

**SOUTH DAKOTA HISTORICAL
SOCIETY FOUNDATION**

Financial Report (Reviewed)
December 31, 2017

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Clausen & Rice, LLP

Certified Public Accountants and Business Consultants

John E. Clausen, CPA

johnclausen.cpa@midconetwork.com

Daniel T. Rice, CPA

danrice.cpa@midconetwork.com

Independent Accountant's Review Report

To the Board of Directors
South Dakota Historical Society Foundation
Pierre, South Dakota

We have reviewed the accompanying financial statements of South Dakota Historical Society Foundation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Clausen & Rice, LLP

Pierre, South Dakota
October 23, 2018

SOUTH DAKOTA HISTORICAL SOCIETY FOUNDATION

STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

See Independent Accountant's Review Report

| Assets | 2017 | 2016 |
|--|---------------------|---------------------|
| Cash and cash equivalents | \$ 692,080 | \$ 953,334 |
| Receivables (Note 6) | 46,842 | 31,442 |
| Inventory | 80,309 | 83,999 |
| Investments (Note 2 and 3) | 1,702,685 | 1,574,621 |
| Prepaid expenses | 550 | 440 |
| Furniture and Equipment, net of accumulated depreciation of \$33,067 and \$31,592 | 5,014 | 6,489 |
| Total assets | 2,527,480 | 2,650,325 |
| | | |
| Liabilities and Net Assets | | |
| Liabilities | | |
| Accounts payable | \$ 25,443 | \$ 5,337 |
| Deferred revenue | 500 | 1,000 |
| Accrued expenses | 34,747 | 25,264 |
| Total liabilities | 60,690 | 31,601 |
| | | |
| Net Assets (Note 5) | | |
| Permanently restricted | 271,001 | 271,001 |
| Temporarily restricted | 238,819 | 226,893 |
| Unrestricted: | | |
| Designated | 1,297,537 | 1,185,905 |
| Undesignated | 659,433 | 934,925 |
| Total net assets | 2,466,790 | 2,618,724 |
| Total liabilities and net assets | \$ 2,527,480 | \$ 2,650,325 |

See Notes to Financial Statements.

SOUTH DAKOTA HISTORICAL SOCIETY FOUNDATION

STATEMENTS OF ACTIVITIES

Years Ended December 31, 2017 and 2016

See Independent Accountant's Review Report

| | 2017 | 2016 |
|---|---------------------|---------------------|
| Changes in unrestricted net assets: | | |
| Revenues and gains: | | |
| Book sales | \$ 299,871 | \$ 500,646 |
| Income on investments | 139,357 | 88,626 |
| Heritage Store revenue | 90,267 | 94,226 |
| Heritage Circle memberships | 67,464 | 58,961 |
| Contributions | 65,311 | 54,791 |
| Contracts | 57,000 | 30,350 |
| Grants | 24,254 | 30,693 |
| Contributed services | 21,500 | 21,500 |
| Sponsorship income | 10,000 | 24,950 |
| Special events | 8,950 | 4,713 |
| Print Sales | 1,145 | 593 |
| Cookbook sales | 552 | 1,176 |
| Other income | 32,050 | 37,535 |
| Net assets released from restrictions | 49,059 | 46,729 |
| Total unrestricted revenues and gains | 866,780 | 995,489 |
| Expenses: | | |
| Program services | 747,183 | 585,216 |
| Fundraising | 94,156 | 49,002 |
| Administrative expenses | 86,112 | 109,796 |
| Heritage store | 100,530 | 97,903 |
| Special events | 2,659 | 3,910 |
| Total expenses | 1,030,640 | 845,827 |
| Increase (decrease) in unrestricted net assets | (163,860) | 149,662 |
| Changes in temporarily restricted net assets: | | |
| Contributions | 60,985 | 67,200 |
| Net assets released from restrictions | (49,059) | (46,729) |
| Increase in temporarily restricted net assets | 11,926 | 20,471 |
| Increase (decrease) in net assets | (151,934) | 170,133 |
| Net assets at beginning of year | 2,618,724 | 2,448,591 |
| Net assets at end of year | \$ 2,466,790 | \$ 2,618,724 |

See Notes to Financial Statements.

SOUTH DAKOTA HISTORICAL SOCIETY FOUNDATION

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2017 and 2016

See Independent Accountant's Review Report

| | 2017 | 2016 |
|--|-------------------|-------------------|
| Cash Flows From Operating Activities | | |
| Change in net assets | \$ (151,934) | \$ 170,133 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 1,475 | 1,308 |
| Net unrealized and realized (gains) on investments | (106,112) | (60,182) |
| Changes in assets and liabilities: | | |
| (Increase) decrease in receivables | (15,400) | 200,146 |
| Decrease in inventory | 3,690 | 5,833 |
| (Increase) decrease in prepaid expenses | (110) | 3,321 |
| Increase (decrease) in accounts payable | 20,106 | (235,292) |
| (Decrease) in deferred revenue | (500) | (500) |
| Increase in accrued expenses | 9,483 | 8,459 |
| Net cash provided by (used in) operating activities | (239,302) | 93,226 |
| Cash Flows From Investing Activities | | |
| Purchase of furniture and equipment | - | (2,874) |
| Proceeds from sale of investments | 62,987 | 1,125,322 |
| Purchase of investments | (84,939) | (1,155,427) |
| Net cash (used in) investing activities | (21,952) | (32,979) |
| Net increase (decrease) in cash | (261,254) | 60,247 |
| Cash | | |
| Beginning | 953,334 | 893,087 |
| Ending | \$ 692,080 | \$ 953,334 |

See Notes to Financial Statements.

SOUTH DAKOTA HISTORICAL SOCIETY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

See Independent Accountant's Review Report

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: The South Dakota Historical Society Foundation is organized as a nonprofit organization and is engaged in the planning and conduct of all lawful activities which will encourage and foster the preservation, study, research and dissemination of information of the prehistoric and historic heritage of South Dakota and of educational programs relating to these purposes and to assist and support the purposes and work of the South Dakota State Historical Society in all its endeavors. The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

A summary of the South Dakota Historical Society Foundation's significant accounting policies is as follows:

Basis of presentation: The financial statements of the Foundation are prepared under the accrual method of accounting. The Foundation classifies its net assets, its revenues and expenses and gains and losses based on the existence or absence of donor-imposed restrictions. It requires that amounts for each of three classes of net assets (permanently restricted, temporarily restricted and unrestricted) be displayed in a statement of financial position and that the amounts of the change in each of the three classes of net assets be displayed in a statement of activities.

Use of estimates: The preparation of financial statements in conformity with generally accepted accounting principals requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue recognition: Contributions are recognized as income in the period in which they are received at their fair values. Unconditional promises to give are recognized as income in the period in which the promise is received, at its fair value. Conditional promises to give are recognized at the time the condition is substantially met. Income from investments and merchandise is recognized when earned.

Cash and cash equivalents: For financial statement purposes, the Foundation considers all bank cash accounts and those money market accounts not designated as investments to be cash equivalents. The amount on deposit at December 31, 2017 and 2016 exceeded the insurance limits of the Federal Deposit Insurance Corporation by approximately \$444,200 and \$690,800, respectively.

Investments: The Foundation states its investments in money market accounts, marketable equity securities, all debt securities at fair value with both realized and unrealized gains and losses included in revenues and gains. Fair value is generally determined by reference to quoted market values.

Furniture and equipment: Furniture and equipment is stated at cost. Depreciation is computed on the straight-line method over estimated useful lives of the assets.

Inventory: Inventory at the Heritage Store includes merchandise for sale and is recorded at the lower of cost or market.

Accrued leave: It is the Foundation's policy to accrue a liability for vested annual leave that is not used by employees at the end of the year. At December 31, 2017 and 2016 the amount of accrued leave is \$26,567 and \$17,641, respectively, and is included in accrued expenses on the statement of financial position.

SOUTH DAKOTA HISTORICAL SOCIETY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

See Independent Accountant's Review Report

Note 1. Nature of Activities and Significant Accounting Policies (continued)

Subsequent events: The South Dakota Historical Society Foundation has evaluated subsequent events through October 23, 2018, which is the date the financial statements were available to be issued.

Federal income taxes: The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Accounting standards prescribe a recognition threshold of more likely than not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. At December 31, 2017, the Foundation believes that there are no uncertain tax positions or liabilities, or interest and penalties associated with uncertain tax positions. If the Foundation had interest and penalties related to uncertain tax positions, it would be accounted for as a component of income tax expense.

As of December 31, 2017, the Foundation is no longer subject to examinations for returns filed with the Internal Revenue Service for the years ended prior to December 31, 2014.

Note 2. Investments

Investments at December 31, 2017 that are carried at fair value consist of the following:

| | Cost | Fair Value |
|--|---------------------|---------------------|
| Cash management and money markets accounts | \$ 113,908 | \$ 113,908 |
| Investments - stocks and mutual funds | \$ 1,420,616 | \$ 1,588,777 |
| | <u>\$ 1,534,524</u> | <u>\$ 1,702,685</u> |

Proceeds from the sale of investments were \$62,987 in 2017 and realized gains were \$892.

Investments at December 31, 2016 that are carried at fair value consist of the following:

| | Cost | Fair Value |
|--|---------------------|---------------------|
| Cash management and money markets accounts | \$ 65,229 | \$ 65,229 |
| Investments - stocks and mutual funds | \$ 1,447,239 | \$ 1,509,392 |
| | <u>\$ 1,512,468</u> | <u>\$ 1,574,621</u> |

Proceeds from the sale of investments were \$1,125,322 in 2016 and realized gains were \$62,547.

SOUTH DAKOTA HISTORICAL SOCIETY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

See Independent Accountant's Review Report

Net income on investments for the years ended December 31, 2017 and 2016 consist of the following:

| | 2017 | 2016 |
|---|-------------------|------------------|
| Interest on money market and savings account | \$ 409 | \$ 504 |
| Interest, dividends and capital gain distributions received on mutual funds, marketable debt equity securities | 43,346 | 37,091 |
| Net unrealized and realized gains (losses) on investment securities | 106,112 | 60,182 |
| Trustee fees | (10,510) | (9,151) |
| | <u>\$ 139,357</u> | <u>\$ 88,626</u> |

Note 3. Fair Value Measurements

Fair value measurements are classified in a three-level hierarchy. Level one of the fair value hierarchy consists of observable inputs such as quoted market prices for identical assets in active markets. Level two of the fair value hierarchy consists of quoted prices that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset. Level three of the fair value hierarchy consists of unobservable inputs based on prices or valuation techniques that require significant judgments or estimation.

The following assets are measured on a recurring basis and are included in the fair value hierarchy as December 31, 2017 and 2016.

| | 2017 | | | Total |
|---------------------------------|---------------------|------------------|-------------|---------------------|
| | Level One | Level Two | Level Three | |
| Cash and Cash Equivalents | \$ 692,080 | \$ - | \$ - | \$ 692,080 |
| <i>Included in Investments:</i> | | | | |
| Money Market Accounts | 113,908 | - | - | 113,908 |
| Stocks and Mutual Funds | 1,513,267 | - | - | 1,513,267 |
| Debt Securities | - | 75,510 | - | 75,510 |
| | <u>\$ 2,319,255</u> | <u>\$ 75,510</u> | <u>\$ -</u> | <u>\$ 2,394,765</u> |

| | 2016 | | | Total |
|---------------------------------|---------------------|------------------|-------------|---------------------|
| | Level One | Level Two | Level Three | |
| Cash and Cash Equivalents | \$ 953,334 | \$ - | \$ - | \$ 953,334 |
| <i>Included in Investments:</i> | | | | |
| Money Market Accounts | 65,229 | - | - | 65,229 |
| Stocks and Mutual Funds | 1,435,670 | - | - | 1,435,670 |
| Debt Securities | - | 73,722 | - | 73,722 |
| | <u>\$ 2,454,233</u> | <u>\$ 73,722</u> | <u>\$ -</u> | <u>\$ 2,527,955</u> |

SOUTH DAKOTA HISTORICAL SOCIETY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

See Independent Accountant's Review Report

Note 4. Contributions Receivable

Contributions receivable are unconditional promises to be collected. For the years ended December 31, 2017 and 2016, there were no contributions receivable.

Note 5. Net Assets

Permanently restricted net assets are restricted to amounts contributed specifically by donors. The income derived from these funds, including net appreciation in value of investments, is generally designated for certain purposes and programs. As of December 31, 2017, there was \$1,297,537 designated for such purposes, which is reported as unrestricted, designated net assets in the accompanying statement of financial position.

Temporarily restricted net assets consist of contributions received from donors who specified how contributions are to be used.

The unrestricted, undesignated net assets in the accompanying statement of financial position are for the general operating activities of the Foundation.

Note 6. Receivable from South Dakota Community Foundation

In October of 2004, an agreement was entered into with the South Dakota Community Foundation establishing an Endowment Fund. Contributions made to the Endowment Fund are irrevocable and all of the rights and title of the contributions transfer to the South Dakota Community Foundation. The South Dakota Historical Society Foundation is entitled to an earnings distribution from the Endowment Fund based on the funds average fair market value for the trailing sixteen quarters. For the year ended December 31, 2017, the Historical Society Foundation had \$19,346 available for distribution and this amount has been included in receivables on the statement of financial position.

The market value of the Endowment Fund at December 31, 2017 and 2016 was \$458,600 and \$423,402 respectively.

Note 7. Contributed Services

The State of South Dakota contributes administrative support and office space to the Heritage Fund. The value of the services provided for 2017 and 2016 include \$3,000 and \$3,000, respectively for administrative support and \$18,500 and \$18,500, respectively for office space. The amounts have been included as contributed services revenue and administrative expenses in the financial statements.

Note 8. Retirement Plan

The Foundation has a retirement plan for all of its employees. The Foundation makes matching contributions of up to 5% of each employee's wages. The Foundation made contributions of \$14,550 and \$11,042 for the years ended December 31, 2017 and 2016, respectively.

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Certified Public Accountants and Business Consultants

John E. Clausen, CPA

johnclausen.cpa@midconetwork.com

Daniel T. Rice, CPA

danrice.cpa@midconetwork.com

Independent Accountant's Review Report on the Supplementary Information

To the Board of Directors
South Dakota Historical Society Foundation
Pierre, South Dakota

The 2017 and 2016 supplementary information included on pages 10 and 11 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The supplementary information has been subjected to the review procedures applied in our review of the basic financial statements. We are not aware of any material modifications that should be made to the supplementary information. We have not audited the supplementary information and do not express an opinion on such information.

Clausen & Rice, LLP

Pierre, South Dakota
October 23, 2018

SOUTH DAKOTA HISTORICAL SOCIETY FOUNDATION

SCHEDULES OF EXPENSES

Years Ended December 31, 2017 and 2016

See Independent Accountant's Review Report on the Supplementary Information

| | 2017 | 2016 |
|------------------------------------|-------------------|-------------------|
| Program Services | | |
| Salaries | \$ 215,386 | \$ 179,038 |
| Pioneer Girl Project | 184,445 | 91,961 |
| Printing and publication | 88,380 | 39,571 |
| Contract services | 75,825 | 49,071 |
| Royalty expense | 47,270 | 85,510 |
| Meetings | 33,175 | 11,603 |
| Travel | 18,097 | 20,323 |
| Payroll taxes | 16,477 | 13,696 |
| Design services | 12,862 | 17,670 |
| Advertising | 12,000 | 13,815 |
| Postage and shipping | 8,887 | 8,195 |
| Retirement plan | 7,282 | 5,717 |
| Bank fees | 3,864 | 3,398 |
| Dues and subscriptions | 3,634 | 5,943 |
| Professional speaker/writer travel | 3,083 | 3,853 |
| Web site/internet expense | 2,816 | 2,125 |
| Books and reference materials | 2,196 | 583 |
| Telephone | 1,992 | 1,788 |
| Supplies | 1,585 | 3,762 |
| Depreciation | 1,427 | 1,260 |
| Database - membership and donor | 1,334 | 1,834 |
| Training | 833 | 631 |
| Program service expense | 629 | 2,641 |
| Exhibits | 389 | 15,315 |
| Legal and professional fees | 188 | - |
| Repair and maintenance | - | 3,124 |
| Donor recognition | - | 308 |
| Miscellaneous | 3,127 | 2,481 |
| | <u>\$ 747,183</u> | <u>\$ 585,216</u> |
| Fundraising | | |
| Salaries | \$ 78,893 | \$ 42,666 |
| Payroll taxes | 6,035 | 3,264 |
| Retirement plan | 3,945 | 2,027 |
| Cost of Prints sold | 2,097 | 859 |
| Cost of Cookbooks sold | 714 | 186 |
| Miscellaneous | 2,472 | - |
| | <u>\$ 94,156</u> | <u>\$ 49,002</u> |

SOUTH DAKOTA HISTORICAL SOCIETY FOUNDATION

SCHEDULES OF EXPENSES

Years Ended December 31, 2017 and 2016

See Independent Accountant's Review Report on the Supplementary Information

| | 2017 | 2016 |
|--------------------------------|-------------------|-------------------|
| Administrative expenses | | |
| Salaries | \$ 36,450 | \$ 55,249 |
| In-kind rent expense | 18,500 | 18,500 |
| Annual leave | 8,926 | 7,300 |
| Payroll taxes | 5,084 | 6,522 |
| Accounting | 4,579 | 8,644 |
| Insurance | 3,540 | 2,477 |
| Retirement plan | 3,323 | 3,298 |
| In-kind administrative expense | 3,000 | 3,000 |
| Office expense | 2,710 | 4,806 |
| | <u>\$ 86,112</u> | <u>\$ 109,796</u> |
| Heritage store | | |
| Cost of goods sold | \$ 57,846 | \$ 56,812 |
| Salaries | 30,000 | 30,000 |
| Advertising | 2,644 | 3,343 |
| Store supplies | 2,522 | 652 |
| Credit card processing fees | 2,285 | 2,560 |
| Office supplies | 1,872 | 598 |
| Insurance | 898 | 883 |
| Postage & Shipping | 751 | 276 |
| Dues and subscriptions | 625 | 175 |
| Outside service expense | 75 | 50 |
| Promotional expense | 73 | 1,000 |
| Depreciation | 48 | 48 |
| Miscellaneous | 891 | 1,506 |
| | <u>\$ 100,530</u> | <u>\$ 97,903</u> |