

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

Audit Report

June 30, 2018

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, 2018, 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, 2017 financial statements and, in our report dated November 3, 2017 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, 2018, 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.

Haga Kommer, Ltd

Haga Kommer, Ltd
Mandan, North Dakota
November 2, 2018

STATE HISTORICAL SOCIETY
OF NORTH DAKOTA FOUNDATION
Statement of Financial Position
June 30, 2018
(with comparative totals for June 30, 2017)

ASSETS	6/30/2018	Memo Only 6/30/2017
Current Assets:		
Cash and Cash Equivalents	\$ 602,130	\$ 872,372
Certificates of Deposit	260	108,150
Unconditional Promises to Give, Current Portion	110,473	247,838
Total Current Assets	712,863	1,228,360
Fixed Assets:		
Fixed Assets	26,073	26,073
Accumulated Depreciation	(23,838)	(20,487)
Net Fixed Assets	2,235	5,586
Other Assets:		
Unconditional Promises to Give, Less Allowance for Uncollectible Promises of \$4,528	192,222	106,491
Certificates of Deposit	22,088	22,006
Investments	421,805	323,817
Mineral Acres	22,854	22,584
Cash Held for Others	156,857	141,623
Total Other Assets	815,826	616,521
TOTAL ASSETS	\$ 1,530,924	\$ 1,850,467
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts Payable	\$ 12,843	\$ 21,487
Payroll Taxes/Withholdings Payable	6,494	6,683
VISA Credit Cards Payable	1,411	146
Wages Payable	3,375	3,249
Accrued Leave Payable	20,842	20,195
Deferred Membership Revenue	49,729	40,473
Total Current Liabilities	94,694	92,233
Long-Term Liabilities:		
Due to Chateau - Society	155,001	140,001
Total Long-Term Liabilities	155,001	140,001
Total Liabilities	249,695	232,234
Net Assets:		
Unrestricted	500,891	497,438
Temporarily Restricted	549,337	948,794
Permanently Restricted	231,001	172,001
Total Net Assets	1,281,229	1,618,233
TOTAL LIABILITIES AND NET ASSETS	\$ 1,530,924	\$ 1,850,467

STATE HISTORICAL SOCIETY
OF NORTH DAKOTA FOUNDATION
Statement of Activities
For the Year Ended June 30, 2018
(with comparative totals for June 30, 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 6/30/2018	Memo Only 6/30/2017
SUPPORT AND REVENUE:					
Memberships	\$ 81,339	\$ -	\$ -	\$ 81,339	\$ 72,358
Oil Royalty Revenue	2,714	-	-	2,714	2,646
Donations	84,098	129,515	59,000	272,613	239,369
Special Project - Legislative Reception Income	-	-	-	-	6,500
Special Project - Annual Recognition Event	-	32,530	-	32,530	-
Special Project - Expansion Campaign	-	49,886	-	49,886	46,214
Special Project- Chocolate Event	-	-	-	-	9,174
Trustee Income	13,118	-	-	13,118	11,727
Opportunity Fund Income	228,410	-	-	228,410	-
Interest Income	1,331	13,936	-	15,267	7,618
In-Kind Income	86,949	-	-	86,949	2,325
Net Assets Released from Restrictions	627,086	(627,086)	-	-	-
Total Support and Revenue	1,125,045	(401,219)	59,000	782,826	397,931
EXPENSES:					
Program Expenses	557,366	-	-	557,366	218,268
Membership Development Expenses	6,976	-	-	6,976	13,432
Management and General Expenses	329,770	-	-	329,770	87,665
Fund-Raising Expenses					
Opportunities Fund-Raising	238,203	-	-	238,203	-
General Fund-Raising	11,123	-	-	11,123	386,109
Total Expenses	1,143,438	-	-	1,143,438	705,474
Excess of Support and Revenue Over/(Under) Expenses	(18,393)	(401,219)	59,000	(360,612)	(307,543)
OTHER GAINS AND (LOSSES):					
Realized Gain (Loss) on Investments	3,092	126	-	3,218	6,806
Unrealized Gain (Loss) on Investments	18,484	1,636	-	20,120	33,214
Unrealized Gain (Loss) on Valuation	270	-	-	270	(747)
Total Other Gains and (Losses)	21,846	1,762	-	23,608	39,273
Change in Net Assets	3,453	(399,457)	59,000	(337,004)	(268,270)
Net Assets - Beginning of Year	497,438	948,794	172,001	1,618,233	1,886,503
NET ASSETS - End of Year	\$ 500,891	\$ 549,337	\$ 231,001	\$ 1,281,229	\$ 1,618,233

STATE HISTORICAL SOCIETY
OF NORTH DAKOTA FOUNDATION
Statement of Functional Expenses
For the Year Ended June 30, 2018
(with comparative totals for June 30, 2017)

	<u>Fund-Raising Expenses</u>					Total 6/30/2018	Memo Only 6/30/2017
	Program Expenses	Membership Development Expenses	Management & General Expenses	Opportunities Fund-Raising	General Fund- Raising		
Expenses:							
Accounting Fees	\$ -	\$ -	\$ 17,558	\$ 5,852	\$ -	\$ 23,410	\$ 23,030
Contract Labor Expenses	-	-	2,136	30	-	2,166	4,546
Courthouse Expense	2,612	-	-	-	-	2,612	118,671
Credit Card Fees	-	1,741	1,415	15	1,859	5,030	5,194
Employee Training	-	-	2,731	910	-	3,641	4,636
Equipment	-	-	1,728	442	-	2,170	1,159
Grants & Special Projects	7,000	-	110,374	18,640	-	136,014	2,121
Insurance	-	-	629	210	-	839	925
Marketing	-	-	308	103	-	411	4,607
Meeting Expense	-	-	399	220	-	619	598
Memberships & Conferences	-	100	1,545	992	-	2,637	2,420
Miscellaneous Expense	-	-	1,574	94	-	1,668	2,003
Office Supplies	92	-	3,142	464	-	3,698	3,284
Postage	1,312	2,903	3,047	1,145	5,352	13,759	9,470
Direct Mail	475	1,322	3,482	887	-	6,166	10,905
Publications	15,534	-	-	-	-	15,534	23,659
Recognition (Hall of Honors)	-	910	2,170	702	-	3,782	1,106
Repairs/Maintenance Agreements	-	-	2,721	907	-	3,628	4,478
Software	-	-	1,343	397	-	1,740	495
Telephone	-	-	2,344	1,246	-	3,590	4,094
Travel	-	-	424	3,388	3,912	7,724	6,453
Vacation & Sick Leave Expense	-	-	308	339	-	647	(3,952)
Wages	-	-	125,562	115,962	-	241,524	283,601
Payroll Taxes Expense	-	-	10,236	9,144	-	19,380	22,794
Health Insurance	-	-	20,780	23,844	-	44,624	50,417
408(k) SEP Expense	-	-	11,301	10,436	-	21,737	25,524
Special Project - Annual Recognition Event	-	-	-	40,996	-	40,996	-
Special Project - Chocolate Event	-	-	-	-	-	-	6,912
Special Project - Community Events	-	-	-	-	-	-	98
Special Project - Expansion Campaign	493,104	-	-	-	-	493,104	-
Special Project - Legislative Reception	-	-	-	-	-	-	7,107
Special Project - May 6th Event	-	-	-	-	-	-	323
Special Project - Native American Hall of Honors	37,237	-	-	-	-	37,237	59,821
Special Project - Society Projects	-	-	-	-	-	-	15,500
Depreciation	-	-	2,513	838	-	3,351	3,475
Total Expenses	\$ 557,366	\$ 6,976	\$ 329,770	\$ 238,203	\$ 11,123	\$ 1,143,438	\$ 705,474

STATE HISTORICAL SOCIETY
OF NORTH DAKOTA FOUNDATION
Statement of Cash Flows
For the Year Ended June 30, 2018
(with comparative totals for June 30, 2017)

	6/30/2018	Memo Only 6/30/2017
Cash flows from operating activities:		
Change in net assets	\$ (337,004)	\$ (268,270)
Non-Cash Charges:		
Depreciation expense	3,351	3,475
Change in operating assets and liabilities:		
(Increase) decrease in promises to give, net	51,634	397,106
(Increase) decrease in cash held for others	(234)	(249)
Increase (decrease) in accounts & credit cards payable	(7,379)	18,022
Increase (decrease) in payroll taxes/withholdings payable	(189)	(931)
Increase (decrease) in wages payable	126	(1,827)
Increase (decrease) in accrued leave payable	647	(3,952)
Increase (decrease) in deferred membership revenue	9,256	(3,527)
Total adjustments	57,212	408,117
Net cash provided (used) by operating activities	(279,792)	139,847
Cash flows from investing activities:		
Certificate of deposit and investments cashed	108,000	-
Interest added to certificates of deposit and investments	(12,946)	(8,249)
Investments purchased	(64,000)	(40,001)
Fees paid on investments	2,104	1,394
Unrealized (gain) loss on investments	(20,120)	(33,214)
Realized (gain) loss on investments	(3,218)	(6,806)
Valuation (gain) loss on mineral acres	(270)	747
Net cash provided (used) by investing activities	9,550	(86,129)
Net increase (decrease) in cash and cash equivalents	(270,242)	53,718
Cash and Cash Equivalents - June 30, 2017	872,372	818,654
Cash and Cash Equivalents - June 30, 2018	\$ 602,130	\$ 872,372
Supplemental disclosers of cash flow information:		
Cash paid during the year for:		
Interest	\$ -	\$ -

STATE HISTORICAL SOCIETY OF NORTH DAKOTA FOUNDATION

Notes to the Financial Statements

June 30, 2018

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, 2018

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 .95%.

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, 2018, 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, 2018

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, 2017, from which summarized information was derived.

Subsequent Events

The Foundation has evaluated subsequent events through November 2, 2018, the date which the financial statements were available to be issued.

NOTE 2 PROMISES TO GIVE

Unconditional promises to give at June 30, 2018 are as follows:

	Trustees	Expansion Campaign	Opportunity	Total
Receivable in less than one year	\$ 7,126	\$ 43,750	\$ 60,000	\$ 110,876
Receivable in one to five years	600	5,500	210,000	216,100
Receivable after five years	-	-	-	-
Total unconditional promises	<u>7,726</u>	<u>49,250</u>	<u>270,000</u>	<u>326,976</u>
Less discounts to net present value	(83)	(780)	(18,890)	(19,753)
Less allowance for uncollectible promises	(773)	(1,055)	(2,700)	(4,528)
Net promises to give	<u>\$ 6,870</u>	<u>\$ 47,415</u>	<u>\$ 248,410</u>	<u>\$ 302,695</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 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.

The purpose of the Opportunity Fund is to give the foundation the opportunity to receive pledges from corporations and individuals to be used at the discretion of the Foundation. The pledges will help cover ongoing fundraising costs but will also be used to special projects the Society might have. Currently, the line of credit is not tied to any pledges.

NOTE 3 FIXED ASSETS

The following is a summary of furniture and equipment as of June 30, 2018:

Furniture and equipment	\$ 26,073
Less accumulated depreciation	(23,838)
Net fixed assets	<u>\$ 2,235</u>

STATE HISTORICAL SOCIETY OF NORTH DAKOTA FOUNDATION
Notes to the Financial Statements
June 30, 2018

NOTE 4 INVESTMENTS

The fair values of short-term investments reported as certificates of deposit under current assets totaled \$260 at June 30, 2018. The fair values of long-term investments totaled \$421,805 and the long-term certificate of deposit was \$22,088 at June 30, 2018.

The following schedule summarizes investment returns and their classification in the statement of activities for the year ended June 30, 2018.

	Unrestricted	Temporarily Restricted	Total
Interest income	\$ 1,331	\$ 13,936	\$ 15,267
Realized gain (loss)	3,092	126	3,218
Unrealized gain (loss)	18,484	1,636	20,120
Total investment return	\$ 22,907	\$ 15,698	\$ 38,605

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, 2018

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, 2018 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)
ASSETS				
<u>Short-term investments</u>				
Certificates of deposit	\$ 260	\$ 260	\$ -	\$ -
Total short-term investments	<u>\$ 260</u>	<u>\$ 260</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Long-term Investments</u>				
Certificates of deposit	\$ 22,088	\$ 22,088	\$ -	\$ -
Edward Jones				
Mutual funds (equities)	15,702	15,702	-	-
Stock	21,452	21,452	-	-
American Trust Center				
Mutual funds (fixed income)	89,147	89,147	-	-
Mutual funds (equities)	195,566	195,566	-	-
Dougherty & Co.				
Mutual funds (equities)	83,566	83,566	-	-
Equities	16,372	16,372	-	-
Mineral Acres	<u>22,854</u>	<u>-</u>	<u>-</u>	<u>22,854</u>
Total long-term investments	<u>\$ 466,747</u>	<u>\$ 443,893</u>	<u>\$ -</u>	<u>\$ 22,854</u>

STATE HISTORICAL SOCIETY OF NORTH DAKOTA FOUNDATION
Notes to the Financial Statements
June 30, 2018

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, 2018.

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	<u>Assets</u>
	<u>Mineral Acres</u>
Beginning Balance	\$ 22,584
Unrealized gain (loss) on valuation adjustment Included in changes in net assets	270
Ending Balance	\$ 22,854

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 6.25% 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, 2018, the line of credit was not used.

NOTE 7 TEMPORARILY RESTRICTED NET ASSETS

As of June 30, 2018, temporarily restricted net assets includes the following:

Restricted for:	
Sakakawea Statue	\$ 37,654
Pembina Fund	22,088
Expansion Fund	346,525
1883 Courthouse Committee	48,452
Former Governor's House	14,610
Staff Professional Training	17,748
Strand Memorial Fund	2,075
Organization Development	9,610
Archeology	20,300
Camp Hancock	1,275
Fort Totten Inn	14,000
Site Improvements	15,000
Total	\$ 549,337

NOTE 8 PERMANENTLY RESTRICTED NET ASSETS

As of June 30, 2018, permanently restricted net assets totaled \$231,001 held in a permanent endowment fund.

STATE HISTORICAL SOCIETY OF NORTH DAKOTA FOUNDATION

Notes to the Financial Statements

June 30, 2018

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, 2018 was \$21,737.

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 \$302,695 account for 20 percent of the Foundation's assets. Approximately 88 percent of the promises to give receivable are from three 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, 2018 is \$22,854.