

**SOUTHERN ARKANSAS UNIVERSITY FOUNDATION, INC.**  
**TABLE OF CONTENTS**

Independent Auditors' Report	1
Financial Statements	
Statement s of Financial Position	2
Statement s of Activities	3-4
Statement s of Cash Flows	5
Notes to Accompany Financial Statements	6-13

K. DALE WOOD, CPA  
WALTER D. WOOD, CPA

P. O. BOX 356 - 519 NORTH WASHINGTON  
MAGNOLIA, ARKANSAS 71754-0356  
870-234-4343

### **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, 2018 and 2017 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, 2018 and 2017 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Wood and Wood, Ltd.  
Magnolia, AR

April 29, 2019

**SOUTHERN ARKANSAS UNIVERSITY FOUNDATION, INC.**

**STATEMENTS OF FINANCIAL POSITION**  
**December 31, 2018 and 2017**

**ASSETS**

	<u>2018</u>	<u>2017</u>
Cash and Cash Equivalents	\$ 2,294,043	\$ 1,943,723
Accrued Investment Earnings	110,250	127,305
Unconditional Promises to Give	1,939,964	1,955,056
Prepaid Expenses	6,373	6,373
Investments	<u>34,972,143</u>	<u>37,662,078</u>
<b>Total Assets</b>	<b><u>\$ 39,322,773</u></b>	<b><u>\$ 41,694,535</u></b>

**LIABILITIES AND NET ASSETS**

**Liabilities**

Accounts Payable	\$ 1,064,349	\$ 1,206,982
Annuities Payable	<u>42,975</u>	<u>10,514</u>
Total Liabilities	<b><u>\$ 1,107,324</u></b>	<b><u>\$ 1,217,496</u></b>

**Net Assets**

Without Donor Restrictions	\$ 521,560	\$ 487,276
With Donor Restrictions	<u>37,693,889</u>	<u>39,989,763</u>
Total Net Assets	<b><u>\$ 38,215,449</u></b>	<b><u>\$ 40,477,039</u></b>

<b>Total Liabilities and Net Assets</b>	<b><u>\$ 39,322,773</u></b>	<b><u>\$ 41,694,535</u></b>
---	-----------------------------	-----------------------------

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, 2018**

	<b><u>Without Donor Restrictions</u></b>	<b><u>With Donor Restrictions</u></b>	<b><u>Total</u></b>
<b>Revenue and Support</b>			
Contributions	\$ 48,045	\$ 2,679,983	\$ 2,728,028
Contributions -Services	203,081		203,081
Contributions -In kind		54,867	54,867
Investment Income (Loss)		( 2,437,790 )	( 2,437,790 )
Net Assets Released from Restrictions	<u>2,592,934</u>	<u>( 2,592,934 )</u>	
Total Revenue and Support	<u>\$ 2,844,060</u>	<u>\$ ( 2,295,874 )</u>	<u>\$ 548,186</u>
 <b>Expenses</b>			
Grants and Allocations	\$ 2,412,909	\$	\$ 2,412,909
Annuities	9,188		9,188
Awards and Promotions	64,564		64,564
Conferences, Meetings, and Lectures	38,486		38,486
Bad Debts	0		0
General and Administrative	<u>284,629</u>		<u>284,629</u>
Total Expenses	<u>\$ 2,809,776</u>	<u>\$</u>	<u>\$ 2,809,776</u>
 Increase (Decrease) in Net Assets	\$ 34,284	\$( 2,295,874 )	\$( 2,261,590 )
 Net Assets at the Beginning of the Year	<u>487,276</u>	<u>39,989,763</u>	<u>40,477,039</u>
 Net Assets at the End of the Year	<u>\$ 521,560</u>	<u>\$ 37,693,889</u>	<u>\$ 38,215,449</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, 2017**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Revenue and Support</b>			
Contributions	\$ 70,993	\$ 3,133,170	\$ 3,204,163
Contributions -Services	132,929		132,929
Contributions -In kind		748,731	748,731
Investment Income (Loss)		5,308,133	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>\$ 5,893,512</u>	<u>\$ 9,393,956</u>
 <b>Expenses</b>			
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>\$ 3,433,292</u>
 Increase (Decrease) in Net Assets	\$ 67,152	\$ 5,893,512	\$ 5,960,664
 Net Assets at the Beginning of the Year	<u>420,124</u>	<u>34,096,251</u>	<u>34,516,375</u>
 Net Assets at the End of the Year	<u>\$ 487,276</u>	<u>\$ 39,989,763</u>	<u>\$ 40,477,039</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, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Cash Flows from Operating Activities</b>		
Change in Net Assets	\$( 2,261,590 )	\$ 5,960,664
Adjustments to Reconcile Change in Net Assets to Net Cash from Operating Activities		
In Kind Contributions	( 54,867 )	( 748,731 )
Contributions Restricted for Long Term Investment	( 1,212,050 )	( 1,959,103 )
Net Realized/Unrealized (Gain) Loss on Investments	3,274,159	( 5,308,133 )
Changes in:		
Unconditional Promises to Give	15,092	( 765,178 )
Prepaid Expenses	0	0
Accounts Payable	<u>( 142,633 )</u>	<u>218,375</u>
Net Cash Used by Operating Activities	<u>\$( 381,889 )</u>	<u>\$( 2,602,106 )</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of Investments	\$( 3,242,281 )	\$( 7,110,040 )
Proceeds from Sale of Investments	<u>2,766,252</u>	<u>7,751,723</u>
Net Cash Used by Investing Activities	<u>\$( 476,029 )</u>	<u>\$ 641,683</u>
<b>Cash Flows from Financing Activities</b>		
Proceeds from Contributions Restricted for Long Term Investments	\$ 1,212,050	\$ 1,959,103
Payment on Note Principal	0	0
Payments of Annuity Obligations	<u>( 3,812 )</u>	<u>( 2,260 )</u>
Net Cash Provided by Financing Activities	<u>\$ 1,208,238</u>	<u>\$ 1,956,843</u>
<b>Net Change in Cash</b>	\$ 350,320	\$( 3,580 )
Cash, Beginning of the Year	<u>1,943,723</u>	<u>1,947,303</u>
<b>Cash, End of the Year</b>	<u>\$ 2,294,043</u>	<u>\$ 1,943,723</u>

The accompanying notes are an integral part of the financial statements

**SOUTHERN ARKANSAS UNIVERSITY FOUNDATION, INC.**

**NOTES TO ACCOMPANY FINANCIAL STATEMENTS**  
**December 31, 2018 and 2017**

**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.

**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) 958-205; *Presentation of Financial Statements of Not-For-Profit Entities*. Under FASB ASC 958-205, the Foundation is required to report information regarding its financial position and activities according to two classes of net assets: net assets with donor restrictions and net assets without donor restrictions.

*Net assets with donor restrictions* - net assets subject to donor-imposed stipulations that the net assets be maintained by the Foundation and/or that may or will be met by actions of the Foundation and/or passage of time.

*Net assets without donor restrictions* – 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 net assets without donor restrictions 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 restricted support that increases these net asset classes. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions 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, 2018 and 2017, cash equivalents totaling \$2,294,043 and \$1,943,723 respectively have been restricted by donor imposed stipulations. At December 31, 2018 and 2017 \$2,067,818 and \$1,811,318 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 April 29, 2019 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, 2018 and 2017 in the amounts of \$203,081 and \$132,929, 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 2015.

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.

**New Accounting Pronouncement**

On August 18, 2016, FASB issued ASU 2016-14, Not-for Profit Entities (Topic 958)-Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Southern Arkansas University Foundation, Inc. has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

**Note C: Unconditional Promises to Give**

Unconditional promises to give as of December 31, 2018 and 2017 are as follows:

Receivable in:	<u>2018</u>	<u>2017</u>
Less than one year	\$ 795,111	\$ 698,184
One to five years	1,282,572	1,389,401
After five years	<u>0</u>	<u>0</u>
Total unconditional promises to give	\$ 2,077,683	\$ 2,087,585
Less allowance for uncollectible promises	83,107	83,885
Less unamortized discount	<u>54,612</u>	<u>48,644</u>
Net unconditional promises to give	<u>\$ 1,939,964</u>	<u>\$ 1,955,056</u>

As of December 31, 2018, unconditional promises to give totaling \$2,076,418 have been restricted by donor stipulations. Also, two donors represented more than 10% of total promises to give at December 31, 2018. These donors represented 9.6% and 8.1% 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, 2018 were 2.51% to 2.63%.

**Note D: Investments**

The market values of the Foundation's portfolio of investments as of December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
U. S. Equities	\$ 3,775,467	\$ 4,244,248
American Depository Receipts	137,765	154,363
U. S. Equity Mutual Funds	14,504,247	16,698,461
International Equity Mutual Funds	4,984,564	5,763,438
U. S. Corporate Bonds	3,300,620	2,839,641
Municipal Bonds	6,595,389	6,251,013
U. S. Bond Mutual Funds	356,524	484,388
U. S. Government Agency Obligations	164,229	16,225
Money Market Funds	897,044	958,253
Certificates of Deposit	98,698	101,952
Limited Partnership Interests	157,500	150,000
Other Assets	<u>96</u>	<u>96</u>
	<u>\$ 34,972,143</u>	<u>\$ 37,662,078</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, 2018.

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Interest income	\$	\$ 387,146	\$ 387,146
Investment income		599,350	599,350
Investment fees		( 150,127 )	( 150,127 )
Net realized and unrealized gains		( 3,274,159 )	( 3,274,159 )
Total investment return	<u>\$</u>	<u>\$( 2,437,790 )</u>	<u>\$( 2,437,790 )</u>

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

	Without Donor <u>Restriction</u>	With Donor <u>Restrictions</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		4,523,206	4,523,206
Total investment return	<u>\$</u>	<u>\$ 5,308,133</u>	<u>\$ 5,308,133</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 net assets with donor restrictions (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, 2018 are as follows:

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	Endowment <u>Assets</u>
Endowment net assets, Beginning of the year	\$	\$ 36,547,835	\$ 36,547,835
Contributions		1,212,050	1,212,050
Investment income		2,118,704	2,118,704
Net appreciation (depreciation)		( 2,963,741 )	( 2,963,741 )
Amounts appropriated for expenditure		<u>( 2,118,704 )</u>	<u>( 2,118,704 )</u>
Endowment net assets, End of year	<u>\$ 0</u>	<u>\$ 34,796,144</u>	<u>\$ 34,796,144</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>2018</u>	<u>2017</u>
Investments: Cash and securities	\$ 52,562	\$ 6,568
Annuities payable	<u>42,975</u>	<u>10,514</u>
Net Assets	<u>\$ 9,587</u>	<u>\$ ( 3,946 )</u>

**Note H: Liquidity and Availability of Financial Assets**

The following reflects the Foundation's financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date. Donor-restricted amounts that are available for use within one year for general purposes include the estimated receipt from the unconditional promises to give and the accrued investment earnings which will be appropriated from the endowment.

	<u>2018</u>	<u>2017</u>
Financial assets at year end	\$ 38,139,743	\$ 40,403,363
Less those unavailable for general expenditures with one year due to:		
Donor-restricted unconditional promises to give due in more than one year	1,176,657	1,284,799
Donor-restricted payment of annuities due in more than one year	36,815	8,254
Donor-restricted endowments	<u>34,796,144</u>	<u>36,547,835</u>
	<u>\$ 2,130,127</u>	<u>\$ 2,562,475</u>

**Note I: 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 J: 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, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
U. S. Equities	\$ 3,775,467	\$	\$	\$ 3,775,467
American Depository Receipts	137,765			137,765
U. S. Equity Mutual Funds	14,504,247			14,504,247
Int'l Equity Mutual Funds	4,984,564			4,984,564
U. S. Corporate Bonds	3,300,620			3,300,620
Municipal Bonds	6,595,389			6,595,389
U. S. Bond Mutual Funds	356,524			356,524
U. S. Govern Agency Obligations	164,229			164,229
Money Market Funds	897,044			897,044
Certificates of Deposit	98,698			98,698
Limited Partnership Interests			157,500	157,500
Other			96	96
Total investments	<u>\$ 34,814,547</u>	<u>\$ 0</u>	<u>\$ 157,596</u>	<u>\$ 34,972,143</u>

There were no significant changes in the fair value calculations of the Foundation's level 3 assets for the year ended December 31, 2018.

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 Depositary 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.

#### **Note K: 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 2018, the Foundation had not invested more than 8% of their investments in any one issuer.

#### **Note L: Functional Expenses**

Expenses are presented by functional classification in accordance with the overall service mission of the Foundation. Each functional classification displays all expenses related to the underlying operations by natural classification. For the year ended December 31, 2018, functional expenses consist of the following:

	<u>Program Services</u>	<u>Management &amp; General</u>	<u>Fundraising</u>	<u>Total</u>
Grant and Allocations	\$ 2,412,909	\$	\$	\$ 2,412,909
Annuities	9,188			9,188
Award and Promotions			64,564	64,564
Administrative Reimbursements	50,770	50,770	101,540	203,808
Professional Fees		9,295		9,295
Conferences, Meetings, and Lectures	38,486		46	38,532
General Administrative		9,506	62,702	72,208
	<u>\$ 2,511,353</u>	<u>\$ 69,571</u>	<u>\$ 228,852</u>	<u>\$ 2,809,776</u>