

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

Audit Report

June 30, 2014

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, 2014, 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, 2014, 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
Mandan, North Dakota
November 21, 2014

STATE HISTORICAL SOCIETY
OF NORTH DAKOTA FOUNDATION
Statement of Financial Position
June 30, 2014

ASSETS

Current Assets:	
Cash and Cash Equivalents	\$ 1,705,589
Short Term Investments	502,664
Unconditional Promises to Give, Current Portion	<u>662,254</u>
Total Current Assets	<u>2,870,507</u>
Fixed Assets:	
Fixed Assets	22,951
Accumulated Depreciation	<u>(10,109)</u>
Net Fixed Assets	<u>12,842</u>
Other Assets:	
Unconditional Promises to Give, Less Allowance for Uncollectible Promises of \$44,842	1,095,009
Long Term Investments	427,226
Mineral Acres	86,000
Cash Held for Others	<u>162,560</u>
Total Other Assets	<u>1,770,795</u>
TOTAL ASSETS	<u>\$ 4,654,144</u>

LIABILITIES AND NET ASSETS

Current Liabilities:	
Accounts Payable	\$ 7,236
Payroll Taxes/Withholdings Payable	3,526
Wages Payable	11,480
Accrued Leave Payable	21,119
Deferred Membership Revenue	<u>54,959</u>
Total Current Liabilities	<u>98,320</u>
Long-Term Liabilities:	
Liability to annuitants for charitable gift annuities	15,051
Due to Chateau	<u>161,667</u>
Total Long-Term Liabilities	<u>176,718</u>
Total Liabilities	275,038
Net Assets:	
Unrestricted	433,686
Temporarily Restricted	3,880,420
Permanently Restricted	<u>65,000</u>
Total Net Assets	<u>4,379,106</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,654,144</u>

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, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE:				
Memberships	\$ 92,380	\$ -	\$ -	\$ 92,380
Oil Royalty Revenue	9,995	-	-	9,995
Donations	177,882	-	-	177,882
Donations-Permanent	-	-	10,000	10,000
Special Project - Annual Meeting Fundraiser	19,501	-	-	19,501
Special Project - Expansion Campaign	-	1,519,217	-	1,519,217
Special Project - Trustees	46,483	-	-	46,483
Interest Income	2,100	9,348	-	11,448
In-Kind Income	20,968	-	-	20,968
Net Assets Released from Restrictions	4,713,821	(4,713,821)	-	-
Total Support and Revenue	5,083,130	(3,185,256)	10,000	1,907,874
EXPENSES:				
Program Expenses	4,236,281	-	-	4,236,281
Membership Development Expenses	10,243	-	-	10,243
Management and General Expenses	119,945	-	-	119,945
Fund-Raising Expenses	522,130	-	-	522,130
Total Expenses	4,888,599	-	-	4,888,599
Excess of Support and Revenue Over/(Under) Expenses	194,531	(3,185,256)	10,000	(2,980,725)
OTHER GAINS AND (LOSSES):				
Realized Gain (Loss) on Investments	2,293	-	-	2,293
Unrealized Gain (Loss) on Investments	39,442	3,770	-	43,212
Total Other Gains and (Losses)	41,735	3,770	-	45,505
Change in Net Assets	236,266	(3,181,486)	10,000	(2,935,220)
Net Assets - Beginning of Year	197,420	7,061,906	55,000	7,314,326
NET ASSETS - END OF YEAR	\$ 433,686	\$ 3,880,420	\$ 65,000	\$ 4,379,106

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, 2014

	Program Expenses	Membership Development	Management & General Expenses	Fund-Raising Expenses	Total
Expenses:					
Accounting Fees	\$ -	\$ -	\$ 11,248	\$ 16,872	\$ 28,120
Contract Labor Expenses	-	-	1,444	50,699	52,143
Credit Card Fees	-	1,355	34	4,584	5,973
Employee Training	-	-	2,057	3,528	5,585
Equipment	-	-	-	346	346
Expansion Campaign - Society Payments	4,222,326	-	-	-	4,222,326
Insurance	-	-	506	759	1,265
In Kind Expense	-	-	-	17,900	17,900
Mailing Services	-	49	-	-	49
Marketing	-	98	254	5,317	5,669
Meeting Expense	-	-	363	544	907
Memberships & Conferences	-	1,475	228	2,185	3,888
Miscellaneous Expense	-	-	288	693	981
Office Supplies	-	-	2,595	3,864	6,459
Postage	1,557	4,882	5,226	3,883	15,548
Direct Mail	10	2,165	2,771	6,119	11,065
Publications	12,320	-	-	-	12,320
Recognition (Hall of Honors)	68	75	2,630	255	3,028
Repairs/Maintenance Agreements	-	58	2,580	4,008	6,646
Software	-	86	435	562	1,083
Telephone	-	-	1,109	3,665	4,774
Travel	-	-	287	15,087	15,374
Vacation & Sick Leave Expense	-	-	124	706	830
Wages	-	-	58,558	269,202	327,760
Payroll Taxes Expense	-	-	4,517	21,049	25,566
Health Insurance	-	-	16,352	63,847	80,199
408(k) SEP Expense	-	-	5,216	24,282	29,498
Depreciation	-	-	1,123	2,174	3,297
Total Expenses	\$ 4,236,281	\$ 10,243	\$ 119,945	\$ 522,130	\$ 4,888,599

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, 2014

Cash flows from operating activities:	
Change in net assets	\$ (2,935,220)
Depreciation expense	3,297
Change in operating assets and liabilities:	
(Increase) decrease in promises to give, net	32,420
Increase (decrease) in accounts payable	(60,949)
Increase (decrease) in payroll taxes/withholdings payable	2,351
Increase (decrease) in accrued leave payable	830
Increase (decrease) in cash held for others	411
Increase (decrease) in wages payable	11,480
Increase (decrease) in deferred membership revenue	14,499
Total adjustments	<u>4,339</u>
Net cash provided (used) by operating activities	(2,930,881)
Cash flows from investing activities:	
Certificate of deposit purchased	(502,595)
Certificate of deposit cashed	2,049,360
Interest added to certificates of deposit and investments	(8,037)
Investments purchased	(10,000)
Donation of mineral acres	(86,000)
Fees paid on investments	1,613
Unrealized (gain) loss on investments	(43,212)
Donation of equipment	(2,500)
Purchases of new equipment	<u>(5,763)</u>
Net cash provided (used) by investing activities	1,392,866
Cash flows from financing activities:	
Payments on charitable gift annuity	<u>(9,240)</u>
Net cash provided (used) by financing activities	<u>(9,240)</u>
Net increase (decrease) in cash and cash equivalents	(1,547,255)
Cash and Cash Equivalents - June 30, 2013	<u>3,252,844</u>
Cash and Cash Equivalents - June 30, 2014	<u><u>\$ 1,705,589</u></u>

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, 2014

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, 2014

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 gain 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, 2014, 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, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Subsequent Events

The Foundation has evaluated subsequent events through November 21, 2014, the date which the financial statements were available to be issued.

NOTE 2 PROMISES TO GIVE

Unconditional promises to give at June 30, 2014 are as follows:

	<u>Trustees</u>	<u>Expansion Campaign</u>	<u>Total</u>
Receivable in less than one year	\$ 10,881	\$ 674,333	\$ 685,214
Receivable in one to five years	18,656	1,267,000	1,285,656
Receivable after five years	-	-	-
Total unconditional promises	<u>29,537</u>	<u>1,941,333</u>	<u>1,970,870</u>
Less discounts to net present value	(2,418)	(166,347)	(168,765)
Less allowance for uncollectible promises	<u>(2,954)</u>	<u>(41,888)</u>	<u>(44,842)</u>
Net promises to give	<u>\$ 24,165</u>	<u>\$ 1,733,098</u>	<u>\$ 1,757,263</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 \$12.7 million as of June 30, 2014. 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, 2014:

Furniture and equipment	\$ 22,951
Less accumulated depreciation	<u>(10,109)</u>
Net fixed assets	<u>\$ 12,842</u>

STATE HISTORICAL SOCIETY OF NORTH DAKOTA FOUNDATION
Notes to the Financial Statements
June 30, 2014

NOTE 4 INVESTMENTS

The fair values of short-term investments totaled \$502,664 at June 30, 2014. The fair values of long-term investments totaled \$427,226 at June 30, 2014.

The following schedule summarizes investment returns and their classification in the statement of activities for the year ended June 30, 2014.

	Unrestricted	Temporarily Restricted	Total
Interest income	\$ 2,100	\$ 9,348	\$ 11,448
Realized gain (loss)	2,293	-	2,293
Unrealized gain (loss)	39,442	3,770	43,212
Total investment return	\$ 43,835	\$ 13,118	\$ 56,953

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.

Level 3 inputs consist of liabilities to annuitants for charitable gifts annuities through split interest agreements. The related assets are included as Level 1. Assets received under these agreements are recorded at fair value and in the appropriate net asset category based on donor stipulation. Related contributions per the agreements are recognized as contribution revenue and are equal to the present value of future benefits to be received by the Foundation over the term of the agreements. Level 3 liabilities have been established for those split-interest agreements for which the Foundation is the trustee. During the term of these agreements, changes in the value of the split-interest agreements are recognized in the statement of activities based on the accretion of the discounted amount of the contribution, revaluations of the expected future benefits to be paid by the Foundation, based on changes in life expectancy and other assumptions.

STATE HISTORICAL SOCIETY OF NORTH DAKOTA FOUNDATION
Notes to the Financial Statements
June 30, 2014

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, 2014 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	\$ 502,664	\$ 502,664	\$ -	\$ -
Total short-term investments	<u>\$ 502,664</u>	<u>\$ 502,664</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Long-term Investments</u>				
Certificates of deposit	\$ 118,986	\$ 118,986	\$ -	\$ -
Edward Jones				
Mutual funds (equities)	21,974	21,974	-	-
Stock	17,718	17,718	-	-
American Trust Center				
Mutual funds (fixed income)	36,657	36,657	-	-
Mutual funds (equities)	163,433	163,433	-	-
Dougherty & Co.				
Mutual funds (equities)	20,868	20,868	-	-
Equities	47,590	47,590	-	-
Mineral Acres	86,000	-	-	86,000
Total long-term investments	<u>\$ 513,226</u>	<u>\$ 427,226</u>	<u>\$ -</u>	<u>\$ 86,000</u>
LIABILITIES				
Charitable gift annuities	15,051	-	-	15,051
Total Liabilities	<u>\$ 15,051</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,051</u>

STATE HISTORICAL SOCIETY OF NORTH DAKOTA FOUNDATION
Notes to the Financial Statements
June 30, 2014

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, 2014.

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	<u>Assets</u>	<u>Liabilities</u>
	Mineral Acres	Charitable gift annuities
Beginning Balance	\$ -	\$ 24,291
Additions and disbursements		
Disbursements	-	(9,240)
New Donation	86,000	-
Ending Balance	\$ 86,000	\$ 15,051

NOTE 6 SPLIT-INTEREST AGREEMENTS

At June 30, 2012, the Foundation had received \$125,720 for a charitable gift annuity. The present value of the estimated future interest is calculated with a 3.4% discount rate and the applicable life expectancy table. Adjustments will be made to the annuities annually to reflect the amortization of the discount and revaluation of expected future payments to beneficiaries based on changes in actuarial assumptions. The fair value of the charitable gift annuity assets is included in investments in the statement of financial position. The estimated future liability of the charitable gift annuity contributions is recognized as a liability in the statement of financial position. Split-interest assets and liabilities are \$193,315 and \$15,051, respectively as of June 30, 2013.

NOTE 7 LINES OF CREDIT

The Foundation activated a new line of credit June 26, 2013 with Starion Financial to finance the Expansion project. This is also secured by promises to give with a maximum credit of \$1,312,745 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, 2014, the line of credit was not used.

STATE HISTORICAL SOCIETY OF NORTH DAKOTA FOUNDATION
Notes to the Financial Statements
June 30, 2014

NOTE 8 TEMPORARILY RESTRICTED NET ASSETS

As of June 30, 2014, Temporarily Restricted Net Assets includes the following:

Restricted for:	
Sakakawea Statue	\$ 37,552
Pembina Fund	94,100
Ruth Hartman Fund	24,886
Expansion Fund	3,561,570
1883 Courthouse Committee	43,293
Hollis Nappen Annuity	116,944
Strand Memorial Fund	2,075
Total	\$ 3,880,420

NOTE 9 PERMANENTLY RESTRICTED NET ASSETS

As of June 30, 2014, Permanently Restricted Net Assets totaled \$65,000 and are restricted to specific Foundation activities.

NOTE 10 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, 2014 was \$29,498.

NOTE 11 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 \$1,757,263 account for 38 percent of the Foundation's assets. Approximately 76 percent of the promises to give receivable are from six 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 12 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 and will be evaluated in future years using a discounted cash flow model (income approach) and consideration of other factors deemed relevant in the circumstances.