ARKANSAS COMMUNITY FOUNDATION, INC.

COMBINED FINANCIAL STATEMENTS

JUNE 30, 2019 and 2018

WITH

INDEPENDENT AUDITOR'S REPORT

CONTENTS

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 affiliate, which comprise the combined statements of financial position as of June 30, 2019 and 2018, the related combined statements of activities and cash flows for the years 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 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 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 affiliate as of June 30, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 2 to the combined financial statements, in the fiscal year ending June 30, 2019, Arkansas Community Foundation, Inc. adopted Financial Accounting Standards Board (FASB) Accounting Standard Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Hogan Taylor LLP

Little Rock, Arkansas
November 6, 2019

ARKANSAS COMMUNITY FOUNDATION, INC.

COMBINED STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	$ 28,175,337	$ 17,850,278
Certificates of deposit	1,102,368	259,874
Due from broker (Note 3)	3,534,399	-
Contributions receivable (Notes 3 and 4)	5,710,910	5,784,310
Investments at fair value (Note 4)	386,906,732	286,310,959
Beneficial interests in charitable trusts, net of unamortized discount of $1,771,831 and $2,511,158 for 2019 and 2018, respectively (Notes 3 and 4)	6,503,838	6,987,298
Annuity insurance contracts receivable, net of unamortized discount of $13,134 and $22,386 for 2019 and 2018, respectively (Notes 3, 4, and 6)	273,841	281,772
Cash surrender value of life insurance	475,625	442,561
Other receivables (Note 3)	2,000,000	2,000,000
Investments at cost (Note 5)	3,338,972	3,944,735
Property and equipment, operating, net (Note 7)	671,115	746,740
Property and equipment, held-for-sale (Note 7)	3,652,700	3,652,700
Other assets	19,000	-
Total assets	$ 442,364,837	$ 328,261,227
Liabilities and Net Assets		
Liabilities:		
Scholarships and other payables	$ 2,493,283	$ 2,438,108
Annuity contracts payable (Notes 4 and 6)	525,762	538,481
Agency arrangement liabilities (Note 4)	39,142,705	38,285,238
Total liabilities	42,161,750	41,261,827
Net assets:		
Net assets without donor restrictions:		
Undesignated	19,370,762	18,773,593
Field of interest	30,319,035	29,782,758
Donor advised	249,229,791	154,270,168
Donor designated	85,640,535	66,098,043
Total net assets without donor restrictions	384,560,123	268,924,562
Net assets with donor restrictions	15,642,964	18,074,838
Total net assets	400,203,087	286,999,400
Total liabilities and net assets	$ 442,364,837	$ 328,261,227

ARKANSAS COMMUNITY FOUNDATION, INC.

COMBINED STATEMENT OF ACTIVITIES

Year ended June 30, 2019

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Support and Revenue			
Support:			
Contributions	$ 144,998,533	$ 346,946	$ 145,345,479
Less amounts received on behalf of agency arrangement liabilities	(640,238)	-	(640,238)
Net contributions raised	144,358,295	346,946	144,705,241
Revenue:			
Interest and dividends	7,589,273	-	7,589,273
Realized and unrealized gains on investments, net	7,150,406	-	7,150,406
Change in value of beneficial interests in charitable trusts	(29,181)	407,747	378,566
Net revenue before allocation of investment income to agency arrangement liabilities	14,710,498	407,747	15,118,245
Less amount allocated to agency arrangement liabilities	(1,639,237)	-	(1,639,237)
Net revenue	13,071,261	407,747	13,479,008
Net assets released from restrictions	3,186,567	(3,186,567)	-
Net support and revenue	160,616,123	(2,431,874)	158,184,249
Expenses:			
Grants and scholarships	40,966,916	-	40,966,916
Less amounts distributed on behalf of agency arrangement liabilities	(1,048,273)	-	(1,048,273)
Net grants and scholarships	39,918,643	-	39,918,643
Other program expenses	3,201,856	-	3,201,856
Management and general	829,180	-	829,180
Fundraising and development	1,030,883	-	1,030,883
Total expenses	44,980,562	-	44,980,562
Change in net assets	115,635,561	(2,431,874)	113,203,687
Net assets, beginning of year	268,924,562	18,074,838	286,999,400
Net assets, end of year	$ 384,560,123	$ 15,642,964	$ 400,203,087

See notes to combined financial statements.

ARKANSAS COMMUNITY FOUNDATION, INC.

COMBINED STATEMENT OF ACTIVITIES

Year ended June 30, 2018

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Support and Revenue			
Support:			
Contributions	$ 16,648,894	$ 9,239,527	$ 25,888,421
Less amounts received on behalf of agency arrangement 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 losses 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 arrangement liabilities	16,804,279	195,480	16,999,759
Less amount allocated to agency arrangement liabilities	(2,659,657)	-	(2,659,657)
Net revenue	14,144,622	195,480	14,340,102
Net assets released from restrictions	4,909,172	(4,909,172)	-
Net support and revenue	33,024,630	4,525,835	37,550,465
Expenses:			
Grants and scholarships	41,610,803	-	41,610,803
Less amounts distributed on behalf of agency arrangement liabilities	(741,196)	-	(741,196)
Net grants and scholarships	40,869,607	-	40,869,607
Other program expenses	3,447,369	-	3,447,369
Impairment loss on property held-for-sale (Note 7)	2,933,356	-	2,933,356
Management and general	775,274	-	775,274
Fundraising and development	875,815	-	875,815
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

See notes to combined financial statements.

ARKANSAS COMMUNITY FOUNDATION, INC.

COMBINED STATEMENTS OF CASH FLOWS

Years ended June 30, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Change in net assets	$ 113,203,687	$ (11,350,956)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Contributions of investments and other assets	(47,830,890)	(2,181,295)
Contributions of property	-	(285,000)
Depreciation	80,168	47,396
Realized and unrealized gains on investments, net	(7,150,406)	(11,301,922)
Change in value of beneficial interests in charitable trusts	(378,566)	(176,992)
Change in value of cash surrender value of life insurance	(33,064)	239,568
Loss on disposal of property and equipment	-	3,292
Impairment of held-for-sale property	-	2,933,356
Changes in:		
Contributions receivable	73,400	(5,162,542)
Beneficial interests in charitable trusts	891,207	701,874
Other receivables	-	3,723
Other assets	(19,000)	-
Scholarships and other payables	55,175	(80,231)
Agency arrangement liabilities	857,467	4,233,682
Net cash provided by (used in) operating activities	59,749,178	(22,376,047)
Cash Flows from Investing Activities		
Purchase of property and equipment	(4,543)	(428,606)
Purchase of certificates of deposit	(842,494)	(259,874)
Purchase of investments	(300,316,765)	(123,347,502)
Sale of investments	251,772,341	143,930,430
Net purchases and payments received from annuity insurance contracts receivable	56,180	56,181
Net receipts from and payments on annuity contracts payable	(88,838)	(90,336)
Net cash (used in) provided by investing activities	(49,424,119)	19,860,293
Net change in cash and cash equivalents	10,325,059	(2,515,754)
Cash and cash equivalents, beginning of year	17,850,278	20,366,032
Cash and cash equivalents, end of year	$ 28,175,337	$ 17,850,278

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 2,100 charitable funds have been developed through both statewide efforts and 28 county-level affiliate offices directly serving 44 counties.

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). Arkansas Community Foundation, Inc. was established under the provisions of Section 509(a)(1) of the Internal Revenue Code (the Code). 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 organization totaled approximately $2,620,000 and $3,180,000 as of June 30, 2019 and 2018, 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 75% and 32% of its contributions during the years ended June 30, 2019 and 2018, respectively. Additionally, two different organizations comprised of 91% of the Foundation's contributions receivable as of June 30, 2019. For the year ended June 30, 2018, one organization comprised 93% of the Foundation's contributions receivable.

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 net assets with donor restrictions 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. Investment activity is recorded as of the trade date. 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 nonrecurring 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, if deemed necessary. 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, 2019 or 2018.

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 primarily serving the state of Arkansas, 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. For the years ended June 30, 2019 and 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, 2019 and 2018, is segregated in the accompanying combined statements of activities.

Net assets classification

The Foundation classifies net assets as follows:

Net assets without donor restrictions include all net assets not classified as net assets with donor restrictions, 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 net assets without donor restrictions.

Net assets without donor restrictions are comprised of the following categories of donor designations:

> *Undesignated* – Net assets without donor restrictions 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 – Net assets without donor restrictions 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 – Net assets without donor restrictions 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 – Net assets without donor restrictions categorized as donor designated are the result of contributions made to provide annual grants to specific public charities named by the donor.

Net assets with donor restrictions are the result of grant funds designated for spending in a future year or that are subject to donor-imposed stipulations that 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, net assets with donor restrictions are reclassified to net assets without donor restrictions 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%; however, the fees increase up to 5% for scholarship funds and 10% 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

The expenses of providing various programs and support services have been categorized on a functional basis in the statements of activities. Natural 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 combined 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, 2019, for nonpublic entities. 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 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, 2020, 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, 2022. 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 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU: (1) replaces the three current classes of net assets (unrestricted, temporarily restricted, and permanently restricted) with two new classes – "net assets with donor restrictions" and "net assets without donor restrictions"; (2) expands the disclosures about the nature and amount of any donor restrictions, board designations of net assets without donor restrictions as well as any underwater endowments; (3) requires expenses to be presented by nature and function, as well as an analysis of the allocation of these expenses; (4) requires specific quantitative and qualitative disclosures to improve the ability of financial statement users to assess the entity's available financial resources and the methods by which it manages liquidity and liquidity risk; and (5) requires investment returns to be presented net of external and direct internal investment expenses. ASU 2016-14 is effective for annual periods beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018, with early adoption permitted. The Foundation adopted this ASU as of and for the year ended June 30, 2019. As a result, changes in terminology used to describe categories of net assets throughout the combined financial statements were made as well as expanded footnote disclosures as required by this ASU. The Foundation elected to not disclose the liquidity and availability of resources (Note 13) for June 30, 2018, as permitted under the ASU in the year of adoption.

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 combined statement of cash flows. The amendments provide guidance on specific cash flow issues. The ASU is effective 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.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. ASU 2018-13 is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. An entity is permitted to early adopt any removed or modified disclosures and delay adoption of the additional disclosures until their effective date. The Foundation is currently evaluating the impact of this new standard on its combined financial statements.

Subsequent events

The Foundation has evaluated subsequent events for recognition and disclosure through November 6, 2019, the date the combined financial statements were available to be issued.

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

Contributions receivable and amounts due from broker are all due within one year as of June 30, 2019, and therefore are not discounted. At June 30, 2019, beneficial interests in charitable trusts consisted of amounts due under three charitable lead trusts and two charitable remainder trusts. The beneficial interests in charitable trusts as of June 30, 2018, 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:

	2019	2018
Due from broker	$ 3,534,399	$ -
Contributions receivable	5,710,910	5,784,310
Beneficial interests in charitable trusts	8,275,669	9,498,456
Annuity insurance contracts receivable	286,975	304,158
Other receivables	2,000,000	2,000,000
Total receivables before unamortized discount	19,807,953	17,586,924
Less: Unamortized discount on beneficial interest in charitable trusts and annuity insurance contracts receivable	(1,784,965)	(2,533,544)
Net receivables	$ 18,022,988	$ 15,053,380
Amount due in:		
Less than one year	$ 9,711,619	$ 6,264,417
One to five years	1,860,932	1,917,083
More than five years	8,235,402	9,405,424
Total	$ 19,807,953	$ 17,586,924

Contributions receivable, amounts due from broker, 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, 2019 or 2018.

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, 2019 and 2018, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation methodologies used for instruments measured at fair value.

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.

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.

Private equity securities and funds – The fair value is 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, 2019, are as follows:

	Level 1	Level 2	Level 3	Total
Equity securities	$ 3,502,405	$ -	$ -	$ 3,502,405
Fixed income securities	1,369,309	-	-	1,369,309
Mutual funds	301,309,114	-	-	301,309,114
Private equity securities and funds	-	-	5,054,000	5,054,000
Investments in the fair value hierarchy	306,180,828	-	5,054,000	311,234,828
Investments measured at NAV*				75,671,904
Total investments at fair value				386,906,732
Beneficial interests in charitable trusts	-	-	6,503,838	6,503,838
Annuity insurance contracts receivable	-	-	273,841	273,841
Other assets at fair value	-	-	6,777,679	6,777,679
Total assets at fair value	$ 306,180,828	$ -	$ 11,831,679	$ 393,684,411

* 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, 2019, are as follows:

	Level 1	Level 2	Level 3	Total
Agency arrangement liabilities	$ -	$ 39,142,705	$ -	$ 39,142,705
Annuity contracts payable	-	-	525,762	525,762
Total liabilities at fair value	$ -	$ 39,142,705	$ 525,762	$ 39,668,467

Fair value on a nonrecurring basis

The balance of assets measured at fair value on a nonrecurring basis within the fair value hierarchy as of June 30, 2019, is as follows:

	Level 1	Level 2	Level 3	Total
Contributions receivable	$ -	$ -	$ 5,710,910	$ 5,710,910

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	Total
Equity securities	$ 4,374,068	$ -	$ -	$ 4,374,068
Fixed income securities	3,583,451	-	-	3,583,451
Mutual funds	219,543,081	-	-	219,543,081
Private equity securities and funds	-	-	5,052,000	5,052,000
Investments in the fair value hierarchy	227,500,600	-	5,052,000	232,552,600
Investments measured at NAV*				53,758,359
Total investments at fair value				286,310,959
Beneficial interests in charitable trusts	-	-	6,987,298	6,987,298
Annuity insurance contracts receivable	-	-	281,772	281,772
Other assets at fair value	-	-	7,269,070	7,269,070
Total assets at fair value	$ 227,500,600	$ -	$ 12,321,070	$ 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	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 nonrecurring basis

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

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

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, 2019 and 2018, 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:

	2019	2018
Unrealized gains on investments, net	$ 7,222,223	$ 4,961,858
Realized gains on investments, net	2,126,842	8,393,115
Less: Investment expenses	(2,198,659)	(2,053,051)
Realized and unrealized gains on investments, net	$ 7,150,406	$ 11,301,922

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, 2019:

	Redemption Frequency	Redemption Notice Period	2019 Fair Value	2018 Fair Value
Collective trust	Semi-monthly	30 days	$ -	$ 8,946,183
Limited partnerships	Various (a)	Various (a)	45,231,206	16,889,344
Hedge funds	Various (b)	Various (b)	24,001,524	21,363,642
Private equity funds	None (c)	Not applicable (c)	6,439,174	6,559,190
			$ 75,671,904	$ 53,758,359

(a) Limited partnerships totaling approximately $43.1 million may be redeemed monthly with five to ten days notice as of June 30, 2019. The Foundation has unfunded commitments totaling approximately $3.8 million and $1.2 million as of June 30, 2019 and 2018, respectively. Limited partnerships totaling approximately $2.2 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, 2019, which may be redeemed annually with 95 days notice.

A hedge fund with a fair value of approximately $1.7 million as of June 30, 2019, which may be redeemed annually with 95 days notice.

A hedge fund with a fair value of approximately $1.2 million as of June 30, 2019, which may be redeemed annually with 95 days notice.

A hedge fund with a fair value of approximately $7.5 million as of June 30, 2019, 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 $5.0 million as of June 30, 2019, which may be redeemed quarterly with 60 days notice. Any withdrawal requests that exceed 10% of the total partners' capital in the fund may be reduced by the hedge fund.

A hedge fund with a fair value of approximately $5.1 million as of June 30, 2019, which may be redeemed monthly with 60 days notice.

(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:

	2019		2018	
Date by Which Funds are Expected to be Liquidated	Fair Value	Unfunded Commitment	Fair Value	Unfunded Commitment
December 2018	$ -	$ -	$ 594,976	$ 917,009
October 2022	1,639,641	948,708	1,787,020	1,098,839
December 2024	924,136	873,431	921,708	751,882
December 2027	-	-	442,230	439,856
None (d)	3,875,397	4,657,009	2,813,256	1,866,000
	$ 6,439,174	$ 6,479,148	$ 6,559,190	$ 5,073,586

(d) The Foundation may not withdraw funds from the investment; however, a partnership interest with a fair value of approximately $710,000 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, 2017	$ 4,129,000	$ 7,802,982	$ 586,730
Change in present value	-	219,077	42,087
Net realized and unrealized losses	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
Change in present value	-	454,685	76,119
Net realized and unrealized gains	268,000	1,311	-
Sales	(266,000)	(440,696)	-
Payments received	-	(506,691)	-
Payments made and grants received	-	-	(88,838)
Balance, June 30, 2019	$ 5,054,000	$ 6,777,679	$ 525,762

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, 2019	$ 5,054,000	$ 6,777,679	$ 525,762	$ 5,710,910
Fair Value at June 30, 2018	$ 5,052,000	$ 7,269,070	$ 538,481	$ 5,784,310
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, 2019	11.25%; 15.0x; 1.70 - 1.90x	2016 "Period Life Table" from the Office of the Chief Actuary; 1.87% - 2.52%	2016 "Period Life Table" from the Office of the Chief Actuary; 2.52% - 2.98%	N/A
Range of Significant Input Values at June 30, 2018	11.75%; 15.0x; 1.75 - 1.85x	2016 "Period Life Table" from the Office of the Chief Actuary; 1.93% - 2.98%	2016 "Period Life Table" from the Office of the Chief Actuary; 1.93% - 2.98%	N/A

Note 5 – Investments at Cost

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

	2019	2018
Interest in privately held companies	$ 3,302,972	$ 3,908,735
Real estate	36,000	36,000
Total	$ 3,338,972	$ 3,944,735

The Foundation's investments in privately held companies are made up primarily of ownership interests in four companies. As of June 30, 2019, these investments are carried at an adjusted cost of approximately $2,539,000. As of and during the most recent reporting period for the companies, the Foundation's share of the combined owners' equity was approximately $6,037,000, and the Foundation's share of net income was approximately $464,000. As of June 30, 2018, these investments were 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. 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:

	2019	2018
Annuity insurance contracts receivable	$ 273,841	$ 281,772
Investments at fair value	535,649	529,184
Annuity contracts payable	(525,762)	(538,481)
Annuity contracts surplus	$ 283,728	$ 272,475

Note 7 – Property and Equipment

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

	2019	2018
Land	$ 175,000	$ 175,000
Building	110,000	110,000
Furniture and equipment	809,387	813,853
Property and equipment operating assets, gross	1,094,387	1,098,853
Less: accumulated depreciation	(423,272)	(352,113)
Property and equipment operating assets, net	671,115	746,740
Property held-for-sale	3,652,700	3,652,700
Property and equipment, net	$ 4,323,815	$ 4,399,440

Depreciation expense on property and equipment totaled approximately $80,000 and $47,000 for the years ended June 30, 2019 and 2018, 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 balance 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, 2018. During such time, the Foundation leased the property back to the donor at a rate determined based on estimated fair market value. The lease expired June 30, 2018. As the home had been for sale and not sold for over a year, the Foundation obtained an updated appraisal of the property during 2018. For the year ended June 30, 2018, an impairment loss of $2,933,356 was 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, 2019, are as follows:

	2019	2018
Education	69%	73%
Communities	16%	12%
Families	9%	10%
Health	6%	5%
Total	100%	100%

Note 9 – Endowments

The Foundation's endowments consist of approximately 1,560 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 with or without donor restriction in the accompanying combined statements of financial position.

Endowment net asset composition by type of fund and changes in board-designated endowment net assets for the year ended June 30, 2019, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2018	$ 155,788,685	$ 6,814,425	$ 162,603,110
Investment income:			
Interest and dividends	3,837,526	-	3,837,526
Net gains on investments (realized and unrealized)	3,509,565	-	3,509,565
Total investment income	7,347,091	-	7,347,091
Contributions	20,567,661	600,000	21,167,661
Net reclassification from endowment assets	224,927	(730,930)	(506,003)
Appropriation of endowment assets for expenditure	(7,610,497)	-	(7,610,497)
Other changes	14,418	238,109	252,527
Total changes	20,543,600	107,179	20,650,779
Endowment net assets, June 30, 2019	$ 176,332,285	$ 6,921,604	$ 183,253,889

Endowment net asset composition by type of fund and changes in board-designated endowment net assets for the year ended June 30, 2018, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, July 1, 2017	$ 148,789,566	$ 6,276,005	$ 155,065,571
Investment income:			
Interest and dividends	2,925,172	-	2,925,172
Net losses 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 to 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 $150,000 and $145,000 for the years ended June 30, 2019 and 2018, respectively. For the years ended June 30, 2019 and 2018, the Foundation had an operating surplus from general operations, of which approximately $323,000 and $241,000, 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 net assets with donor restrictions 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, 2019, 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 $11,000 and $92,000, and received contributions of approximately $500 and $17,500, during the years ended June 30, 2019 and 2018, 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 $119,000 and $115,000 to the Plan for the years ended June 30, 2019 and 2018, respectively.

Note 12 – Operating Lease Commitments

The Foundation leased office space under a noncancelable operating lease that began in June 2007 and expired on May 30, 2018. During the prior year, the Foundation moved its 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, 2019 and 2018, under these lease arrangements was approximately $256,000 and $89,000, respectively.

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

2020	$ 240,549
2021	247,765
2022	255,198
2023	262,854
2024	270,740
Thereafter	1,201,997
Total	$ 2,479,103

Note 13 – Liquidity and Availability of Resources

The Foundation's financial assets available to meet cash needs for grant making, general expenditures, liabilities or other obligations within one year of the June 30, 2019, combined statements of financial position date are as follows:

Cash and cash equivalents	$ 28,175,337
Certificates of deposit	272,519
Due from broker	3,534,399
Contributions receivable	5,634,742
Investments at fair value	386,906,732
Total financial assets, at year-end	424,523,729
Less investments with a liquidation period exceeding one year	(6,439,174)
Less amounts unavailable for general expenditures within one year due to restrictions by donors with purpose restrictions	(15,642,964)
Total financial assets available to management for general expenditure within one year	$ 402,441,591

The assets above include $365,189,361 held in field of interest, donor advised, and donor-designated funds as of June 30, 2019. The Foundation generally uses these assets for grant making based on agency and donor recommendations.

As part of the Foundation's liquidity management, its policy is to structure its financial assets to be available as grants, general expenditures, liabilities and other obligations become due. The Foundation invests cash in excess of daily requirements in short-term investments and money market funds. The Foundation's available financial assets exclude certain assets that the Foundation would not be able to liquidate within one year of the date of the combined statement of financial position.

Note 14 – Functional Classification of Expenses

Expenses by both natural and functional classification for the year ended June 30, 2019, consist of the following:

	Program Activities		Supporting Activities		
	Grants and Scholarships	Other Programs	Management and General	Fundraising and Development	Total
Grants and scholarships	$ 39,918,643	$ -	$ -	$ -	$ 39,918,643
Community programs	-	1,569,792	-	-	1,569,792
Contract services	-	36,668	12,388	497	49,553
Depreciation	-	42,205	20,766	17,198	80,169
Events and travel	-	109,817	14,038	32,219	156,074
Information technology	-	94,461	46,481	38,529	179,471
Insurance	-	16,873	8,301	6,866	32,040
Marketing, outreach and publications	-	24,680	-	375,960	400,640
Occupancy and office	-	183,600	90,609	77,978	352,187
Personnel costs	-	1,102,937	544,559	471,300	2,118,796
Professional fees	-	6,440	64,405	1,931	72,776
Other	-	14,383	27,633	8,405	50,421
Total expenses	$ 39,918,643	$ 3,201,856	$ 829,180	$ 1,030,883	$ 44,980,562

Expenses by both natural and functional classification for the year ended June 30, 2018, consist of the following:

	Program Activities		Supporting Activities		
	Grants and Scholarships	Other Programs	Management and General	Fundraising and Development	Total
Grants and scholarships	$ 40,869,607	$ -	$ -	$ -	$ 40,869,607
Impairment loss	-	-	2,933,356	-	2,933,356
Community programs	-	1,961,759	-	-	1,961,759
Contract services	-	29,405	9,986	554	39,945
Depreciation	-	24,617	11,993	10,786	47,396
Events and travel	-	81,998	13,157	50,853	146,008
Information technology	-	78,141	38,072	34,246	150,459
Insurance	-	13,286	6,471	5,811	25,568
Marketing, outreach and publications	-	30,403	-	220,351	250,754
Occupancy and office	-	174,416	85,412	78,527	338,355
Personnel costs	-	1,039,861	509,338	468,722	2,017,921
Professional fees	-	2,083	72,753	876	75,712
Other	-	11,400	28,092	5,089	44,581
Total expenses	$ 40,869,607	$ 3,447,369	$ 3,708,630	$ 875,815	$ 48,901,421