

**NATIONAL GUARD ASSOCIATION OF
ARKANSAS ENDOWMENT, INC.**

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

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INDEPENDENT AUDITORS' REPORT

Board of Directors
National Guard Association of Arkansas Endowment, Inc.
North Little Rock, Arkansas

We have audited the accompanying financial statements of the National Guard Association of Arkansas Endowment, Inc. ("NGAAE") (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017, and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 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 NGAAE as of June 30, 2017, and 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited NGAAE's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 4, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Priddy & Holifield, P.A.

North Little Rock, Arkansas

December 13, 2018

NATIONAL GUARD ASSOCIATION OF ARKANSAS ENDOWMENT, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

ASSETS	<u>2017</u>	<u>2016</u>
Current Assets:		
Cash	\$ 36,751	\$ 135,001
Contributions Receivable – NGAA	30,000	-
Total Current Assets	<u>66,751</u>	<u>135,001</u>
 Investments – Endowment Assets	 <u>1,217,858</u>	 <u>1,088,646</u>
 Total Assets	 <u><u>\$ 1,284,609</u></u>	 <u><u>\$ 1,223,647</u></u>
 LIABILITIES AND NET ASSETS		
Current Liabilities:		
Scholarships Payable	\$ 37,500	\$ 37,500
Other Payable	500	1,000
Total Current and Total Liabilities	<u>38,000</u>	<u>38,500</u>
 Net Assets:		
Unrestricted	80,345	110,595
Temporarily Restricted	166,264	74,552
Permanently Restricted	1,000,000	1,000,000
Total Net Assets	<u>1,246,609</u>	<u>1,185,147</u>
 Total Liabilities and Net Assets	 <u><u>\$ 1,284,609</u></u>	 <u><u>\$ 1,223,647</u></u>

See Accompanying Notes

NATIONAL GUARD ASSOCIATION OF ARKANSAS ENDOWMENT, INC.
STATEMENTS OF ACTIVITIES
YEAR ENDED JUNE 30, 2017, WITH SUMMARIZED
FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2016

	Year Ended June 30, 2017				Year Ended June 30, 2016 Summarized
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenues, Gains, and Other Support:					
Contributions	\$ -	\$ 30,000	\$ -	\$ 30,000	\$ 57,599
Investment Return	-	129,212	-	129,212	(6,201)
Net Assets Released from Restriction	67,500	(67,500)	-	-	-
Total Revenues, Gains, and Other Support	<u>67,500</u>	<u>91,712</u>	<u>-</u>	<u>159,212</u>	<u>51,398</u>
Expenses:					
Program Services:					
Scholarships	37,500	-	-	37,500	38,250
Charitable Contributions	48,250	-	-	48,250	-
Supporting Services	12,000	-	-	12,000	8,023
Total Expenses	<u>97,750</u>	<u>-</u>	<u>-</u>	<u>97,750</u>	<u>46,273</u>
Change in Net Assets	(30,250)	91,712	-	61,462	5,125
Net Assets:					
Beginning of Year	<u>110,595</u>	<u>74,552</u>	<u>1,000,000</u>	<u>1,185,147</u>	<u>1,180,022</u>
End of Year	<u>\$ 80,345</u>	<u>\$ 166,264</u>	<u>\$ 1,000,000</u>	<u>\$ 1,246,609</u>	<u>\$ 1,185,147</u>

See Accompanying Notes

NATIONAL GUARD ASSOCIATION OF ARKANSAS ENDOWMENT, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
Change in Net Assets	\$ 61,462	\$ 5,125
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:		
Investment Return	(129,212)	6,201
(Increase)/Decrease in Contributions Receivable	(30,000)	56,396
Change in Other Payable	(500)	500
Net Cash (Used In)/Provided by Operating Activities	<u>(98,250)</u>	<u>68,222</u>
Cash Flows from Investing Activities:		
Purchases of Investments – Endowment Assets	<u>-</u>	<u>(53,994)</u>
Net Cash Used in Investing Activities	<u>-</u>	<u>(53,994)</u>
Net (Decrease)/Increase in Cash and Cash Equivalents	(98,250)	14,228
Cash and Cash Equivalents, Beginning of Year	<u>135,001</u>	<u>120,773</u>
Cash and Cash Equivalents, End of Year	<u>\$ 36,751</u>	<u>\$ 135,001</u>

See Accompany Notes

**NATIONAL GUARD ASSOCIATION OF ARKANSAS ENDOWMENT, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities and Financial Statement Presentation

National Guard Association of Arkansas Endowment, Inc. ("NGAAE") was established in 2014 by the National Guard Association of Arkansas ("NGAA") and the Enlisted Association of the Arkansas National Guard ("EAANG") for the purpose of meeting the charitable objectives of each entity, including a scholarship program for members of NGAA and EAANG or their dependents.

NGAAE maintains a separate board of directors consisting of members of the board of directors of NGAA and EAANG, and operates separately from either association; however, NGAA approves a majority of the members of NGAAE's board of directors and the Executive Director and President of NGAA are, by definition, members of NGAAE's board. As it is possible for NGAA to exercise management control over NGAAE, it is possible that the net assets or financial position of NGAAE could be significantly different than those if it were autonomous.

NGAAE has no restriction as to its beneficiaries and may choose to provide support to either or both NGAA and EAANG or to any other entity to fulfill its charitable purposes.

As of April 1, 2014, two trusts of NGAA, which were terminated, gifted their assets to NGAAE. Assets totaling \$1,000,000 were gifted for the purpose of creating an endowment to provide a permanent source of earnings for NGAAE to use for any of its charitable purposes.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, NGAAE considers all short-term investments with a remaining maturity of three months or less when purchased to be cash equivalents, unless included in the Endowment Assets.

Contributions Receivable

Contributions are stated at the amount due from donors or other parties for receivables due generally in less than one year. NGAAE 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 receivables. An allowance was not deemed necessary as of June 30, 2017 or 2016. Receivables are written off based on the specific circumstances of the related receivable.

Investments – Endowment Assets

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 realized and unrealized gains and losses.

Investment income and appreciation on permanently restricted net assets is generally reported as temporarily restricted until these funds are appropriated for expenditure, generally when approved for spending. 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.

NATIONAL GUARD ASSOCIATION OF ARKANSAS ENDOWMENT, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Net Asset Classification

NGAAE is required to report its financial position and activities according to three classes of net assets – unrestricted, temporarily restricted, and permanently restricted. 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 NGAAE.

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/or 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 NGAAE in perpetuity.

Contributions

Contributions, including unconditional promises to give, are recognized as support in the statements of activities in the period received or when NGAAE becomes aware that a promise to give has been made, whichever occurs first. Contributions are classified as unrestricted, temporarily restricted, or permanently restricted based on the existence or absence of donor restrictions.

Spending Policy

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

Fair Value Measurement of Financial Instruments

Authoritative accounting literature establishes a framework for using fair value to measure assets and liabilities. Fair value is defined as 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, including the assumptions about the risk inherent in a particular valuation technique.

The following methods and assumptions were used by NGAAE in estimating its fair value disclosures for financial instruments:

Cash, Contributions Receivable, Scholarships and Other Payable: For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Investments – Endowment Assets: Fair values for investments are market prices as provided by recognized broker dealers. If a quoted market value is not available, fair value is estimated using quoted market prices of comparable instruments. For investment securities traded in a market that is not active, fair value is determined using unobserved inputs.

NATIONAL GUARD ASSOCIATION OF ARKANSAS ENDOWMENT, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Income Taxes

NGAAE is exempt from income taxes pursuant to Internal Revenue Code Section 501(c)(3). However, should NGAAE generate unrelated business income, that income would be subject to federal income tax. NGAAE is generally no longer subject to examination by the Internal Revenue Service for years before 2013.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 and expenses during the reporting period. Actual results could differ from those estimates.

2. CONCENTRATIONS

Cash accounts, not held as endowment assets, are insured by the National Credit Union Administration up to \$250,000 at June 30, 2017, and June 30, 2016.

3. INVESTMENTS – ENDOWMENT ASSETS

NGAAE accounts for endowments using the applicable topics of the Financial Accounting Standards Codification ("Codification") as well as UPMIFA.

As of June 30, 2017 and 2016, NGAAE has only one endowment and it is donor-restricted. As required by the standards in the Codification, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. NGAAE 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, permanently restricted net assets are comprised of (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 funds 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 Directors of NGAAE in a manner consistent with the standard of prudence prescribed by UPMIFA.

NGAAE's Board of Directors manages the endowment, creates and approves investment guidelines, monitors investment decisions, and defines the spending rates that provides for the appropriation of the funds.

In accordance with UPMIFA, NGAAE considers the following factors in making a determination to appropriate or accumulate the donor-restricted endowment fund:

- a) The duration and preservation of the fund.
- b) The purposes of the organization and the donor-restricted endowment fund.
- c) General economic conditions.
- d) The possible effect of inflation and deflation.
- e) The expected total return from income and the appreciation of investments.
- f) Other resources of the organization.
- g) The investment and spending policies of the organization.

NATIONAL GUARD ASSOCIATION OF ARKANSAS ENDOWMENT, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

3. INVESTMENTS – ENDOWMENT ASSETS, CONTINUED

Changes in endowment assets for the years ended June 30, 2017 and 2016, were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Assets:				
Year Ended June 30, 2017:				
Beginning of Year	\$ 36,595	\$ 52,051	\$ 1,000,000	\$ 1,088,646
Contributions	-	-	-	-
Assets Transferred by Board Designation	45,000	(45,000)	-	-
Investment Return:				
Interest and Dividends	-	46,878	-	46,878
Net Appreciation (Realized and Unrealized)	-	82,334	-	82,334
End of Year	<u>\$ 81,595</u>	<u>\$ 136,263</u>	<u>\$ 1,000,000</u>	<u>\$ 1,217,858</u>
Year Ended June 30, 2016:				
Beginning of Year	\$ -	\$ 40,853	\$ 1,000,000	\$ 1,040,853
Contributions	-	53,994	-	53,994
Assets Transferred by Board Designation	39,446	(39,446)	-	-
Investment Return:				
Interest and Dividends	28,234	33,172	-	61,406
Net Appreciation (Realized and Unrealized)	(31,085)	(36,522)	-	(67,607)
End of Year	<u>\$ 36,595</u>	<u>\$ 52,051</u>	<u>\$ 1,000,000</u>	<u>\$ 1,088,646</u>

From time to time, should the fair value of assets associated with individual donor-restricted endowment funds fall below the level that the donor or UPMIFA requires NGAAE to retain as a fund of perpetual duration, the deficiencies will be reported in unrestricted net assets. There were no fund deficiencies as of June 30, 2017, or June 30, 2016.

To satisfy its long-term rate-of-return objectives, NGAAE 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). NGAAE targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints. The spending rate is set annually by the Board using the average market value of the endowment assets based on the market value as of the three preceding fiscal year-ends. This policy can be revised at the discretion of the board of directors. For the year ended June 30, 2017, the Board approved making available for appropriation \$45,000.

NATIONAL GUARD ASSOCIATION OF ARKANSAS ENDOWMENT, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

4. FAIR VALUE MEASUREMENTS

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Generally accepted accounting principles also establish a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1—Quoted prices in active markets for identical assets or liabilities.

Level 2—Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Investments measured at fair value on a recurring basis at June 30, 2017, were as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Endowment Assets:				
Money Market Funds	\$ 191,623	\$ 191,623	\$ -	\$ -
Corporate Bonds	85,397	85,397	-	-
Mutual Funds:				
Bond Funds	212,170	212,170		
Equity Funds	728,668	728,668	-	-
	<u>\$ 1,217,858</u>	<u>\$ 1,217,858</u>	<u>\$ -</u>	<u>\$ -</u>

Investments measured at fair value on a recurring basis at June 30, 2016, were as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Endowment Assets:				
Money Market Funds	\$ 271,825	\$ 271,825	\$ -	\$ -
Fixed Income:				
Corporate Bonds	98,610	98,610	-	-
Certificates of Deposit	75,095	75,095	-	-
Equity Funds	643,116	643,116	-	-
	<u>\$ 1,088,646</u>	<u>\$ 1,088,646</u>	<u>\$ -</u>	<u>\$ -</u>

NATIONAL GUARD ASSOCIATION OF ARKANSAS ENDOWMENT, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

5. NET ASSETS

Temporarily restricted net assets at June 30, 2017 and 2016, are available to NGAAE for the following purposes:

	<u>2017</u>	<u>2016</u>
Scholarships	\$ 28,967	\$ 21,466
National Guard Association of Arkansas Education	36,835	36,835
Enlisted Association of the Arkansas National Guard Education	-	-
Diamond Fund	<u>100,462</u>	<u>16,251</u>
	<u>\$ 166,264</u>	<u>\$ 74,552</u>

At June 30, 2017 and 2016, income earned from the permanently restricted net assets is available to support any of NGAAE's charitable purposes.

6. RELATED PARTY TRANSACTIONS

As of June 30, 2017 and 2016, Contributions Revenue represented contributions received or receivable as approved by the Board of Directors of NGAA.

NGAAE pays NGAA an administrative fee of \$250 per quarter.

7. SUBSEQUENT EVENTS

Management of NGAAE has evaluated subsequent events through December 13, 2018, the date these financial statements were available to be issued.