

***STATE HISTORICAL SOCIETY
OF NORTH DAKOTA FOUNDATION***

Audit Report

June 30, 2016

State Historical Society
Of North Dakota Foundation

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
State Historical Society of North Dakota Foundation
Bismarck, North Dakota

We have audited the accompanying financial statements of the State Historical Society of North Dakota Foundation (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

INDEPENDENT AUDITOR'S REPORT

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State Historical Society of North Dakota Foundation as of June 30, 2016, and the change 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.

Mahlum Goodhart PC

Mahlum Goodhart, PC
Mandan, North Dakota
October 31, 2016

STATE HISTORICAL SOCIETY
OF NORTH DAKOTA FOUNDATION
Statement of Financial Position
June 30, 2016

ASSETS

Current Assets:	
Cash and Cash Equivalents	\$ 818,654
Certificates of Deposit	107,934
Unconditional Promises to Give, Current Portion	347,997
Total Current Assets	1,274,585
Fixed Assets:	
Fixed Assets	26,073
Accumulated Depreciation	(17,012)
Net Fixed Assets	9,061
Other Assets:	
Unconditional Promises to Give, Less Allowance for Uncollectible Promises of \$12,411	403,438
Certificates of Deposit	21,890
Investments	237,273
Mineral Acres	23,331
Cash Held for Others	159,707
Total Other Assets	845,639
TOTAL ASSETS	\$ 2,129,285

LIABILITIES AND NET ASSETS

Current Liabilities:	
Accounts Payable	\$ 2,081
Payroll Taxes/Withholdings Payable	7,614
VISA Credit Cards Payable	1,530
Wages Payable	5,076
Accrued Leave Payable	24,147
Deferred Membership Revenue	44,000
Total Current Liabilities	84,448
Long-Term Liabilities:	
Due to Chateau - Society	158,334
Total Long-Term Liabilities	158,334
Total Liabilities	242,782
Net Assets:	
Unrestricted	341,933
Temporarily Restricted	1,417,570
Permanently Restricted	127,000
Total Net Assets	1,886,503
TOTAL LIABILITIES AND NET ASSETS	\$ 2,129,285

The accompanying notes are an integral part of this financial statement.

STATE HISTORICAL SOCIETY
OF NORTH DAKOTA FOUNDATION

Statement of Activities

For the Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE:				
Memberships	\$ 93,453	\$ -	\$ -	\$ 93,453
Oil Royalty Revenue	2,833	-	-	2,833
Donations	92,533	50,591	47,000	190,124
Special Project - Legislative Reception Income	2,398	-	-	2,398
Special Project - May 6th Event	45,450	-	-	45,450
Special Project - Expansion Campaign	-	95,641	-	95,641
Trustee Income	11,703	-	-	11,703
Interest Income	1,560	7,443	-	9,003
In-Kind Income	19,619	-	-	19,619
Net Assets Released from Restrictions	914,288	(914,288)	-	-
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Total Support and Revenue	1,183,837	(760,613)	47,000	470,224
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EXPENSES:				
Program Expenses	558,093	-	-	558,093
Membership Development Expenses	18,389	-	-	18,389
Management and General Expenses	115,573	-	-	115,573
Fund-Raising Expenses	530,325	-	-	530,325
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Total Expenses	1,222,380	-	-	1,222,380
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Excess of Support and Revenue Over/(Under) Expenses	(38,543)	(760,613)	47,000	(752,156)
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OTHER GAINS AND (LOSSES):				
Realized Gain (Loss) on Investments	(2,825)	-	-	(2,825)
Unrealized Gain (Loss) on Investments	(2,298)	(3,350)	-	(5,648)
Unrealized Gain (Loss) on Valuation	(14,381)	-	-	(14,381)
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Total Other Gains and (Losses)	(19,504)	(3,350)	-	(22,854)
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Change in Net Assets	(58,047)	(763,963)	47,000	(775,010)
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Net Assets - Beginning of Year	399,980	2,181,533	80,000	2,661,513
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NET ASSETS - End of Year	\$ 341,933	\$ 1,417,570	\$ 127,000	\$ 1,886,503
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The accompanying notes are an integral part of this financial statement.

STATE HISTORICAL SOCIETY
OF NORTH DAKOTA FOUNDATION
Statement of Functional Expenses
For the Year Ended June 30, 2016

	Program Expenses	Membership Development	Management & General Expenses	Fund-Raising Expenses	Total
Expenses:					
Accounting Fees	\$ -	\$ -	\$ 9,656	\$ 14,484	\$ 24,140
Contract Labor Expenses	-	-	1,066	3,749	4,815
Courthouse Expense	1,677	-	-	-	1,677
Credit Card Fees	164	1,788	681	2,201	4,834
Employee Training	-	-	1,362	3,218	4,580
Equipment	-	-	384	575	959
Expansion Campaign - Society Payments	454,827	-	-	-	454,827
Insurance	-	-	743	1,114	1,857
In-Kind Expense	-	-	-	15,000	15,000
Marketing	951	418	710	3,978	6,057
Meeting Expense	-	-	341	676	1,017
Memberships & Conferences	-	-	1,014	2,648	3,662
Miscellaneous Expense	-	-	2,099	242	2,341
Office Supplies	177	-	1,704	2,069	3,950
Postage	-	12,464	246	1,886	14,596
Direct Mail	2,273	3,508	6,673	3,790	16,244
Publications	25,274	-	-	-	25,274
Recognition (Hall of Honors)	-	125	1,382	171	1,678
Repairs/Maintenance Agreements	-	-	1,300	2,544	3,844
Software	-	86	506	284	876
Telephone	-	-	1,131	3,280	4,411
Travel	-	-	35	7,197	7,232
Vacation & Sick Leave Expense	-	-	(3,899)	(2,595)	(6,494)
Wages	-	-	63,996	293,942	357,938
Payroll Taxes Expense	-	-	5,279	23,341	28,620
Health Insurance	-	-	12,118	62,361	74,479
408(k) SEP Expense	-	-	5,760	26,454	32,214
Special Project - Cruise	-	-	-	7,360	7,360
Special Project - May 6th Event	-	-	-	47,256	47,256
Special Project - Museum Repairs	72,750	-	-	-	72,750
Depreciation	-	-	1,286	3,100	4,386
Total Expenses	\$ 558,093	\$ 18,389	\$ 115,573	\$ 530,325	\$ 1,222,380

The accompanying notes are an integral part of this financial statement.

STATE HISTORICAL SOCIETY
OF NORTH DAKOTA FOUNDATION
Statement of Cash Flows
For the Year Ended June 30, 2016

Cash flows from operating activities:	
Change in net assets	\$ (775,010)
Depreciation expense	4,386
Change in operating assets and liabilities:	
(Increase) decrease in promises to give, net	574,321
(Increase) decrease in cash held for others	(234)
Increase (decrease) in accounts & credit cards payable	(10,565)
Increase (decrease) in payroll taxes/withholdings payable	(4,833)
Increase (decrease) in wages payable	(6,905)
Increase (decrease) in accrued leave payable	(6,494)
Increase (decrease) in deferred membership revenue	(7,749)
Total adjustments	<u>541,927</u>
Net cash provided (used) by operating activities	(233,083)
Cash flows from investing activities:	
Certificate of deposit and investments cashed	91,077
Interest added to certificates of deposit and investments	(7,699)
Investments purchased	(57,000)
Fees paid on investments	1,409
Unrealized (gain) loss on investments	5,648
Valuation (gain) loss on mineral acres	<u>14,382</u>
Net cash provided (used) by investing activities	<u>47,817</u>
Net increase (decrease) in cash and cash equivalents	(185,266)
Cash and Cash Equivalents - June 30, 2015	<u>1,003,920</u>
Cash and Cash Equivalents - June 30, 2016	<u>\$ 818,654</u>
Supplemental disclosures of cash flow information:	
Cash paid during the year for:	
Interest	7,204

The accompanying notes are an integral part of this financial statement.

STATE HISTORICAL SOCIETY OF NORTH DAKOTA FOUNDATION

Notes to the Financial Statements

June 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of the Organization

The *mission* of the State Historical Society of North Dakota Foundation is to provide fundraising and membership development activities to support the State Historical Society of North Dakota which preserves and promotes the heritage of North Dakota and its people. The State Historical Society of North Dakota has provided office space to the Foundation in order to carry out their duties and responsibilities.

Basis of Accounting and Presentation

The financial statements of the Foundation are prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities. Income is recognized when earned and expenses are recognized when incurred.

Financial statement presentation follows the provisions of the FASB Accounting Standards Codification Topic ASC 958-205. Under these provisions the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are classified as unrestricted contributions.

All donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of net activities as net assets released from restrictions.

Investment earnings available for distributions are recorded in unrestricted net assets. Investment earnings with donor restrictions are recorded in temporarily or permanently restricted net assets based on the nature of the restrictions.

Contributed Services

The Foundation receives a significant amount of donated services from unpaid volunteers who assist in fundraising and special projects. No amounts have been recognized in the statement of activities because these services do not meet the criteria for recognition as contributed services.

Cash and Cash Equivalents

The Foundation considers unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

STATE HISTORICAL SOCIETY OF NORTH DAKOTA FOUNDATION

Notes to the Financial Statements

June 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Cash Held for Others

The State Historical Society of North Dakota Foundation is holding funds from the City of Medora and the Billings County Commission. Each group has pledged \$150,000 towards bonds that the State Historical Society of North Dakota holds for the completion of the Chateau de Mores in Medora. Every two years a payment is made on the bonds from these funds. This arrangement will continue until the bonds are paid off.

Investments

Investments include certificates of deposit with terms of more than three months and equity and bond funds held by brokerages. Investments in certificates of deposit and equity and debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized. Short-term investments consist of debt securities with original maturities of twelve months or less. Long-term investments consist of debt securities with original maturities greater than twelve months.

The Foundation holds certificates of deposit at various banks with interest rates ranging from 0.20% to .45% with terms up to twenty-four months.

Property and Equipment

The Foundation capitalizes property and equipment over \$500. Lesser amounts are expensed. Property and equipment is carried at cost and is being depreciated on the straight-line method with a useful life of five to ten years.

Income Taxes

The State Historical Society of North Dakota Foundation is incorporated under the laws of the State of North Dakota as a not-for-profit corporation. Accordingly, they are exempt from federal income taxes under Section 501 (c) (3) of the Internal Revenue Code, and by virtue thereof are also exempt from North Dakota state income taxes.

The Foundation has adopted the provisions of FASB Accounting Standards Codification Topic ASC 740-10. The implementation of this standard had no impact on the financial statements. As of both the date of adoption, and as of June 30, 2016, the unrecognized tax benefit accrual was zero.

The Foundation will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred. The federal income tax returns of the Foundation are subject to examination by the IRS, generally for three years after they were filed.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

STATE HISTORICAL SOCIETY OF NORTH DAKOTA FOUNDATION
Notes to the Financial Statements
June 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Subsequent Events

The Foundation has evaluated subsequent events through October 31, 2016, the date which the financial statements were available to be issued.

NOTE 2 PROMISES TO GIVE

Unconditional promises to give at June 30, 2016 are as follows:

	Trustees	Expansion Campaign	Total
Receivable in less than one year	\$ 13,506	\$ 347,250	\$ 360,756
Receivable in one to five years	6,726	448,500	455,226
Receivable after five years	-	-	-
Total unconditional promises	20,232	795,750	815,982
Less discounts to net present value	(896)	(51,240)	(52,136)
Less allowance for uncollectible promises	(2,023)	(10,388)	(12,411)
Net promises to give	<u>\$ 17,313</u>	<u>\$ 734,122</u>	<u>\$ 751,435</u>

The purpose of the Expansion Campaign is to raise funds for the expansion project at the ND Heritage Center, which has received legislative support of \$40 million. The Foundation is working to raise \$12 to \$15 million and has raised approximately \$13.5 million as of June 30, 2016. The discount rate used on long-term promises to give was four percent. Expansion promises to give are used as collateral against the lines of credit.

NOTE 3 FIXED ASSETS

The following is a summary of furniture and equipment as of June 30, 2016:

Furniture and equipment	\$ 26,073
Less accumulated depreciation	(17,012)
Net fixed assets	<u>\$ 9,061</u>

STATE HISTORICAL SOCIETY OF NORTH DAKOTA FOUNDATION
Notes to the Financial Statements
June 30, 2016

NOTE 4 INVESTMENTS

The fair values of short-term investments totaled \$107,934 at June 30, 2016. The fair values of long-term investments totaled \$259,163 at June 30, 2016.

The following schedule summarizes investment returns and their classification in the statement of activities for the year ended June 30, 2016.

	Unrestricted	Temporarily Restricted	Total
Interest income	\$ 1,560	\$ 7,443	\$ 9,003
Realized gain (loss)	(2,825)	-	(2,825)
Unrealized gain (loss)	(2,298)	(3,350)	(5,648)
 Total investment return	 \$ (3,563)	 \$ 4,093	 \$ 530

NOTE 5 FAIR VALUE MEASUREMENTS

The Foundation had adopted the fair value measurement presentation that follows the provisions of the FASB Accounting Standards Codification Topic ASC 820. The provision prescribes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

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

Level 2 – Quoted market based inputs or unobservable inputs that are corroborated by market data.

Level 3 – Unobservable inputs that are not corroborated by market data.

Inputs broadly refer to the assumptions that market participants use to make valuation decisions. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input both individually and in the aggregate that is significant to the fair value measurement. Observable inputs include market data that are readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

STATE HISTORICAL SOCIETY OF NORTH DAKOTA FOUNDATION
Notes to the Financial Statements
June 30, 2016

NOTE 5 FAIR VALUE MEASUREMENTS – CONTINUED

Level 3 inputs also consist of mineral acres valued using a discounted cash flow model (income approach) and consideration of other factors deemed relevant in the circumstances. Due to the significant unobservable inputs required to estimate the fair value of these investments, the Foundation's investments in other assets are classified as Level 3 in the hierarchy.

Fair values of the investments measured on a recurring basis at June 30, 2016 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
ASSETS				
<u>Short-term investments</u>				
Certificates of deposit	\$ 107,934	\$ 107,934	\$ -	\$ -
Total short-term investments	<u>\$ 107,934</u>	<u>\$ 107,934</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Long-term Investments</u>				
Certificates of deposit	\$ 21,890	\$ 21,890	\$ -	\$ -
Edward Jones				
Mutual funds (equities)	25,466	25,466	-	-
Stock	15,483	15,483	-	-
American Trust Center				
Mutual funds (fixed income)	24,996	24,996	-	-
Mutual funds (equities)	104,434	104,434	-	-
Dougherty & Co.				
Mutual funds (equities)	51,033	51,033	-	-
Equities	15,861	15,861	-	-
Mineral Acres	23,331	-	-	23,331
Total long-term investments	<u>\$ 282,494</u>	<u>\$ 259,163</u>	<u>\$ -</u>	<u>\$ 23,331</u>

STATE HISTORICAL SOCIETY OF NORTH DAKOTA FOUNDATION
Notes to the Financial Statements
June 30, 2016

NOTE 5 FAIR VALUE MEASUREMENTS – CONTINUED

The following table includes a reconciliation of beginning and ending balances of the liabilities using significant unobservable inputs (Level 3), during the fiscal year ending June 30, 2016.

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	<u>Assets</u>	<u>Liabilities</u>
	Mineral Acres	Charitable gift annuities
Beginning Balance	\$ 37,712	\$ -
Unrealized gain (loss) on valuation adjustment Included in changes in net assets	(14,381)	-
Ending Balance	\$ 23,331	\$ -

NOTE 6 LINES OF CREDIT

The Foundation holds a line of credit with Starion Financial to finance the Expansion project. This is secured by promises to give with a maximum credit of \$1,330,396 at 4.75% interest. Borrowings on the line of credit may not exceed total pledges receivable less the allowance for uncollectible pledges times 70%. For the year ended June 30, 2016, the line of credit was not used.

NOTE 7 TEMPORARILY RESTRICTED NET ASSETS

As of June 30, 2016, Temporarily Restricted Net Assets includes the following:

Restricted for:	
Sakakawea Statue	\$ 37,590
Pembina Fund	21,890
Expansion Fund	1,261,871
1883 Courthouse Committee	94,144
Strand Memorial Fund	2,075
Total	\$ 1,417,570

NOTE 8 PERMANENTLY RESTRICTED NET ASSETS

As of June 30, 2016, Permanently Restricted Net Assets totaled \$127,000 and are restricted to specific Foundation activities.

STATE HISTORICAL SOCIETY OF NORTH DAKOTA FOUNDATION

Notes to the Financial Statements

June 30, 2016

NOTE 9 RETIREMENT PLAN

The Foundation provides a defined contribution 408(k) plan for substantially all employees. Under the plan, the Foundation contributes 9% of each eligible employee's salary and employees may contribute any amount up to the maximum limit established by the Internal Revenue Service each year. The Foundation's expense for the year ended June 30, 2016 was \$32,214.

NOTE 10 CONCENTRATIONS OF CREDIT RISK

The Foundation maintains its accounts with various banks in North Dakota. The accounts are adequately insured by the Federal Deposit Insurance Corporation up to \$250,000 and through repurchase agreements through Starion Bank.

Unconditional promises to give (net) of \$751,435 account for 35 percent of the Foundation's assets. Approximately 80 percent of the promises to give receivable are from five individuals or companies. The Foundation is subject to the risk that promises to give will not be collectible due to individual or economic factors.

NOTE 11 MINERAL ACRES

During the year ended June 30, 2014, the Foundation received a donation of mineral acres. The fair value of the donated acres at the time of receipt was \$86,000. The mineral acres were revalued using a discounted cash flow model (income approach) and consideration of other factors deemed relevant in the circumstances. The value of the mineral acres at June 30, 2016 is \$23,331.