



Mahlum Goodhart, PC  
*Certified Public Accountants*

---

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

Audit Report

June 30, 2017

State Historical Society  
Of North Dakota Foundation

Table of Contents

Independent Auditor's Report .....	1 – 2
FINANCIAL STATEMENTS:	
Statement of Financial Position.....	3
Statement of Activities.....	4
Statement of Functional Expenses .....	5
Statement of Cash Flows.....	6
Notes to the Financial Statements.....	7 – 13

## 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, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. The prior year summarized comparative information has been derived from the Foundation's June 30, 2016 financial statements and, in our report dated October 31, 2016 we expressed an unqualified opinion on those 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, 2017, 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  
November 3, 2017

STATE HISTORICAL SOCIETY  
OF NORTH DAKOTA FOUNDATION  
Statement of Financial Position  
June 30, 2017  
(with comparative totals for June 30, 2016)

ASSETS

	6/30/2017	Memo Only 6/30/2016
Current Assets:		
Cash and Cash Equivalents	\$ 872,372	\$ 818,654
Certificates of Deposit	108,150	107,934
Unconditional Promises to Give, Current Portion	247,838	347,997
Total Current Assets	1,228,360	1,274,585
Fixed Assets:		
Fixed Assets	26,073	26,073
Accumulated Depreciation	(20,487)	(17,012)
Net Fixed Assets	5,586	9,061
Other Assets:		
Unconditional Promises to Give, Less Allowance for Uncollectible Promises of \$5,411	106,491	403,438
Certificates of Deposit	22,006	21,890
Investments	323,817	237,273
Mineral Acres	22,584	23,331
Cash Held for Others	141,623	159,707
Total Other Assets	616,521	845,639
TOTAL ASSETS	\$ 1,850,467	\$ 2,129,285

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts Payable	\$ 21,487	\$ 2,081
Payroll Taxes/Withholdings Payable	6,683	7,614
VISA Credit Cards Payable	146	1,530
Wages Payable	3,249	5,076
Accrued Leave Payable	20,195	24,147
Deferred Membership Revenue	40,473	44,000
Total Current Liabilities	92,233	84,448
Long-Term Liabilities:		
Due to Chateau - Society	140,001	158,334
Total Long-Term Liabilities	140,001	158,334
Total Liabilities	232,234	242,782
Net Assets:		
Unrestricted	497,438	341,933
Temporarily Restricted	948,794	1,417,570
Permanently Restricted	172,001	127,000
Total Net Assets	1,618,233	1,886,503
TOTAL LIABILITIES AND NET ASSETS	\$ 1,850,467	\$ 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, 2017  
(with comparative totals for June 30, 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 6/30/2017	Memo Only 6/30/2016
<b>SUPPORT AND REVENUE:</b>					
Memberships	\$ 72,358	\$ -	\$ -	\$ 72,358	\$ 93,453
Oil Royalty Revenue	2,646	-	-	2,646	2,833
Donations	96,272	98,096	45,001	239,369	190,124
Special Project - Legislative Reception Income	6,500	-	-	6,500	2,398
Special Project - May 6th Event	-	-	-	-	45,450
Special Project - Expansion Campaign	-	46,214	-	46,214	95,641
Special Project- Chocolate Event	9,174	-	-	9,174	-
Trustee Income	11,727	-	-	11,727	11,703
Interest Income	1,342	6,276	-	7,618	9,003
In-Kind Income	2,325	-	-	2,325	19,619
Net Assets Released from Restrictions	624,534	(624,534)	-	-	-
<b>Total Support and Revenue</b>	<b>826,878</b>	<b>(473,948)</b>	<b>45,001</b>	<b>397,931</b>	<b>470,224</b>
<b>EXPENSES:</b>					
Program Expenses	218,268	-	-	218,268	558,093
Membership Development Expenses	13,432	-	-	13,432	18,389
Management and General Expenses	87,665	-	-	87,665	115,573
Fund-Raising Expenses	386,109	-	-	386,109	530,325
<b>Total Expenses</b>	<b>705,474</b>	<b>-</b>	<b>-</b>	<b>705,474</b>	<b>1,222,380</b>
Excess of Support and Revenue Over/(Under) Expenses	121,404	(473,948)	45,001	(307,543)	(752,156)
<b>OTHER GAINS AND (LOSSES):</b>					
Realized Gain (Loss) on Investments	6,626	180	-	6,806	(2,825)
Unrealized Gain (Loss) on Investments	28,222	4,992	-	33,214	(5,648)
Unrealized Gain (Loss) on Valuation	(747)	-	-	(747)	(14,381)
<b>Total Other Gains and (Losses)</b>	<b>34,101</b>	<b>5,172</b>	<b>-</b>	<b>39,273</b>	<b>(22,854)</b>
<b>Change in Net Assets</b>	<b>155,505</b>	<b>(468,776)</b>	<b>45,001</b>	<b>(268,270)</b>	<b>(775,010)</b>
Net Assets - Beginning of Year	341,933	1,417,570	127,000	1,886,503	2,661,513
<b>NET ASSETS - End of Year</b>	<b>\$ 497,438</b>	<b>\$ 948,794</b>	<b>\$ 172,001</b>	<b>\$ 1,618,233</b>	<b>\$ 1,886,503</b>

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, 2017  
(with comparative totals for June 30, 2016)

	6/30/2017	Memo Only 6/30/2016
Cash flows from operating activities:		
Change in net assets	\$ (268,270)	\$ (775,010)
Non-Cash Charges:		
Depreciation expense	3,475	4,386
Change in operating assets and liabilities:		
(Increase) decrease in promises to give, net	397,106	574,321
(Increase) decrease in cash held for others	(249)	(234)
Increase (decrease) in accounts & credit cards payable	18,022	(10,565)
Increase (decrease) in payroll taxes/withholdings payable	(931)	(4,833)
Increase (decrease) in wages payable	(1,827)	(6,905)
Increase (decrease) in accrued leave payable	(3,952)	(6,494)
Increase (decrease) in deferred membership revenue	(3,527)	(7,749)
Total adjustments	408,117	541,927
Net cash provided (used) by operating activities	139,847	(233,083)
Cash flows from investing activities:		
Certificate of deposit and investments cashed	-	91,077
Interest added to certificates of deposit and investments	(8,249)	(7,699)
Investments purchased	(40,001)	(57,000)
Fees paid on investments	1,394	1,409
Unrealized (gain) loss on investments	(33,214)	5,648
Realized (gain) loss on investments	(6,806)	-
Valuation (gain) loss on mineral acres	747	14,382
Net cash provided (used) by investing activities	(86,129)	47,817
Net increase (decrease) in cash and cash equivalents	53,718	(185,266)
Cash and Cash Equivalents - June 30, 2016	818,654	1,003,920
Cash and Cash Equivalents - June 30, 2017	\$ 872,372	\$ 818,654

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, 2017

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, 2017

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.

The Foundation holds a certificate of deposit with a 24 month term and interest rate of .45%.

Property and Equipment

The Foundation capitalizes property and equipment over \$1,000. 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, 2017, 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, 2017

NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Prior Year Summarized Information

The financial statements include certain prior-year summarized comparative information in total but such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2016, from which summarized information was derived.

Subsequent Events

The Foundation has evaluated subsequent events through November 3, 2017, the date which the financial statements were available to be issued.

NOTE 2      PROMISES TO GIVE

Unconditional promises to give at June 30, 2017 are as follows:

	Trustees	Expansion Campaign	Total
Receivable in less than one year	\$ 10,455	\$ 245,750	\$ 256,205
Receivable in one to five years	1,575	119,750	121,325
Receivable after five years	-	-	-
Total unconditional promises	<u>12,030</u>	<u>365,500</u>	<u>377,530</u>
Less discounts to net present value	(277)	(17,513)	(17,790)
Less allowance for uncollectible promises	<u>(1,203)</u>	<u>(4,208)</u>	<u>(5,411)</u>
Net promises to give	<u>\$ 10,550</u>	<u>\$ 343,779</u>	<u>\$ 354,329</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 was working to raise \$12 to \$15 million and as of June 30, 2017 had raised approximately \$13.5 million. With the completion of the expansion, the Foundation has terminated its fund-raising for the project. The discount rate used on long-term promises to give was four percent. Expansion promises to give are used as collateral against the line of credit.

NOTE 3      FIXED ASSETS

The following is a summary of furniture and equipment as of June 30, 2017:

Furniture and equipment	\$ 26,073
Less accumulated depreciation	<u>(20,487)</u>
Net fixed assets	<u>\$ 5,586</u>

STATE HISTORICAL SOCIETY OF NORTH DAKOTA FOUNDATION

Notes to the Financial Statements

June 30, 2017

NOTE 4 INVESTMENTS

The fair values of short-term investments reported as certificates of deposit under current assets totaled \$108,150 at June 30, 2017. The fair values of long-term investments totaled \$323,817 and the long-term certificate of deposit was \$22,006 at June 30, 2017.

The following schedule summarizes investment returns and their classification in the statement of activities for the year ended June 30, 2017.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest income	\$ 1,342	\$ 6,276	\$ 7,618
Realized gain (loss)	6,626	180	6,806
Unrealized gain (loss)	<u>28,222</u>	<u>4,992</u>	<u>33,214</u>
Total investment return	<u>\$ 36,190</u>	<u>\$ 11,448</u>	<u>\$ 47,638</u>

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, 2017

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, 2017 are as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>ASSETS</b>				
<u>Short-term investments</u>				
Certificates of deposit	\$ 108,150	\$ 108,150	\$ -	\$ -
Total short-term investments	<u>\$ 108,150</u>	<u>\$ 108,150</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Long-term Investments</u>				
Certificates of deposit	\$ 22,006	\$ 22,006	\$ -	\$ -
Edward Jones				
Mutual funds (equities)	15,101	15,101	-	-
Stock	19,614	19,614	-	-
American Trust Center				
Mutual funds (fixed income)	63,732	63,732	-	-
Mutual funds (equities)	140,521	140,521	-	-
Dougherty & Co.				
Mutual funds (equities)	68,393	68,393	-	-
Equities	16,456	16,456	-	-
Mineral Acres	22,584	-	-	22,584
Total long-term investments	<u>\$ 368,407</u>	<u>\$ 345,823</u>	<u>\$ -</u>	<u>\$ 22,584</u>

STATE HISTORICAL SOCIETY OF NORTH DAKOTA FOUNDATION  
Notes to the Financial Statements  
June 30, 2017

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, 2017.

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	<u>Assets</u>
	Mineral Acres
Beginning Balance	\$      23,331
Unrealized gain (loss) on valuation adjustment Included in changes in net assets	(747)
Ending Balance	\$      22,584

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 \$500,000 at 3.75% 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, 2017, the line of credit was not used.

NOTE 7      TEMPORARILY RESTRICTED NET ASSETS

As of June 30, 2017, temporarily restricted net assets includes the following:

Restricted for:	
Sakakawea Statue	\$      37,609
Pembina Fund	22,006
Expansion Fund	824,980
1883 Courthouse Committee	40,135
Former Governor's House	14,610
Staff Professional Training	7,379
Strand Memorial Fund	2,075
Total	\$      948,794

NOTE 8      PERMANENTLY RESTRICTED NET ASSETS

As of June 30, 2017, permanently restricted net assets totaled \$172,001 held in a permanent endowment fund.

STATE HISTORICAL SOCIETY OF NORTH DAKOTA FOUNDATION  
Notes to the Financial Statements  
June 30, 2017

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, 2017 was \$25,524.

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 \$354,329 account for 19 percent of the Foundation's assets. Approximately 87 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, 2017 is \$22,584.