HEIFER INTERNATIONAL
FOUNDATION

Financial Statements and Supplementary Information
for the Years Ended June 30, 2014 and 2013,
with Independent Auditors' Reports

HEIFER INTERNATIONAL FOUNDATION

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INDEPENDENT AUDITORS' REPORT

**To the Board of Trustees
Heifer International Foundation:**

Report on the Financial Statements

We have audited the accompanying financial statements of Heifer International Foundation, which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and net assets 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.

Auditors' 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Heifer International Foundation as of June 30, 2014 and 2013, and the results of its activities and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

JPMS Cox, PLLC

September 24, 2014

HEIFER INTERNATIONAL FOUNDATION

STATEMENTS OF FINANCIAL POSITION, JUNE 30, 2014 AND 2013

ASSETS	2014	2013
Cash and cash equivalents	$ 4,577,978	$ 2,456,791
Contributions and bequests receivable	571,705	431,813
Interest receivable	205,275	211,421
Note receivable	9,008	66,976
Prepaid expenses	42,716	35,962
Investments	90,145,125	78,482,784
Certificate of deposit	469,083	464,315
Property and equipment, net	19,303	33,052
TOTAL ASSETS	$ 96,040,193	$ 82,183,114
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued liabilities	$ 168,710	$ 189,138
Annuities payable	4,811,298	4,953,139
Trusts payable	9,275,487	8,616,415
Refundable advances	2,952,855	2,589,291
Total liabilities	17,208,350	16,347,983
NET ASSETS:		
Unrestricted:		
Board designated	8,581,853	6,641,733
Undesignated	(6,358,993)	(9,334,406)
Unrestricted, net	2,222,860	(2,692,673)
Temporarily restricted	6,187,212	2,895,728
Permanently restricted	70,421,771	65,632,076
Net assets	78,831,843	65,835,131
TOTAL LIABILITIES AND NET ASSETS	$ 96,040,193	$ 82,183,114

See Notes to Financial Statements

HEIFER INTERNATIONAL FOUNDATION

STATEMENT OF ACTIVITIES, JUNE 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE, GAINS, AND OTHER SUPPORT:				
Contributions:				
General	$ 968,471	$ 24,050	$ 3,863,820	$ 4,856,341
Annuities and trusts	-	-	340,940	340,940
Investment return	5,460,518	4,347,552	-	9,808,070
Change in split interest obligations	-	-	584,935	584,935
Net assets released from restrictions	1,080,118	(1,080,118)	-	-
Total revenue, gains, and other support	7,509,107	3,291,484	4,789,695	15,590,286
EXPENSES:				
Program services	1,964,582	-	-	1,964,582
Management and general	617,169	-	-	617,169
Fundraising	11,823	-	-	11,823
Total expenses	2,593,574	-	-	2,593,574
CHANGE IN NET ASSETS	4,915,533	3,291,484	4,789,695	12,996,712
Net assets, beginning of year	(2,692,673)	2,895,728	65,632,076	65,835,131
Net assets, end of year	$ 2,222,860	$ 6,187,212	$ 70,421,771	$ 78,831,843

See Notes to Financial Statements.

HEIFER INTERNATIONAL FOUNDATION

STATEMENT OF ACTIVITIES, JUNE 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE, GAINS, (LOSSES), AND OTHER SUPPORT:				
Contributions:				
General	$ 1,010,584	$ -	$ 2,484,108	$ 3,494,692
Annuities and trusts	-	-	172,357	172,357
Investment return	3,777,555	1,756,555	-	5,534,110
Change in split interest obligations	-	-	(440,209)	(440,209)
Net assets released from restrictions	605,210	(605,210)	-	-
Total revenue, gains, (losses), and other support	5,393,349	1,151,345	2,216,256	8,760,950
EXPENSES:				
Program services	1,652,621	-	-	1,652,621
Management and general	629,254	-	-	629,254
Fundraising	16,125	-	-	16,125
Total expenses	2,298,000	-	-	2,298,000
CHANGE IN NET ASSETS	3,095,349	1,151,345	2,216,256	6,462,950
Net assets, beginning of year	(5,788,022)	1,744,383	63,415,820	59,372,181
Net assets, end of year	$ (2,692,673)	$ 2,895,728	$ 65,632,076	$ 65,835,131

See Notes to Financial Statements.

HEIFER INTERNATIONAL FOUNDATION

STATEMENTS OF CASH FLOWS FOR YEAR ENDED JUNE 30, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 12,996,712	$ 6,462,950
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	13,749	11,757
Net realized and unrealized gain on investment portfolio	(10,887,524)	(4,679,264)
Change in value of split interest obligations	(584,935)	440,209
Contributions of investments	(160,994)	(240,389)
Contributions received restricted for long-term investment	(4,204,760)	(2,656,465)
Changes in operating assets and liabilities:		
Contributions, bequests, and interest receivable	(133,746)	11,182
Prepaid expenses	(6,754)	1,218
Accounts payable and accrued liabilities	(20,428)	(3,551)
Refundable advances	363,564	185,539
Annuities and trusts payable	2,767,559	1,009,347
Total adjustments	(12,854,269)	(5,920,417)
Net cash provided by operating activities	142,443	542,533
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments and certificate of deposit	(44,637,212)	(40,455,559)
Proceeds from disposition of investments	44,018,621	35,072,662
Purchase of property and equipment	-	(8,966)
Net cash used in investing activities	(618,591)	(5,391,863)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions restricted for annuities and trusts	340,940	172,357
Contributions restricted for endowments	3,863,820	2,484,108
Payments on split interest obligations	(1,665,393)	(1,625,660)
Payments received on note receivable	57,968	55,146
Net cash provided by financing activities	2,597,335	1,085,951
CHANGE IN CASH AND CASH EQUIVALENTS	2,121,187	(3,763,379)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,456,791	6,220,170
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 4,577,978	$ 2,456,791

See Notes to Financial Statements.

1. NATURE OF OPERATIONS & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations – Heifer International Foundation (the "Foundation") is a nonprofit organization whose mission is to build an endowment to generate ongoing support for the work of Heifer Project International ("HPI"), to educate people on how planned charitable giving supports HPI's work, and to serve as a fiduciary for the Foundation's donors. The Foundation's office is located in Little Rock, Arkansas.

Cash Equivalents – The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2014 and 2013, cash equivalents consisted primarily of money market funds.

Investments and Investment Return – Investments are carried at fair value determined by quoted prices, as available. Donated investments are initially valued at the fair value at time of donation. Investment return includes dividends, interest, and other investment income, net of investment management fees; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

Investment income and appreciation on permanently restricted net assets is generally reported as temporarily restricted until these funds are appropriated for expenditure, generally when requested for spending by the ultimate recipient. Investment income and appreciation on donor-restricted endowment funds whose fair value has fallen below the fair value of the original gift are reported as unrestricted until such deficiency is eliminated. Other investment return is reflected in the statements of activities as unrestricted.

The Foundation maintains pooled investment accounts for its endowments. Investment income, and realized and unrealized gains and losses from securities in the pooled investment accounts, are allocated monthly to the individual endowments based on the relationship of the fair value of each endowment to the total fair value of the pooled investment accounts, as adjusted for additions to or deductions from those accounts.

Contributions and Bequests Receivable – Contributions and bequests receivable are stated at the amount due from donors or other parties. The Foundation provides an allowance for receivables in which collection is doubtful. The allowance is based upon a review of outstanding receivables and specific knowledge of the circumstances surrounding the receivable. An allowance was not deemed necessary as of June 30, 2014 and 2013. As most contributions receivable consist of bequests, amounts due to the Foundation are paid upon settlement of the estate. Receivables are written off based on the specific circumstances of the related receivable.

Property and Equipment – Property and equipment are recorded at cost for purchased assets and estimated fair value as of the date of the contribution for contributed assets. The Foundation capitalizes all expenditures for property and equipment in excess of $5,000. Property and equipment is depreciated on a straight-line basis over the estimated useful life of each asset.

Net Assets Classification – The Foundation distinguishes between unrestricted, temporarily restricted, and permanently restricted net assets and changes in net assets in the accompanying financial statements. A description of these net asset classifications is as follows:

Unrestricted net assets **–** Net assets are classified as unrestricted if they are not subject to donor-imposed stipulations and are available to support the operations of the Foundation.

Temporarily restricted net assets **–** Temporarily restricted net assets include gifts and investment income and gains that can be expended, but for which restrictions have not been met. Those restrictions include time and purpose restrictions imposed by donors, and restrictions imposed by law that restricts net investment income and gains until appropriated for expenditure.

Permanently restricted net assets **–** Permanently restricted net assets have been restricted by donors to be maintained by the Foundation in perpetuity.

Contributions – Gifts of cash and other assets are classified and reported in the appropriate restriction category based upon the existence or absence of donor restrictions.

Spending Policy – The Foundation's spending is governed by the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), which was approved by the Uniform Law Commission to serve as a guideline for states to use in enacting legislation. The state of Arkansas has enacted UPMIFA, which requires nonprofit foundations with donor-restricted endowed funds to follow certain standards when making investment and spending policy decisions.

Income Taxes **–** The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, should the Foundation generate unrelated business income, that income would be subject to federal income tax.

Management evaluated the Foundation's tax positions and concluded that the Foundation had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. With few exceptions, the Foundation is no longer subject to income tax examinations by the United States federal, state, or local tax authorities for years before 2011.

Fair Value of Financial Instruments – The estimated fair values of the Foundation's short-term financial instruments, including receivables and payables arising in the ordinary course of business, approximate their individual carrying amounts due to the relatively short period of time between their origination and expected realization.

Functional Allocation of Expenses – The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the program, management and general, and fundraising categories based on time studies and other methods.

Reclassifications – Certain 2013 amounts have been reclassified to conform to the 2014 presentation.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Subsequent Events – The Foundation has evaluated events that occurred after June 30, 2014, but prior to September 24, 2014, the date the financial statements were issued. The Foundation did not identify any events or transactions during this period of time that require recognition or disclosure in the financial statements for the year ended June 30, 2014.

2. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Value Measurements – The Foundation accounts for financial instruments using the standards included in the *Fair Values Measurements and Disclosures (ASC 820)* topic of the Accounting Standards Codification. This topic provides a framework for measuring fair value under generally accepted accounting principles and applies to all financial instruments that are being measured and reported on a fair value basis.

As defined in the *Fair Value Measurement* topic, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Foundation uses various methods including market, income, and cost approaches. Based on these approaches, the Foundation often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Foundation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Foundation is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values.

Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes United States agency securities, municipal bonds, and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

- Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

- Level 3 – Valuations for assets and liabilities 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.

For the years ended June 30, 2014 and 2013, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation methodologies used for instruments measured at fair value.

Investment Securities – The fair value of investment securities is the market value based on quoted market prices when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument. For the years ended June 30, 2014 and 2013, securities held by the Foundation are classified as Level 1, Level 2, and Level 3 securities.

Private Equity Investments – Private equity investments as of June 30, 2014 include investments in a limited partnership that focuses on timberland investments and a limited partnership that invests in private equity companies and other limited partnerships. In addition, the Foundation has committed to an investment in a limited partnership focused on real estate investments; however the Foundation had not funded this investment as of June 30, 2014. The limited partnerships evaluate the fair value of the timberland or underlying investments to determine the equity in the limited partnership.

In connection with the private equity investments noted above, the Foundation is obligated under the investment contracts to advance funding up to contractual levels, upon call by the general partner. The remaining commitments to be funded were $7,375,000 and $5,712,000 at June 30, 2014 and 2013, respectively. The general partner of the limited partnerships must approve any requests for redemption of investment and is not obligated to provide such approval.

For the valuation of private equity investments as of June 30, 2014 and 2013, the Foundation used significant unobservable inputs, including information from general partners and other valuation methods. The Foundation reviewed and evaluated the values provided by the general partners and agreed with the valuation methods and assumptions used in determining the fair value of the investments.

Fair Value on a Recurring Basis – The balances of assets measured at fair value on a recurring basis as of June 30, 2014, are as follows:

	Total	Level 1	Level 2	Level 3
Investments:				
Common stock:				
Small cap	$ 6,738,067	$ 6,738,067	$ -	$ -
Large cap	9,647,286	9,647,286	-	-
International equities	12,665,140	12,665,140	-	-
Preferred Stock	336,742	336,742	-	-
Mutual funds	27,228,088	27,228,088	-	-
U.S. Agency securities	3,876,858	3,876,858	-	-
Corporate bonds	13,626,449	11,851,685	1,774,764	-
Municipal bonds	1,092,043	-	1,092,043	-
Mortgage-backed securities	6,783,187	1,436,839	5,293,966	52,382
Real estate	319,000	-	-	319,000
Limited partnerships	189,630	-	-	189,630
Private equity	7,642,635	-	-	7,642,635
Total investments	$ 90,145,125	$ 73,780,705	$ 8,160,773	$ 8,203,647

The balances of assets measured at fair value on a recurring basis as of June 30, 2013, are as follows:

	Total	Level 1	Level 2	Level 3
Investments:				
Common stock:				
Small cap	$ 8,108,946	$ 8,108,946	$ -	$ -
Large cap	13,694,715	13,694,715	-	-
International equities	10,599,624	10,599,624	-	-
Global equities	3,858,955	3,858,955	-	-
Preferred Stock	342,906	342,906	-	-
Mutual funds	10,822,970	10,822,970	-	-
U.S. Agency securities	2,568,458	2,269,046	299,412	-
Corporate bonds	13,126,116	11,747,430	1,378,686	-
Municipal bonds	1,077,061	42,246	1,034,815	-
Mortgage-backed securities	7,655,117	665,849	6,918,475	70,793
Real estate	568,500	-	-	568,500
Limited partnerships	200,848	-	-	200,848
Private equity	5,858,568	-	-	5,858,568
Total investments	$ 78,482,784	$ 62,152,687	$ 9,631,388	$ 6,698,709

The changes in Level 3 assets measured at fair value on a recurring basis as of June 30, 2014, are summarized as follows:

	Mortgage Backed Securities	Real Estate	Limited Partnerships	Private Equity
Balance, July 1, 2013	$ 70,793	$ 568,500	$ 200,848	$ 5,858,568
Purchases	-	-	-	1,374,500
Sales/Distributions	(18,596)	(249,500)	-	(547,344)
Net loss	-	-	(11,218)	(99,438)
Realized and unrealized gains	185	-	-	1,056,349
Balance, June 30, 2014	$ 52,382	$ 319,000	$ 189,630	$ 7,642,635

The changes in Level 3 assets measured at fair value on a recurring basis as of June 30, 2013, are summarized as follows:

	Mortgage Backed Securities	Real Estate	Limited Partnerships	Private Equity	Insurance Policy Bequests Receivable
Balance, July 1, 2012	$ 81,649	$ 618,000	$ 239,974	$ 5,613,372	$ 270,711
Purchases	-	-	-	460,000	-
Sales/Distributions	(14,158)	(49,500)	(12,696)	(354,941)	(109,954)
Net loss	-	-	(26,430)	(41,752)	-
Realized and unrealized gains	3,302	-	-	181,889	-
Balance, June 30, 2013	$ 70,793	$ 568,500	$ 200,848	$ 5,858,568	$ 160,757

To assess the appropriate classification of investments within the fair value hierarchy, the availability of market data is monitored. Changes in economic conditions or valuation techniques may require the transfer of investments from one fair value level to another. In such instances, the transfer is reported at the end of the reporting period.

The Foundation evaluated the significance of transfers between levels based upon the nature of the investment and size of the transfer relative to total assets. For the year ended June 30, 2014, there were transfers of approximately $1,782,000 in and out of Levels 1 and 2. For the year ended June 30, 2013, were no significant transfers in or out of Levels 1 or 2.

3. PROPERTY AND EQUIPMENT

Property and equipment at June 30 consisted of the following:

	2014	2013
Computers and other equipment	$ 35,818	$ 35,818
Software	30,095	30,095
Furniture	45,458	45,458
Leasehold improvements	20,000	20,000
	131,371	131,371
Less accumulated depreciation and amortization	(112,068)	(98,319)
Property and equipment, net	$ 19,303	$ 33,052

4. ANNUITIES AND TRUSTS PAYABLE

The Foundation has been the recipient of gift annuities that require future payments to the donor or their named beneficiaries. The contributed assets received from the donor are recorded at fair value. The Foundation had a liability at June 30, 2014 and 2013, of approximately $4,811,000 and $4,953,000, respectively, which represents the present value of the estimated future annuity obligations. The liability has been determined using mortality tables and the applicable federal rate in effect at the time the contribution was made. In accordance with state regulations regarding annuities, the Foundation maintains an annuity reserve to ensure assets are available to meet annuity obligations. Assets of the annuity reserve are included in cash and cash equivalents, interest receivable, investments, and certificate of deposit on the statement of financial position as of June 30, 2014 and 2013, for a total reserve balance of approximately $7,396,000 and $7,948,000, respectively .

The Foundation administers various charitable remainder trusts. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the designated beneficiary's life time or a stated term. At the end of the trust's term, a portion or all of the remaining assets are available for the Foundation's use based upon the donor's designation at the time of the establishment of the trust. The portion of the trust attributable to the future interest of the Foundation is recorded in the statement of activities as permanently restricted contributions in the period the trust is established. Assets held in the charitable remainder trusts are recorded at fair value in the Foundation's statement of financial position. On an annual basis, the Foundation revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments is calculated using the applicable IRS Section 752 federal interest rate in effect at the time of the contribution and applicable mortality tables. At June 30, 2014 and 2013, the Foundation had recorded approximately $9,275,000 and $8,616,000, respectively, in trust liabilities due to the beneficiaries for the remainder of the stated or expected term of the trust.

In addition, the Foundation calculates the liability for any portion of the remaining assets of the trust or annuity's term that is due to other organizations. This liability is recorded by the Foundation as refundable advances. The portion of refundable advances related to trust and annuity agreements was approximately $2,447,000 and $2,155,000 as of June 30, 2014 and 2013, respectively. The remaining balance in refundable advances on the accompanying statement of financial position relates to interest-free loans, agency funds, and advised gift funds.

5. NET ASSETS

Temporarily Restricted Net Assets – Temporarily restricted net assets at June 30 are available to HPI for the following purposes:

	2014	2013
Countries and international programs	$ 1,383,462	$ 701,806
Country matching	290,003	205,679
HPI ranch and farm operation	141,143	81,361
Animals	379,034	193,828
Training	189,673	156,681
Education	244,675	153,528
Women in livestock development program	132,682	81,481
Other	348,856	183,519
Unappropriated endowment income	3,077,684	1,137,845
Total	$ 6,187,212	$ 2,895,728

Permanently Restricted Net Assets – Permanently restricted net assets of which the income is expendable to support at June 30 are restricted to:

	2014	2013
Any activity of the Foundation or HPI	$ 58,622,583	$ 53,895,513
Countries and international programs	5,108,839	5,054,838
Country matching	2,650,857	2,650,857
HPI ranch and farm operation	549,202	549,202
Animals	1,381,405	1,363,971
Training	118,609	118,609
Education	579,879	579,759
Women in livestock development program	400,848	394,970
Other	1,009,549	1,024,357
Total	$ 70,421,771	$ 65,632,076

Net Assets Released from Restrictions – Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors, for the years ended June 30.

Purpose restrictions accomplished:		
Countries and international programs	$ 291,773	$ 199,013
Country matching	47,000	45,413
HPI ranch and farm operations	26,976	25,199
Animals	86,500	83,374
Training	17,091	15,984
Education	41,958	43,040
Women in livestock development program	24,047	21,946
Other	66,856	40,955
Endowment income appropriated	477,917	130,286
Total	$ 1,080,118	$ 605,210

6. INVESTMENT RETURN

Total investment return for the years ended June 30, 2014 and 2013, is comprised of the following:

	2014	**2013**
Interest and dividend income	$ 1,676,534	$ 1,634,765
Net realized and unrealized returns on investments reported at fair value	8,636,212	4,335,971
Investment management fee	(504,676)	(436,626)
	$ 9,808,070	$ 5,534,110

7. RELATED PARTY TRANSACTIONS

The Foundation and HPI are financially interrelated organizations. HPI authorizes the Foundation to solicit contributions on its behalf. In the absence of donor restrictions, the Foundation has discretionary control over the amounts and timing of its distributions to HPI.

The Foundation incurs various program related costs during the year. The most significant of these costs are contributions to HPI. The Foundation's contributions to HPI during the years ended June 30 are reported in the Foundation's financial statements as program services as follows:

	2014	2013
Unrestricted	$ 1,074,479	$ 786,711
Contributions temporarily restricted for:		
Countries and international programs	390,452	384,716
Education properties operations and maintenance	33,004	32,047
Education and training	34,854	33,427
Country matching	143,016	137,790
Other purposes	100,694	91,012
	$ 1,776,499	$ 1,465,703

The Foundation and HPI both receive contributions in the form of testamentary bequests wherein HPI is named a beneficiary. HPI may at their discretion transfer undesignated bequests where HPI is listed as the beneficiary to the Foundation, unless otherwise restricted by the donor. A portion of these bequests were transferred to the Foundation and recorded by the Foundation as contributions amounting to $2,739,329 and $1,987,150 for the years ended June 30, 2014 and 2013, respectively.

In addition, the Foundation has contracted for services from HPI, such as access to certain information systems and support, marketing services, and processing of payroll and accounts payable. The Foundation paid HPI $19,596 and $20,553 for providing these services during the years ended June 30, 2014 and 2013, respectively. In October of 2010 the Foundation entered into a lease agreement with HPI, with a term of three years and options to extend for up to an additional four years. In accordance with the lease agreement, the Foundation paid $36,017 and $35,139 in rent expense for the years ended June 30, 2014 and 2013, respectively.

The Foundation's board of trustees has agreed to make available up to $8 million or 10% of endowment assets, whichever is greater, as a line of credit to HPI, as of June 30, 2014. The amount available as a line of credit to HPI as of June 30, 2013 was $12 million. Draws against the line accrue interest at an agreed upon interest rate no greater than prime as set by Regions Bank. During the years ended June 30, 2014 and 2013, HPI made no draws under the line of credit arrangement, and therefore, paid no interest to the Foundation.

8. RETIREMENT PLANS

The Foundation sponsors a defined contribution retirement plan (the "Plan") that covers substantially all employees of the Foundation. The employer contributions to the Plan are discretionary. The Foundation contributed $21,444 and $38,871 to the Plan for the years ended June 30, 2014 and 2013, respectively.

9. SIGNIFICANT ESTIMATES AND CONCENTRATIONS

Accounting principles generally accepted in the United States of America ("GAAP") require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Split interest obligations – The Foundation has entered into a number of split interest obligations that require estimation of the liability. The methods used in estimating these liabilities are discussed in Note 4. Events could occur that would materially change this estimated liability in the near term.

Investments – The Foundation has significant investments in securities, which are subject to price fluctuations. This risk is mitigated through a diversified portfolio and regular monitoring procedures.

10. ENDOWMENTS

The Foundation accounts for endowments using the standards included in the *Not-for-Profit Entities* topic of the Codification, as well as UPMIFA.

As of June 30, 2014 and 2013, the Foundation administers approximately 1,000 endowments, most of which are donor-restricted endowment funds and the remainder are funds designated by the board of trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law – The board of trustees of the Foundation has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the board of trustees of the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:
(1) The duration and preservation of the fund
(2) The purposes of the organization and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the organization
(7) The investment and spending policies of the organization

Endowment net asset composition by type of fund as of June 30, 2014, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds and related earnings	$ (13,582,025)	$ 6,187,211	$ 68,602,307	$ 61,207,493
Board-designated endowment funds and related earnings	8,581,853	-	-	8,581,853
Total endowment	$ (5,000,172)	$ 6,187,211	$ 68,602,307	$ 69,789,346

Changes in endowment net assets for the year ended June 30, 2014, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (9,805,535)	$ 2,895,728	$ 64,526,248	$ 57,616,441
Investment return:				
Interest and dividends	781,490	715,891	-	1,497,381
Net appreciation (unrealized and realized)	4,986,582	3,631,660	-	8,618,242
Total investment return	5,768,072	4,347,551	-	10,115,623
Contributions/transfers	974,613	24,050	4,076,059	5,074,722
Distributions	(3,017,439)	-	-	(3,017,439)
Released from temporarily restricted	1,080,118	(1,080,118)	-	-
Endowment net assets, end of year	$ (5,000,171)	$ 6,187,211	$ 68,602,307	$ 69,789,347

Endowment net asset composition by type of fund as of June 30, 2013, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (16,447,268)	$ 2,895,728	$ 64,526,248	$ 50,974,708
Board-designated endowment funds	6,641,733	-	-	6,641,733
Total endowment	$ (9,805,535)	$ 2,895,728	$ 64,526,248	$ 57,616,441

Changes in endowment net assets for the year ended June 30, 2013, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (12,520,379)	$ 1,744,383	$ 61,394,895	$ 50,618,899
Investment return:				
Interest and dividends	793,571	576,858	-	1,370,429
Net appreciation (unrealized and realized)	2,952,694	1,179,697	-	4,132,391
Total investment return	3,746,265	1,756,555	-	5,502,820
Contributions/transfers	1,010,584	-	3,131,353	4,141,937
Distributions	(2,647,215)	-	-	(2,647,215)
Released from temporarily restricted	605,210	(605,210)	-	-
Endowment net assets, end of year	$ (9,805,535)	$ 2,895,728	$ 64,526,248	$ 57,616,441

Funds with Deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets was $13,582,025 and $16,447,268 as of June 30, 2014 and 2013, respectively. This deficiency resulted from unfavorable market fluctuations that occurred in previous years.

Risk Objectives and Risk Parameters – The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of attributed earnings to HPI and to support the current and future operations of the Foundation. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity. Under this policy, as approved by the board of trustees, the endowment assets are invested in a manner that is intended to produce an average annual return, net of investment manager fees and after inflation, which will grow the investment over a reasonable time period and preserve the purchasing power of the assets. Actual returns in any given year may vary from this objective.

Strategies Employed for Achieving Objectives – To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy – The Foundation has a policy of making available for appropriation 5.5% of the average market value of the income producing assets in restricted use endowments as attributed income to HPI for the immediately following fiscal year. Average market value is calculated based on the market value as of the three preceding calendar year-ends. Additionally, the Foundation funded its operating budget for the years ended June 30, 2014 and 2013, with no more than 3.68% and 4.25%, respectively, of the three-year rolling average of the calendar year-end market value of undesignated endowment funds. Further, the Foundation made available 2.82% and 2.25% for distribution to HPI for the years ended June 30, 2014 and 2013, respectively. In establishing this policy, the Foundation considered the long-term expected return and goals of the endowment. This policy can be revised at the discretion of the board of trustees.

SUPPLEMENTARY INFORMATION

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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Trustees
Heifer International Foundation:

We have audited the financial statements of Heifer International Foundation as of and for the years ended June 30, 2014 and 2013, and have issued our report thereon which contains an unmodified opinion on those financial statements. See page one. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

JPMS Cox, PLLC

September 24, 2014

HEIFER INTERNATIONAL FOUNDATION

SUPPLEMENTARY SCHEDULE OF FUNCTIONAL EXPENSES
FOR YEAR ENDED JUNE 30, 2014

	Program Services	Management and General	Fundraising	Total Expenses
Salaries and wages	$ 98,273	$ 311,033	$ -	$ 409,306
Employee benefits	23,607	74,416	-	98,023
Total salaries, wages and related expenses	121,880	385,449	-	507,329
Disbursements to HPI	1,776,499	-	-	1,776,499
Supplies, printing, and promotion	19,419	25,695	10,089	55,203
Travel	13,917	19,539	-	33,456
Conference and meetings	830	2,597	-	3,427
Professional and consulting	3,991	68,412	225	72,628
Equipment rental and maintenance	314	963	19	1,296
Occupancy costs	9,300	29,032	520	38,852
Depreciation	4,812	8,937	-	13,749
Support and other service	12,211	68,791	970	81,972
Personnel expenses	1,409	7,754	-	9,163
Total	$ 1,964,582	$ 617,169	$ 11,823	$ 2,593,574

HEIFER INTERNATIONAL FOUNDATION

SUPPLEMENTARY SCHEDULE OF FUNCTIONAL EXPENSES
FOR YEAR ENDED JUNE 30, 2013

	Program Services	Management and General	Fundraising	Total Expenses
Salaries and wages	$ 94,150	$ 295,604	$ -	$ 389,754
Employee benefits	27,394	87,966	-	115,360
Total salaries, wages and related expenses	121,544	383,570	-	505,114
Disbursements to HPI	1,465,703	-	-	1,465,703
Supplies, printing, and promotion	16,437	27,149	13,934	57,520
Travel	15,499	23,995	-	39,494
Conference and meetings	9,200	800	-	10,000
Professional and consulting	2,820	62,364	371	65,555
Equipment rental and maintenance	1,145	5,255	34	6,434
Occupancy costs	7,187	41,395	579	49,161
Depreciation	5,879	5,879	-	11,758
Support and other service	5,377	68,912	1,207	75,496
Personnel expenses	1,830	9,935	-	11,765
Total	$ 1,652,621	$ 629,254	$ 16,125	$ 2,298,000

HEIFER INTERNATIONAL FOUNDATION

SUPPLEMENTARY SCHEDULES OF ANNUITY RESERVE ASSETS

The following disclosures were made in accordance with the disclosure requirements of the Arkansas Code of 1987 Annotated Official Edition 23-63-201. At June 30, 2014, the Foundation's charitable gift annuities were comprised of the following:

The annuity reserve assets included the following:	
Money market funds	$ 58,074
Interest and dividends receivable	61,343
U.S. Treasury securities	937,965
Preferred stocks	85,442
Municipal bonds	554,484
Mortgage-backed securities	1,429,290
Corporate bonds	3,787,583
Mutual funds	197,405
Certificate of deposit	284,486
Annuity reserve assets	7,396,072
Annuities payable	(4,811,298)
Annuity surplus	$ 2,584,774

At June 30, 2013, the Foundation's charitable gift annuities were comprised of the following:

The annuity reserve assets included the following:	
Money market funds	$ 64,605
Interest and dividends receivable	66,381
U.S. Treasury securities	986,787
Preferred stocks	87,006
Municipal bonds	544,046
Mortgage-backed securities	1,742,594
Corporate bonds	3,765,704
Mutual funds	409,136
Certificate of deposit	282,097
Annuity reserve assets	7,948,356
Annuities payable	(4,953,139)
Annuity surplus	$ 2,995,217

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

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