

SOUTHERN ARKANSAS UNIVERSITY FOUNDATION, INC.
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INDEPENDENT AUDITORS' REPORT

To the Board of Governors
Southern Arkansas University Foundation, Inc.
Magnolia, Arkansas 71754

We have audited the accompanying financial statements of Southern Arkansas University Foundation, Inc. (a nonprofit organization), which comprise the statements of financial position, as of December 31, 2017 and 2016 and 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 presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southern Arkansas University Foundation, Inc. as of December 31, 2017 and 2016 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Wood and Wood, Ltd.
Magnolia, AR

June 6, 2018

SOUTHERN ARKANSAS UNIVERSITY FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION
December 31, 2017 and 2016

ASSETS

	<u>2017</u>	<u>2016</u>
Cash and Cash Equivalents	\$ 1,943,723	\$ 1,947,303
Accrued Investment Earnings	127,305	82,186
Unconditional Promises to Give	1,955,056	1,189,878
Prepaid Expenses	6,373	6,373
Investments	<u>37,662,078</u>	<u>32,297,166</u>
Total Assets	<u>\$ 41,694,535</u>	<u>\$ 35,522,906</u>

LIABILITIES AND NET ASSETS

Liabilities

Accounts Payable	\$ 1,206,982	\$ 988,607
Annuities Payable	<u>10,514</u>	<u>17,924</u>
Total Liabilities	<u>\$ 1,217,496</u>	<u>\$ 1,006,531</u>

Net Assets

Unrestricted	\$ 487,276	\$ 420,124
Temporarily Restricted	3,441,928	2,660,504
Permanently Restricted	<u>36,547,835</u>	<u>31,435,747</u>
Total Net Assets	<u>\$ 40,477,039</u>	<u>\$ 34,516,375</u>

Total Liabilities and Net Assets	<u>\$ 41,694,535</u>	<u>\$ 35,522,906</u>
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The accompanying notes are an integral part of the financial statements

SOUTHERN ARKANSAS UNIVERSITY FOUNDATION, INC.

STATEMENT OF ACTIVITIES
For the year ended December 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue and Support				
Contributions	\$ 70,993	\$ 1,174,067	\$ 1,959,103	\$3,204,163
Contributions -Services	132,929			132,929
Contributions -In kind		748,731		748,731
Investment Income (Loss)		2,155,148	3,152,985	5,308,133
Net Assets Released from Restrictions	<u>3,296,522</u>	<u>(3,296,522)</u>		
Total Revenue and Support	<u>\$ 3,500,444</u>	<u>\$ 781,424</u>	<u>\$ 5,112,088</u>	<u>\$9,393,956</u>
Expenses				
Grants and Allocations	\$ 3,088,105	\$	\$	\$3,088,105
Annuities	2,260			2,260
Awards and Promotions	67,164			67,164
Conferences, Meetings, and Lectures	38,414			38,414
Bad Debts	32,425			32,425
General and Administrative	<u>204,924</u>			<u>204,924</u>
Total Expenses	<u>\$ 3,433,292</u>	<u>\$</u>	<u>\$</u>	<u>\$3,433,292</u>
Increase (Decrease) in Net Assets	\$ 67,152	\$ 781,424	\$ 5,112,088	\$ 5,960,664
Net Assets at the Beginning of the Year	<u>420,124</u>	<u>2,660,504</u>	<u>31,435,747</u>	<u>34,516,375</u>
Net Assets at the End of the Year	<u>\$ 487,276</u>	<u>\$ 3,441,928</u>	<u>\$ 36,547,835</u>	<u>\$40,477,039</u>

The accompanying notes are an integral part of the financial statements

SOUTHERN ARKANSAS UNIVERSITY FOUNDATION, INC.

STATEMENT OF ACTIVITIES
For the year ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue and Support				
Contributions	\$ 44,287	\$ 1,164,692	\$ 2,195,474	\$ 3,404,453
Contributions -Services	140,242			140,242
Contributions -In kind		148,065		148,065
Investment Income (Loss)	112	2,028,694	544,469	2,573,275
Net Assets Released from Restrictions	<u>2,466,552</u>	<u>(2,466,552)</u>		
Total Revenue and Support	<u>\$ 2,651,193</u>	<u>\$ 874,899</u>	<u>\$ 2,739,943</u>	<u>\$ 6,266,035</u>
Expenses				
Grants and Allocations	\$ 2,205,129	\$	\$	\$ 2,205,129
Annuities	8,623			8,623
Awards and Promotions	75,707			75,707
Conferences, Meetings, and Lectures	70,437			70,437
Bad Debts	28,060			28,060
General and Administrative	<u>225,604</u>			<u>225,604</u>
Total Expenses	<u>\$ 2,613,560</u>	<u>\$</u>	<u>\$</u>	<u>\$ 2,613,560</u>
Increase (Decrease) in Net Assets	\$ 37,633	\$ 874,899	\$ 2,739,943	\$ 3,652,475
Net Assets at the Beginning of the Year	<u>382,491</u>	<u>1,785,605</u>	<u>28,695,804</u>	<u>30,863,900</u>
Net Assets at the End of the Year	<u>\$ 420,124</u>	<u>\$ 2,660,504</u>	<u>\$ 31,435,747</u>	<u>\$ 34,516,375</u>

The accompanying notes are an integral part of the financial statements

SOUTHERN ARKANSAS UNIVERSITY FOUNDATION, INC.

STATEMENTS OF CASH FLOWS
For the years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Change in Net Assets	\$ 5,960,664	\$ 3,652,475
Adjustments to Reconcile Change in Net Assets to Net Cash from Operating Activities		
In Kind Contributions	(748,731)	(148,065)
Contributions Restricted for Long Term Investment	(1,959,103)	(2,195,474)
Net Realized/Unrealized (Gain) Loss on Investments	(5,308,133)	(2,697,890)
Changes in:		
Unconditional Promises to Give	(765,178)	(668,600)
Prepaid Expenses	0	(676)
Accounts Payable	<u>218,375</u>	<u>159,710</u>
Net Cash Used by Operating Activities	<u><u>\$ (2,602,106)</u></u>	<u><u>\$ (1,898,520)</u></u>
Cash Flows from Investing Activities		
Purchase of Investments	\$(7,110,040)	\$(3,192,303)
Proceeds from Sale of Investments	<u>7,751,723</u>	<u>3,192,214</u>
Net Cash Used by Investing Activities	<u><u>\$ 641,683</u></u>	<u><u>\$ (89)</u></u>
Cash Flows from Financing Activities		
Proceeds from Contributions Restricted for Long Term Investments	\$ 1,959,103	\$ 2,195,474
Payment on Note Principal	0	(76,000)
Payments of Annuity Obligations	<u>(2,260)</u>	<u>(2,260)</u>
Net Cash Provided by Financing Activities	<u><u>\$ 1,956,843</u></u>	<u><u>\$ 2,117,214</u></u>
Net Change in Cash	\$(3,580)	\$ 218,605
Cash, Beginning of the Year	<u>1,947,303</u>	<u>1,728,698</u>
Cash, End of the Year	<u><u>\$ 1,943,723</u></u>	<u><u>\$ 1,947,303</u></u>

The accompanying notes are an integral part of the financial statements

SOUTHERN ARKANSAS UNIVERSITY FOUNDATION, INC.

NOTES TO ACCOMPANY FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note A: Nature of Business

Organization and Nature of Operations

Southern Arkansas University Foundation, Inc. (the Foundation) is an Arkansas (non profit) corporation chartered in 1980. The purpose of this corporation is to aid, strengthen, and further the literary, scientific, and educational work and services of Southern Arkansas University, to develop the ties and interest, support, and affection existing between Southern Arkansas University and its students, staff, alumni, and supporters, and to assist and coordinate in raising and managing funds and resources on behalf of Southern Arkansas University to be used exclusively in furthering the literary, scientific, and educational purposes of the university within the meaning of Section 501 (c)(3) of the Internal Revenue Code of 1954.

Note B: Summary of Significant Accounting Policies

Advertising

Advertising costs are charged to operations when incurred as a part of awards and promotions.

Basis of Reporting

The financial statements of the Foundation have been prepared on the accrual basis of accounting. Under this method of accounting, revenue is recognized when earned and when the amount and timing of the revenue can be reasonably estimated. Expenses are recognized when they occur.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB), Accounting Standards Codification (ASC) 958-210; *Presentation of Financial Statements of Not-For-Profit Entities*. Under FASB ASC 958-210, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: permanently restricted net assets, temporarily restricted net assets, and unrestricted net assets.

Permanently restricted net assets - net assets subject to donor-imposed stipulations that the net assets be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes in support of the University. The Foundation is allowed to expend principal in accordance with the spending policy established by the Foundation's Board of Governors (see Note E).

Temporarily restricted net assets – net assets subject to donor-imposed stipulations that may or will be met by actions of the Foundation and/or passage of time.

Unrestricted net assets – net assets which represent resources generated from operations or that are not subject to donor-imposed stipulations. Donor-restricted contributions, whose restrictions are met within the same year as received, are also reported as unrestricted contributions.

Revenue recognition - Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases these net asset classes. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Expirations of restrictions on net assets (i.e. the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Foundation considers cash and certificates of deposit with an initial maturity of three months or less to be cash equivalents. As of December 31, 2017 and 2016, cash equivalents totaling \$1,943,723 and \$1,947,303 respectively have been restricted by donor imposed stipulations. At December 31, 2017 and 2016 \$1,811,318 and \$1,637,986 respectively was held by the University in various designated agency accounts. These accounts are covered by pledged securities.

Contributions

Contributions, including unconditional promises to give, are recorded as received or promised and classified as unrestricted, temporarily restricted, or permanently restricted revenue and support depending on the existence and/or nature of any donor restrictions. If the restrictions expire in the fiscal year in which the contributions are recognized, the contributions are classified as unrestricted net assets.

Date of Management Review

The Foundation has evaluated events and transactions for potential recognition or disclosure in the financial statements through June 6, 2018 the date the report was available for release. No subsequent events have been recognized or disclosed.

Donated Noncash Assets and Donated Services

Donated noncash assets are recorded at their fair market values in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skill are recorded at their fair values in the period received. These donated services are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The University provides occupancy, utilities, and payroll services. Occupancy and utilities are not readily measureable. Payroll services are recorded as contributions at the date of receipt for December 31, 2017 and 2016 in the amounts of \$132,929 and \$140,242, respectively.

Income Taxes

The Foundation is exempt from federal income tax under the provisions of Internal Revenue Code Section 501(c)(3) and is not a private foundation. Therefore, no provision for federal or state income taxes has been made.

The Foundation files income tax returns in the U. S. federal jurisdiction. Generally, the Foundation is no longer subject to income tax examinations by the U. S. federal, state, or local tax authorities for years prior to 2014.

The Foundation has reviewed and evaluated tax positions in accordance with the provisions of FASB ASC 740-10-55, *Accounting for Uncertainty in Income Taxes*, which provides a financial statement recognition threshold and measurement attribute for a tax position taken or to be taken in a tax return. The Foundation does not feel any tax positions meet the requirements for reporting under this standard.

Investments

Investments consist primarily of marketable securities. Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with gains and losses included in the Statement of Activities. Restricted investment income and investment gains whose restrictions are met in the same reporting period are shown as unrestricted support.

Land, Property, and Equipment

Donations of land, property, and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

Accounts Payable

Accounts payable represents amounts due to the University from the endowment accounts.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note C: Unconditional Promises to Give

Unconditional promises to give as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Receivable in:		
Less than one year	\$ 698,184	\$ 396,785
One to five years	1,389,401	867,553
After five years	<u>0</u>	<u>0</u>
Total unconditional promises to give	\$ 2,087,585	\$ 1,264,338
Less allowance for uncollectible promises	83,885	51,460
Less unamortized discount	<u>48,644</u>	<u>23,000</u>
Net unconditional promises to give	<u>\$ 1,955,056</u>	<u>\$ 1,189,878</u>

As of December 31, 2017, unconditional promises to give totaling \$2,053,845 have been restricted by donor stipulations. Also, one donor represented more than 10% of total promises to give at December 31, 2017. This donor represented 11.9% of the total promises to give.

Unconditional promises to give with due dates extending beyond one year are discounted using Treasury bill rates for similar term investments. The applicable rates at December 31, 2017 were 1.76% to 2.2%.

Note D: Investments

The market values of the Foundation's portfolio of investments as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
U. S. Equities	\$ 4,244,248	\$ 3,677,444
American Depository Receipts	154,363	91,805
U. S. Equity Mutual Funds	16,698,461	14,738,849
International Equity Mutual Funds	5,763,438	4,956,582
U. S. Corporate Bonds	2,839,641	1,955,321
Municipal Bonds	6,251,013	5,527,583
U. S. Bond Mutual Funds	484,388	761,485
U. S. Government Agency Obligations	16,225	18,511
Money Market Funds	958,253	239,627
Certificates of Deposit	101,952	328,609
Limited Partnership Interests	150,000	0
Other Assets	<u>96</u>	<u>1,350</u>
	<u>\$ 37,662,078</u>	<u>\$ 32,297,166</u>

The Foundation provides for investments in various investment securities, which are in general exposed to various risks, such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term, and that those changes could materially affect the amounts reported in the statement of activities.

Note E: Investment Return

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended December 31, 2017.

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Interest income	\$	\$ 371,407	\$	\$ 371,407
Investment income		549,684		549,684
Investment fees		(136,164)		(136,164)
Net realized and unrealized gains		<u>2,741,169</u>	<u>1,782,037</u>	<u>4,523,206</u>
Total investment return	<u>\$ 0</u>	<u>\$ 3,526,096</u>	<u>\$ 1,782,037</u>	<u>\$ 5,308,133</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended December 31, 2016.

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Interest income	\$	\$ 279,726	\$	\$ 279,726
Investment income		503,346		503,346
Investment fees		(124,615)		(124,615)
Net realized and unrealized gains		<u>660,813</u>	<u>1,254,005</u>	<u>1,914,818</u>
Total investment return	<u>\$ 0</u>	<u>\$ 1,319,270</u>	<u>\$ 1,254,005</u>	<u>\$ 2,573,275</u>

Note F: Endowments

Endowments include donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions. The Foundation maintains four endowment funds. Distributions are made from three of the funds. The fourth fund is a student-managed investment account and no distributions are made from this fund.

Interpretation of Relevant Law: The Board of Governors of the Foundation has interpreted Senate Bill 254 (UPMIFA) cited as the “Uniform Prudent Management of Institutional Funds Act” as requiring the Board to use reasonable care, skill, and caution as exercised by a prudent investor in considering the investment management and expenditures of endowment funds. In accordance with UPMIFA, the Board may expend so much of an endowment fund as the Board determines to be prudent for the uses and purposes for which the endowment fund is established, consistent with the goal of conserving the long-term purchasing power of the endowment fund. The Board considered the following factors in making its determination:

1. The mission of the Foundation and the purpose of the endowment;
2. General economic conditions;
3. Possible effects of inflation or deflation on the fund;
4. Any expected tax consequences of investment decisions or strategies;
5. The role of each investment within the overall portfolio;
6. The anticipated total return from income and appreciation of the fund;
7. Other resources of the Foundation;
8. The need to make distributions and to preserve the endowment fund;
9. An asset’s special relationship, if any, to the charitable purpose of the institution.

As a result of this interpretation, the Board classifies as permanently restricted net assets (a) the original value of gifts donated to a permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) the remaining amount of investment return less appropriated expenditures at the end of each year.

Investment Return Objectives, Risk Parameters, and Strategies: The Foundation has adopted investment and spending policies, approved by the Board of Governors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 4.75% plus \$25,000, while growing the funds if possible. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy: The Foundation has a policy of allocating for distribution each year income from the (General/Reynolds/Hallman) endowments currently authorized at 4.75% plus \$25,000 of its endowment fund's average fair value of the prior twelve quarters ending value for most of its endowments. This policy is reviewed annually in consideration of current market conditions. In establishing this policy; the Foundation considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Foundation expects the current spending policy to allow its endowment funds to grow at a nominal rate, which is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment returns.

Changes in endowment net assets as of December 31, 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total Net Permanently Restricted</u>	<u>Endowment Assets</u>
Endowment net assets,				
Beginning of the year	\$	\$	\$ 31,435,747	\$ 31,435,747
Contributions			1,959,103	1,959,103
Investment income		3,526,096		3,526,096
Net appreciation			3,152,985	3,152,985
Amounts appropriated for expenditure		(3,526,096)		(3,526,096)
Endowment net assets,				
End of year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 36,547,835</u>	<u>\$ 36,547,835</u>

Note G: Split Interest Agreements

The Foundation receives contributions through its charitable gift annuity program whereby in exchange for gifts of cash, securities, or other assets, the Foundation promises to pay a fixed annual amount for life to the annuitant. The difference between the fair value of the assets received and the present value of the future distributions to the donor is recognized as contribution revenue. Upon the death of the annuitant, the balance of the amount in the split-interest account reverts to the Foundation.

Assets and liabilities related to the Foundation's split-interest agreements are as follows:

	<u>2017</u>	<u>2016</u>
Investments: Cash and securities	\$ 6,568	\$ 12,097
Annuities payable	<u>10,514</u>	<u>17,924</u>
Net Assets	<u>\$(3,946)</u>	<u>\$(5,827)</u>

Note H: Note Payable

The Foundation secured financing from the Farmers Bank & Trust Co., of Magnolia, Arkansas in the amount of \$250,000 in order to begin construction on the rodeo arena project. The note is a 0.00% unsecured loan that was due June 30, 2016. In June 2016 a payment of \$27,000 was made leaving a balance of \$49,000 and the note was extended one year. The note was paid off in November 2016.

Note I: Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods:

	<u>2017</u>	<u>2016</u>
Periods after December 31,	\$ 3,441,928	\$ 2,660,504

Net assets were released from donor restrictions by satisfying the purpose or time restrictions specified by donors as follows:

	<u>2017</u>	<u>2016</u>
Purpose restriction accomplished:		
Academia and student activities	\$ 1,002,817	\$ 1,003,654
SAU colleges and departments	<u>2,293,705</u>	<u>1,462,898</u>
Total restrictions released	<u>\$ 3,296,522</u>	<u>\$ 2,466,552</u>

Note J: Permanently Restricted Net Assets

Permanently restricted net assets are available for the following purposes or periods:

	<u>2017</u>	<u>2016</u>
Endowments	\$ 36,547,835	\$ 31,435,747

Note K: Fair Values of Financial Instruments

The following methods and assumptions were used by the Foundation in estimating the fair value of its financial instruments, which are reported at fair values.

Cash, cash equivalents, and short-term unconditional promises to give: The carrying amounts reported in the statement of financial position approximate fair values because of the short maturities of those instruments.

Long-term unconditional promises to give: The fair value of promises to give that are due in more than one year are estimated by discounting the future cash flows using discounted rates of return over the respective terms.

Short-term investments: The fair values of short-term investments are based upon quoted market prices.

Long-term investments: The fair values of long-term investments are based on quoted market prices for marketable debt and equity securities. Certain mutual funds are valued at the net asset value of the units held by the Foundation at year end, as reported by the investment manager and within the valuation guidelines stipulated in respective investment agreements. For investments where quoted prices are not available, fair value is calculated based on quoted prices of similar assets.

Note L: Fair Value Measurements

FASB ASC 820-10, *Fair Value Measurements* (ASC 820-10), provides a framework for measuring fair value under GAAP. ASC 820-10 defines fair value as the exchange prices that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820-10 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. ASC 820-10 also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

Level 1 – Quoted prices in active markets for identical assets the Foundation has the ability to access at the measurement date. These types of quoted prices would include publicly traded securities.

Level 2 – Inputs to the valuation methodology include:

1. Quoted prices for similar assets or liabilities in active markets;
2. Quoted prices for identical or similar assets or liabilities in inactive markets;
3. Inputs other than quoted prices that are observable for the asset or liability;
4. Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Pricing inputs that are unobservable for the asset. Inputs were not developed by the Foundation for any of these assets. These assets are carried at cost.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although 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.

There were no investment transfers due to changes in the observability of significant inputs between level 1, level 2, and level 3 assets during the year.

The following table sets forth, by level, within the fair value hierarchy, amounts recorded in the Foundation's financial statements at fair value as of December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
U. S. Equities	\$ 4,244,248	\$	\$	\$ 4,244,248
American Depository Receipts	154,363			154,363
U. S. Equity Mutual Funds	16,698,461			16,698,461
Int'l Equity Mutual Funds	5,763,438			5,763,438
U. S. Corporate Bonds	2,839,641			2,839,641
Municipal Bonds	6,251,013			6,251,013
U. S. Bond Mutual Funds	484,388			484,388
U. S. Govern Agency Obligations	16,225			16,225
Money Market Funds	958,253			958,253
Certificates of Deposit	101,952			101,952
Limited Partnership Interests			150,000	150,000
Other			96	96
Total investments	<u>\$ 37,511,982</u>	<u>\$ 0</u>	<u>\$ 150,096</u>	<u>\$ 37,662,078</u>

There were no significant changes in the fair value calculations of the Foundation's level 3 assets for the year ended December 31, 2017.

The following table sets forth, by level, within the fair value hierarchy, amounts recorded in the Foundation's financial statements at fair value as of December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
U. S. Equities	\$ 3,677,444	\$	\$	\$ 3,677,444
American Depositary Receipts	91,805			91,805
U. S. Equity Mutual Funds	14,738,849			14,738,849
Int'l Equity Mutual Funds	4,956,582			4,956,582
U. S. Corporate Bonds	1,955,321			1,955,321
Municipal Bonds	5,527,583			5,527,583
U. S. Bond Mutual Funds	761,485			761,485
U. S. Govern Agency Obligations	18,511			18,511
Money Market Funds	239,627			239,627
Certificates of Deposit	328,609			328,609
Other			1,350	1,350
Total investments	<u>\$ 32,295,816</u>	<u>\$ 0</u>	<u>\$ 1,350</u>	<u>\$ 32,297,166</u>

There were no significant changes in the fair value calculations of the Foundation's level 3 assets for the year ended December 31, 2016.

Note M: Concentrations

Substantially all of the Foundation's financial instruments are held with the Farmers Bank & Trust Co. and Mustard Seed Investments which are uninsured funds which provide investment asset management.

The Foundation has a formal policy addressing concentration of credit risk. Investments shall be diversified with the intent to minimize the risk of large realized and unrealized losses to the invested assets. The total portfolio will be constructed and maintained to provide prudent diversification with regard to the concentration of holdings in individual issues, corporations, or industries. Additionally, the Foundation minimizes exposure to custodial credit risk by requiring that investments, to the extent possible, be clearly marked as to Foundation ownership and be held in the Foundation's name. At the end of 2017, the Foundation had not invested more than 8% of their investments in any one issuer.