 | $ - | $ - | $ - | $ 3,225,396 |
| International equity securities | 274,245 | - | - | - | 274,245 |
| Domestic fixed income securities | 2,226,592 | - | - | - | 2,226,592 |
| Equity securities mutual funds | 119,263,625 | - | - | - | 119,263,625 |
| Fixed income securities mutual funds | 123,567,211 | - | - | - | 123,567,211 |
| Balanced mutual funds | 5,748,548 | - | - | - | 5,748,548 |
| Limited partnerships | - | - | - | 9,282,457 | 9,282,457 |
| Hedge funds | - | - | - | 20,252,549 | 20,252,549 |
| Private equity securities and funds | - | - | 4,129,000 | 5,927,912 | 10,056,912 |
| Total investments at fair value | 254,305,617 | - | 4,129,000 | 35,462,918 | 293,897,535 |
| Beneficial interests in charitable trusts | - | - | 7,493,692 | - | 7,493,692 |
| Annuity insurance contracts receivable | - | - | 309,290 | - | 309,290 |
| Total assets at fair value | $ 254,305,617 | $ - | $ 11,931,982 | $ 35,462,918 | $ 301,700,517 |

* In accordance with Subtopic 810-10, certain investments that were measured at NAV per share (or its equivalent) have not been classified in the fair value hierarchy. The fair values presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented on the combined statements of financial position.

The balances of liabilities measured at fair value on a recurring basis within the fair value hierarchy as of June 30, 2017, are as follows:

| | Level 1 | Level 2 | Level 3 | NAV | Total |
|---|---|---|---|---|---|
| Agency arrangement liabilities | $ - | $ 34,051,556 | $ - | $ - | $ 34,051,556 |
| Annuity contracts payable | - | - | 586,730 | - | 586,730 |
| Total liabilities at fair value | $ - | $ 34,051,556 | $ 586,730 | $ - | $ 34,638,286 |

Fair value on a non-recurring basis

The balance of assets measured at fair value on a non-recurring basis within the fair value hierarchy as of June 30, 2017, is as follows:

| | Level 1 | Level 2 | Level 3 | NAV | Total |
|---|---|---|---|---|---|
| Contributions receivable | $ - | $ - | $ 157,500 | $ - | $ 157,500 |

The significance of transfers between levels is evaluated based upon the nature of the investment and the size of the transfer relative to total net assets available for benefits. For the years ended June 30, 2018 and 2017, there were no significant transfers in or out of Level 3.

Redemption of certain investments is subject to terms provided in the investment agreement, which may change depending on market conditions. Gains and losses (realized and unrealized) are included in changes in net assets for the year and are reported in the accompanying combined statements of activities and include the following for the years ended June 30:

| | 2018 | 2017 |
|---|---|---|
| Unrealized gains on investments, net | $ 4,961,858 | $ 7,942,212 |
| Realized gains on investments, net | 8,393,115 | 11,594,790 |
| Less: Investment expenses | (2,053,051) | (1,814,796) |
| Realized and unrealized gains on investments, net | $ 11,301,922 | $ 17,722,206 |

In connection with the Foundation's interest in limited partnerships that invest in private equity funds, the Foundation has entered into contractual agreements that entitle the Foundation to receive distributions from a specified list of funds, while obligating the Foundation to make payments of committed capital to the same underlying funds. Capital contributions are due in such amounts as determined by the general partners of the limited partnerships in which the Foundation is invested. There is no limit to the amount that may be called in a given year.

The following table summarizes the Foundation's investments measured at fair value based on NAV per share as of June 30, 2018:

| | Redemption Frequency | Redemption Notice Period | 2018 Fair Value | 2017 Fair Value |
|---|---|---|---|---|
| Collective trust | Semi-monthly | 30 days | $ 8,946,183 | $ - |
| Limited partnerships | Various (a) | Various (a) | 16,889,344 | 9,282,457 |
| Hedge funds | Various (b) | Various (b) | 21,363,642 | 20,252,549 |
| Private equity funds | None (c) | Not applicable (c) | 6,559,190 | 5,927,912 |
| | | | $ 53,758,359 | $ 35,462,918 |

(a) Limited partnerships totaling approximately $15 million may be redeemed monthly with 5 to 10 days notice as of June 30, 2018. The Foundation has unfunded commitments totaling approximately $1.2 million and $1.7 million as of June 30, 2018 and 2017, respectively. Limited partnerships totaling approximately $2 million cannot be redeemed. Rather, distributions are received through the liquidation of the partnerships' assets.

(b) A hedge fund with a fair value of approximately $3.6 million as of June 30, 2018, which may be redeemed annually with 95 days' notice. This fund was subject to a two year lock up period that expired in April 2016.

A hedge fund with a fair value of approximately $1.7 million as of June 30, 2018, which may be redeemed annually with 95 days' notice. This fund was subject to a two year lock up period that expired in March 2017.

A hedge fund with a fair value of approximately $1.2 million as of June 30, 2018, which may be redeemed annually with 95 days' notice. This fund was subject to a two year lock up period that expired in April 2017.

A hedge fund with a fair value of approximately $14.2 million as of June 30, 2018, which may be redeemed quarterly with 100 days' notice. The Foundation may redeem up to 25% of the shares in each series and class held prior to the date of submission of the redemption request.

A hedge fund with a fair value of approximately $634,000 as of June 30, 2018, commenced liquidation of its investment portfolio in 2010, and therefore, the Foundation does not have redemption rights. The date of the final liquidation of the fund is unknown.

(c) The Foundation's investments in private equity funds may not be redeemed. The majority of distributions are received through the liquidation of fund assets. The following table presents the period of time over which the Foundation expects the underlying assets to be liquidated and the unfunded commitments to be paid:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| Date by which funds are expected to be liquidated | Fair Value | Unfunded Commitment | Fair Value | Unfunded Commitment |
| July 2017 | $ - | $ - | $ 772,945 | $ 456,520 |
| December 2018 | 594,976 | 917,009 | 715,038 | 884,070 |
| October 2022 | 1,787,020 | 1,098,839 | 1,735,504 | 1,390,970 |
| December 2024 | 921,708 | 751,882 | 572,069 | 1,016,137 |
| December 2027 | 442,230 | 439,856 | 324,932 | 1,682,752 |
| None (d) | 2,813,256 | 1,866,000 | 1,807,424 | 924,248 |
| | $ 6,559,190 | $ 5,073,586 | $ 5,927,912 | $ 6,354,697 |

(d) The Foundation may not withdraw funds from the investment; however, a partnership interest with a fair value of approximately $904,000 and unfunded commitments of $116,000 may be transferred to another entity with the prior approval of the general partner.

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized as follows:

| | Private Equity Securities | Beneficial Interests in Charitable Trusts and Annuity Insurance Contracts | Annuity Contracts Payable |
|---|---|---|---|
| Balance, July 1, 2016 | $ 3,314,813 | $ 8,954,291 | $ 565,254 |
| Change in present value | - | 87,072 | 24,209 |
| Net realized and unrealized losses | 1,182,737 | 10,747 | - |
| Contributions | - | - | 88,370 |
| Sales | (368,550) | - | - |
| Payments received | - | (1,249,128) | - |
| Payments made and grants received | - | - | (91,103) |
| Balance, June 30, 2017 | 4,129,000 | 7,802,982 | 586,730 |
| Change in present value | - | 219,077 | 42,087 |
| Net realized and unrealized gains | 923,000 | 5,064 | - |
| Payments received | - | (758,053) | - |
| Payments made and grants received | - | - | (90,336) |
| Balance, June 30, 2018 | $ 5,052,000 | $ 7,269,070 | $ 538,481 |

The following table represents the Foundation's Level 3 financial instruments, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs and the ranges of values for those inputs:

| | Private Equity Securities | Beneficial Interests in Charitable Trusts and Annuity Insurance Contracts | Annuity Contracts Payable | Contributions Receivable |
|---|---|---|---|---|
| Fair Value at June 30, 2018 | $ 5,052,000 | $ 7,269,070 | $ 538,481 | $ 5,784,310 |
| Fair Value at June 30, 2017 | $ 4,129,000 | $ 7,802,982 | $ 586,730 | $ 157,500 |
| Principal Valuation Technique | Discounted Cash Flow; Earnings Ratio; Tangible Book Ratio | Discounted Cash Flow | Discounted Cash Flow | Discounted Cash Flow |
| Significant Unobservable Inputs | Discount rate; Earnings Multiple; Tangible Book Multiple | Mortality tables; Discount rate based on the Daily Treasury Yield Curve Rate | Mortality tables; Discount rate based on the Daily Treasury Yield Curve Rate | Discount rate based on the Daily Treasury Yield Curve Rate at the date of the contribution |
| Range of Significant Input Values at June 30, 2018 | 11.75%; 15.0x; 1.75 - 1.85x | 2013 "Period Life Table" from the Office of the Chief Actuary; 1.93% - 2.98% | 2013 "Period Life Table" from the Office of the Chief Actuary; 1.93% - 2.98% | N/A |
| Range of Significant Input Values at June 30, 2017 | 11.75%; 14.5x; 1.50 - 1.70x | 2013 "Period Life Table" from the Office of the Chief Actuary; 1.03% - 2.84% | 2013 "Period Life Table" from the Office of the Chief Actuary; 1.55% - 2.61% | N/A |

## Note 5 – Investments at Cost

Investments at cost consist of the following as of June 30:

| | 2018 | 2017 |
|---|---|---|
| Interest in privately held companies | $ 3,908,735 | $ 3,440,983 |
| Real estate | 36,000 | 36,000 |
| Total | $ 3,944,735 | $ 3,476,983 |

The Foundation's investments in privately held companies are made up primarily of ownership interests in four companies. As of June 30, 2018, these investments are carried at an adjusted cost of approximately $3,114,000. As of and during the most recent reporting period for the companies, the Foundation's share of the combined owners' equity was approximately $6,499,000, and the Foundation's share of net income was approximately $460,000. As of June 30, 2017, these investments were carried at an adjusted cost of approximately $2,649,000. As of and during the most recent reporting period for the companies, the Foundation's share of the combined owners' equity was approximately $5,958,000, and the Foundation's share of net income was approximately $839,000. The remaining real estate investments held by the Foundation include various pieces of residential and commercial land and buildings throughout the state of Arkansas, which were contributed by donors.

## Note 6 – Annuity Contracts

The Foundation is the recipient of gifts of assets under gift annuity arrangements whereby the Foundation has agreed to make quarterly payments at a fixed interest rate to the donors during their lifetime. Upon the death of the last surviving annuitant, the remaining assets are either endowed to be maintained in perpetuity or will be distributed to a designated beneficiary in accordance with the gift instrument. The fair market value of the assets at the time they were contributed is included as an investment in the Foundation's accompanying combined statements of financial position and a liability has been recorded for the present value of the anticipated future payments to be made to the donors based on their estimated remaining lives, utilizing the Daily Treasury Yield Curve Rate to discount annuities.

The balances related to annuities are as follows as of June 30:

| | 2018 | 2017 |
|---|---|---|
| Annuity insurance contracts receivable | $ 281,772 | $ 309,290 |
| Investments at fair value | 529,184 | 569,200 |
| Annuity contracts payable | (538,481) | (586,730) |
| Annuity contracts surplus | $ 272,475 | $ 291,760 |

**Note 7 – Property and Equipment**

Property and equipment are comprised of the following as of June 30:

| | 2018 | 2017 |
|---|---|---|
| Land | $ 175,000 | $ - |
| Building | 110,000 | - |
| Furniture and equipment | 813,853 | 528,067 |
| Property and equipment operating assets, gross | 1,098,853 | 528,067 |
| Less: accumulated depreciation | (352,113) | (444,245) |
| Property and equipment operating assets, net | 746,740 | 83,822 |
| Property held-for-sale, net of accumulated depreciation | 3,652,700 | 6,586,056 |
| Property and equipment, net | $ 4,399,440 | $ 6,669,878 |

Depreciation expense on property and equipment totaled approximately $47,000 and $264,000 for the years ended June 30, 2018 and 2017, respectively.

During the fiscal year ended June 30, 2015, the Foundation received a contribution in the form of a residential property, reflected in property held-for-sale above, valued at $7,000,000. In conjunction with the contribution of the residential property the Foundation agreed to make payments on behalf of the donor for a loan collateralized by the property that is included in the scholarships and other payables in the accompanying combined statements of financial position. Additionally, in connection with the contribution, an agreement was entered into between the Foundation and the donor, to hold the residential property until June 30, 2017, during such time the Foundation leased the property back to the donor at a rate determined based on estimated fair market value. During 2017, the lease was extended to June 30, 2018. While the property is leased to the donor, the Foundation may sell the property and terminate the lease. As the home has been for sale and not sold for over a year, the Foundation obtained an updated appraisal of the property. An impairment loss of $2,933,356 has been recorded on the property as disclosed on the accompanying combined statement of activities. The impairment charge reduced the recorded value of the property to the estimated market value.

**Note 8 – Grants**

Community areas benefiting from the Foundation's grants, including grants distributed on behalf of agency arrangement liabilities, as a percentage of total grants during the years ended June 30, 2018 and 2017, are as follows:

| | 2018 | 2017 |
|---|---|---|
| Education | 73% | 47% |
| Communities | 12% | 19% |
| Health | 5% | 10% |
| Families | 10% | 24% |
| Total | 100% | 100% |

**Note 9 – Endowments**

The Foundation's non-donor restricted endowments consist of approximately 1,450 individual funds established for a variety of purposes. The Foundation has no donor-restricted endowment funds due to the variance power of the Foundation and the fact that the governing documents of the Foundation allow for invasion of principal. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. As such, all endowment funds are classified as either unrestricted or temporarily restricted in the accompanying combined statements of financial position.

Endowment net asset composition by type of fund and changes in board-designated endowment net assets is as follows:

| | Unrestricted | Temporarily Restricted | Total |
|---|---|---|---|
| Endowment net assets, July 1, 2016 | $135,630,698 | $ 2,703,334 | $138,334,032 |
| Investment income: | | | |
| Interest and dividends | 2,916,130 | - | 2,916,130 |
| Net losses on investments (realized and unrealized) | 14,265,414 | - | 14,265,414 |
| Total investment income | 17,181,544 | - | 17,181,544 |
| Contributions | 3,500,866 | 350,000 | 3,850,866 |
| Net reclassification to endowment assets | (1,611,123) | 3,202,921 | 1,591,798 |
| Appropriation of endowment assets for expenditure | (6,156,008) | - | (6,156,008) |
| Other changes | 243,589 | 19,750 | 263,339 |
| Total changes | 13,158,868 | 3,572,671 | 16,731,539 |
| Endowment net assets, June 30, 2017 | 148,789,566 | 6,276,005 | 155,065,571 |
| Investment income: | | | |
| Interest and dividends | 2,925,172 | - | 2,925,172 |
| Net gains on investments (realized and unrealized) | 8,258,197 | - | 8,258,197 |
| Total investment income | 11,183,369 | - | 11,183,369 |
| Contributions | 3,052,434 | 750,000 | 3,802,434 |
| Net reclassification from endowment assets | (721,382) | (190,000) | (911,382) |
| Appropriation of endowment assets for expenditure | (6,496,812) | - | (6,496,812) |
| Other changes | (18,490) | (21,580) | (40,070) |
| Total changes | 6,999,119 | 538,420 | 7,537,539 |
| Endowment net assets, June 30, 2018 | $155,788,685 | $ 6,814,425 | $162,603,110 |

Earnings on the Foundation's endowments designated by the board to support the general operations of the Foundation totaled approximately $145,000 and $141,000 for the years ended June 30, 2018 and 2017, respectively. During the years ended June 30, 2018 and 2017, the Foundation had an operating surplus from general operations, of which approximately $241,000 and $173,000, respectively, was transferred back to the Foundation's endowments and other funds.

Included in the Foundation's endowment net assets are term endowment funds. These funds require an establishing gift of at least $100,000. A minimum balance of $50,000 is required to be maintained for a period of three years. The balance of the funds in excess of the minimum is available for grant-making at any time. After three years, the entire balance of the funds will be available for grant-making.

The Foundation's investment strategy seeks to preserve the value of funds under management and to provide growth and income to support the charitable purposes for which endowment funds were created. Endowment assets are invested in a manner intended to produce a long-term average return, after inflation and net of investment and administrative costs, that exceeds charitable spending. The investment policy adopted by the board of directors is based on the total return concept. To satisfy current and long-term return objectives, the Foundation relies on both capital appreciation (realized and unrealized) and current yield (interest and dividends). Through a strategic asset allocation intended to achieve return objectives while minimizing risk, assets are invested in a diversified mix of equities, fixed-income instruments, cash, and alternative classes such as hedge funds and private equity investments.

Endowment assets are appropriated for expenditure by management based on availability of funds for distribution as calculated through the spending policy. The Foundation's spending policy provides an annual distribution of 4% of the grant making dollar's average ending market value of the previous 20 trailing quarters (if available), as calculated on the first day of the Foundation's fiscal year. The averaging method is designed to smooth charitable spending over time and protect the fund from the effects of inflation and investment return fluctuations.

During the year ended June 30, 2017, the Foundation guaranteed two loans totaling $3,450,000 using endowed net assets. The loans were issued to the Helena Health Foundation, a 501(c)(3) grant-making organization that focuses on improving healthcare in Phillips County. The funds serving as collateral for the loans were donated to the Foundation by the Helena Health Foundation in August 2002. The guaranteed money is classified as temporarily restricted endowed net assets until the collateral is released by the lender. As part of the guarantee agreement, the Foundation is required to maintain a minimum balance in the fund equal to the greater of the outstanding loan balance or $3,000,000. As the fund holds a balance in excess of the loan balance on June 30, 2018, the Foundation has no additional liability other than the funds previously endowed to the Helena Health Foundation.

**Note 10 – Related Party Transactions**

Certain members of the Foundation's board of directors and staff serve on the boards of, or are associated with, other charitable organizations. The Foundation distributed grants of approximately $92,000 and $127,000, and received contributions of approximately $17,500 and $1,700, during the years ended June 30, 2018 and 2017, respectively, to or from organizations that had such relationships with members of the Foundation's board of directors and staff.

**Note 11 – Retirement Plans**

The Foundation maintains a defined contribution retirement plan (the Plan) in which eligible employees may contribute up to 100% of their annual wages, up to Internal Revenue Service limits, through payroll deductions. For participants employed at the end of the year, the Foundation contributed approximately $115,000 and $113,000 to the Plan for the years ended June 30, 2018 and 2017, respectively.

**Note 12 – Operating Lease Commitments**

The Foundation leased office space under a non-cancelable operating lease that began in June 2007, and expired on May 30, 2018. During the year, the Foundation moved their corporate office to a new location and entered into a new lease that commenced in April 2018 and will expire in August 2028. Total rent paid for the years ended June 30, 2018 and 2017, under these lease arrangements was approximately $89,000 and $96,000, respectively.

Future minimum rental payments under this lease are as follows for the fiscal years ending June 30:

| | |
|---|---|
| 2019 | $ 207,245 |
| 2020 | 240,549 |
| 2021 | 247,766 |
| 2022 | 255,198 |
| 2023 | 262,854 |
| Thereafter | 1,472,737 |
| Total | $ 2,686,349 |