

NATIVE AMERICAN HERITAGE ASSOCIATION  
Financial Statements  
For the Years Ended August 31, 2015 and 2014



NATIVE AMERICAN HERITAGE ASSOCIATION  
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**INDEPENDENT AUDITOR'S REPORT**

The Board of Directors of  
NATIVE AMERICAN HERITAGE ASSOCIATION

We have audited the accompanying financial statements of Native American Heritage Association (a nonprofit organization), which comprise the statements of financial position as of August 31, 2015 and 2014, and the related statements of activities, functional expenses and cash flows for the years 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 audits. We conducted our audits 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.



## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Native American Heritage Association as of August 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Bullock & Associates, P.C.*

BULLOCK & ASSOCIATES, P.C.

Leesburg, Virginia

December 1, 2015



NATIVE AMERICAN HERITAGE ASSOCIATION  
Statements of Financial Position  
August 31, 2015 and 2014

ASSETS

	<u>2015</u>	<u>2014</u>
Current assets:		
Cash and cash equivalents	\$ 968,132	\$ 1,696,893
Accounts receivable	1,111,403	1,115,319
Inventory (Note 1)	6,137,403	6,541,008
Prepaid expenses	<u>2,929,154</u>	<u>2,612,837</u>
Total current assets	<u>11,146,092</u>	<u>11,966,057</u>
Property and equipment, at cost net of accumulated depreciation (Note 3)	<u>2,192,872</u>	<u>2,336,577</u>
Other assets:		
Marketable securities (Note 6)	6,687,967	6,853,203
Unemployment & refundable deposits	<u>16,244</u>	<u>14,702</u>
Total other assets	<u>6,704,211</u>	<u>6,867,905</u>
Total assets	<u>\$ 20,043,175</u>	<u>\$ 21,170,539</u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable	\$ 31,543	\$ 39,983
Accrued expenses	99,393	16,116
Accrued salaries and benefits	22,466	19,699
Margin loan	3,404,409	3,205,556
Deferred revenue	<u>4,492,403</u>	<u>4,523,661</u>
Total current liabilities	<u>8,050,214</u>	<u>7,805,015</u>
Net assets:		
Unrestricted	<u>11,992,961</u>	<u>13,365,524</u>
Total liabilities and net assets	<u>\$ 20,043,175</u>	<u>\$ 21,170,539</u>

See independent auditor's report and accompanying notes to financial statements.



NATIVE AMERICAN HERITAGE ASSOCIATION  
Statements of Activities  
For the years ended August 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Unrestricted net assets:		
Support and revenue:		
Contributions - Cash	\$ 2,296,163	\$ 2,358,785
Contributions - Food	5,682,465	6,017,930
Contributions - Clothing	2,068,072	3,073,046
Contributions - Gifts in Kind	36,681,086	29,747,524
Sales, net of costs	47,331	20,580
Special events, less related expenses of \$4,912,377 and \$73,362, respectively	757,462	770,376
Grants	-	15,000
Miscellaneous income	2,519	10,104
Gain on asset disposal	-	33,794
Interest and dividends	380,841	385,951
Realized gain on investments	173,140	95,408
Unrealized gain (loss) on investments	(665,820)	555,894
Total unrestricted support and revenue	<u>47,423,259</u>	<u>43,084,392</u>
Expenses:		
Functional expenses:		
Program	47,128,441	38,435,692
Management and general	540,453	609,490
Fundraising	<u>1,126,928</u>	<u>1,316,188</u>
Total functional expenses	<u>48,795,822</u>	<u>40,361,370</u>
Increase (decrease) in unrestricted net assets	(1,372,563)	2,723,022
Net assets at beginning of year	<u>13,365,524</u>	<u>10,642,502</u>
Net assets at end of year	<u>\$11,992,961</u>	<u>\$ 13,365,524</u>

See independent auditor's report and accompanying notes to financial statements.



# NATIVE AMERICAN HERITAGE ASSOCIATION

## Statement of Functional Expenses For the Year Ended August 31, 2015

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Accounting	\$ -	\$ 80,472	\$ -	\$ 80,472
Advertising	-	336	233	569
Bank and credit card charges	-	913	7,358	8,271
Computer maintenance	1,135	2,980	821	4,936
Consulting fees	-	8,500	-	8,500
Delivery expense	131,825	86	-	131,911
Depreciation	124,513	37,915	587	163,015
Drug testing	174	-	-	174
Donated goods-clothing	2,068,072	-	-	2,068,072
Donations-cash	175,703	-	-	175,703
Donations-Gifts in Kind	37,084,691	-	-	37,084,691
Donations-food	5,682,465	-	-	5,682,465
Dues & fees	1,125	13,152	3,409	17,686
Employee benefits-child care	4,391	4,391	4,391	13,173
Employee benefits-insurance	67,824	24,224	10,183	102,231
Employee benefits-pension	58,140	32,496	15,231	105,867
Envelopes, printing & production	-	-	326,287	326,287
Food distribution expense	211,588	-	-	211,588
Gifts in Kind fee expense	1,077,381	-	-	1,077,381
Insurance	17,960	14,503	-	32,463
Interest expense	-	89,765	-	89,765
Legal fees	-	3,643	-	3,643
Meetings & travel	1,718	6,241	-	7,959
Office expense	622	6,414	1,855	8,891
Payroll taxes	16,286	12,114	3,154	31,554
Payroll process fee	359	180	180	719
Postage	-	3,907	455,327	459,234
Promotional fees	-	-	1,382	1,382
Property taxes	136	2,538	-	2,674
Prospect list	-	-	245,876	245,876
Real estate and other taxes	-	4,072	-	4,072
Repairs and maintenance	7,490	1,582	-	9,072
Salaries	222,292	170,985	50,654	443,931
Security	615	420	-	1,035
State registrations	-	7,360	-	7,360
Supplies	2,435	62	-	2,497
Telephone	7,660	5,306	-	12,966
Utilities	16,061	5,610	-	21,671
Vehicle expense	145,780	286	-	146,066
Total expenses	<u>\$47,128,441</u>	<u>\$540,453</u>	<u>\$1,126,928</u>	<u>\$48,795,822</u>

See independent auditor's report and accompanying notes to financial statements.



# NATIVE AMERICAN HERITAGE ASSOCIATION

## Statement of Functional Expenses For the Year Ended August 31, 2014

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Accounting	\$ -	\$ 94,667	\$ -	\$ 94,667
Advertising	-	579	30,864	31,443
Bank and credit card charges	-	1,089	8,524	9,613
Computer maintenance	115	2,244	146	2,505
Consulting fees	-	-	3,000	3,000
Custodial	-	45	-	45
Delivery expense	139,422	-	-	139,422
Depreciation	113,481	38,748	510	152,739
Donated goods-clothing	3,094,748	-	-	3,094,748
Donations-cash	106,654	-	-	106,654
Donations-Gifts in Kind	27,085,256	-	-	27,085,256
Donations-food	6,017,930	-	-	6,017,930
Drug testing	78	-	-	78
Dues & fees	1,569	14,463	4,622	20,654
Employee benefits-child care	-	9,165	-	9,165
Employee benefits-insurance	58,385	32,372	16,049	106,806
Employee benefits-pension	69,131	50,976	27,471	147,578
Employee relations	-	207	-	207
Envelopes, printing & production	-	-	373,769	373,769
Food distribution expense	221,502	-	-	221,502
Gifts in Kind fee expense	999,675	-	-	999,675
Insurance	19,118	17,920	222	37,260
Interest expense	-	91,422	-	91,422
Legal fees	-	3,173	1,900	5,073
Meetings & travel	2,960	7,604	687	11,251
Office expense	648	3,627	3,919	8,194
Payroll taxes	18,622	12,994	5,872	37,488
Payroll process fee	276	264	194	734
Postage	-	7,824	476,827	484,651
Promotional fees	-	-	1,382	1,382
Property taxes	-	2,064	-	2,064
Prospect list	-	-	254,796	254,796
Real estate and other taxes	-	1,706	-	1,706
Repairs and maintenance	7,579	4,405	775	12,759
Salaries	266,278	193,158	102,740	562,176
Security	438	420	-	858
State registrations	-	6,456	-	6,456
Supplies	3,106	222	1,919	5,247
Telephone	7,345	5,052	-	12,397
Utilities	16,443	5,206	-	21,649
Vehicle expense	184,933	1,418	-	186,351
Total expenses	<u>\$38,435,692</u>	<u>\$609,490</u>	<u>\$1,316,188</u>	<u>\$40,361,370</u>

See independent auditor's report and accompanying notes to financial statements.



NATIVE AMERICAN HERITAGE ASSOCIATION  
Statements of Cash Flows  
For the Years Ended August 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Increase/(decrease) in net assets	<u>\$(1,372,563)</u>	<u>\$ 2,723,022</u>
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	163,015	152,739
Gain on asset disposal	-	(33,794)
Realized gain on investments	(173,140)	(95,408)
Unrealized (gain) loss on investments	665,820	(555,894)
Decrease in accounts receivable	3,916	859,701
(Increase)/decrease in inventories	403,605	(2,640,566)
Increase) in prepaid expenses	(316,317)	(2,348,991)
(Increase)/decrease in deposits	(1,542)	16,611
Decrease in accounts payable	(8,440)	(72,291)
Increase/(decrease) in accrued salaries and benefits	2,767	(11,770)
Increase/(decrease) in deferred revenue	(31,258)	3,683,612
Increase in accrued expenses	<u>83,277</u>	<u>2,457</u>
Total adjustments	<u>791,703</u>	<u>(1,043,594)</u>
Net cash provided (used) by operating activities	<u>(580,860)</u>	<u>1,679,428</u>
Cash flows from investing activities:		
Cash payments for the purchase of property	(19,310)	(288,332)
Investments, net of realized and unrealized gain/(loss)	<u>(327,444)</u>	<u>(250,819)</u>
Net cash used by investing activities	<u>(346,754)</u>	<u>(539,151)</u>
Cash flows from financing activities:		
Cash proceeds from margin loan	<u>198,853</u>	<u>(314,880)</u>
Net cash provided (used) by financing activities	<u>198,853</u>	<u>(314,880)</u>
Net increase (decrease) in cash and equivalents	(728,761)	825,397
Cash and equivalents - beginning of year	<u>1,696,893</u>	<u>871,496</u>
Cash and equivalents - end of year	<u><u>\$ 968,132</u></u>	<u><u>\$1,696,893</u></u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest expense	<u><u>89,765</u></u>	<u><u>91,422</u></u>

See independent auditor's report and accompanying notes to financial statements.



## NATIVE AMERICAN HERITAGE ASSOCIATION

### Notes to Financial Statements

August 31, 2015 and 2014

1. Summary of significant accounting policies:

A summary of the Organization's significant accounting policies is presented below to assist the reader in evaluating the organization's financial statements.

**Nature of business:** Native American Heritage Association is a not-for-profit corporation dedicated to helping Native Americans living on and off the tribal reservations in South Dakota and Wyoming. The Organization is headquartered in Rapid City, South Dakota, with certain administrative and fundraising activities carried out at a branch office in Front Royal, Virginia. Virtually all revenue of the Organization is obtained by soliciting monetary and clothing contributions from the general public through direct mail, as well as from food donations by Feeding America (formerly America's Second Harvest) and donated goods from Good 360 and BluSource.

The Organization's primary program is to assist Native Americans on tribal reservations through the distribution of donated food, clothing, and other items.

**Cash and cash equivalents:** For financial statement purposes, the Organization considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash is held in bank deposit accounts, which, at times, exceeds federally insured limits. At August 31, 2015 and 2014, there existed cash deposits of approximately \$708,000 and \$1,400,000 in excess of federally insured limits, respectively. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

**Contributed Inventory:** The Organization receives contributed perishable and nonperishable food items from Feeding America. The Organization pays an administrative fee to cover the costs of handling the food; however, the product itself is considered to be donated and is recorded as inventory and contribution revenue at the time of shipment. The food is distributed on the tribal reservations shortly after receipt. The value of the food inventory for the years ended August 31, 2015 and 2014 was \$0 and \$0, respectively. Distribution expense is recorded at the time the food is distributed. For the years ended August 31, 2015 and 2014, the fair value of the donated food was recorded at \$1.72 and \$1.72 per pound, respectively. This value was derived from a study performed by the independent auditors of Feeding America that determined the average wholesale value of one pound of donated product. Wholesale value is considered to approximate fair market value due to the large quantities of donated food received.



NATIVE AMERICAN HERITAGE ASSOCIATION  
Notes to Financial Statements (continued)

1. Summary of significant accounting policies (continued):

The Organization receives contributed clothing from the general public. The clothing is distributed on the tribal reservations shortly after receipt. The value of the clothing inventory for the years ended August 31, 2015 and 2014 was \$0 and \$0, respectively. For the years ended August 31, 2015 and 2014, the Organization recorded the fair market value of the clothing as contribution revenue and distribution expense at an estimated \$14.72 and \$14.42 per pound, respectively.

The Organization receives other contributed items from Good 360 and BluSource, such as clothing, personal care/cosmetics, household items, and furniture. The Organization pays an administrative fee to cover the cost of handling, however the products are considered donated and are recorded as inventory and contribution revenue at the time of shipment. The items are distributed on the tribal reservations shortly after receipt. The value of the inventory items for the years ended August 31, 2015 and 2014 was \$6,137,403 and \$6,541,008 respectively. Distribution expense is recorded at the time the items are distributed. The fair value of the donated items is determined by the donor organization to Good 360 and BluSource who then pass the donation to the Organization.

**Use of estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts and disclosures reported in the financial statements. Actual results could differ from those estimates.

**Property and depreciation:** Property and equipment are recorded at cost or, if donated, at the approximate fair value at the date of donation. All assets over \$1,000 with an estimated useful life exceeding one year are capitalized. Depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. When items of property or equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in income.

**Recognition of revenue and expenses:** The financial statements of the Organization are presented on the accrual basis of accounting.

**Functional expenses:** The cost of providing program and other activities has been summarized on a functional basis in the Statements of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The Organization conducts no joint activities.



NATIVE AMERICAN HERITAGE ASSOCIATION  
Notes to Financial Statements (continued)

1. Summary of significant accounting policies (continued):

**Advertising costs:** The Organization expenses all advertising costs as they are incurred.

**Contributions:** The Organization records contributions in accordance with SFAS No. 116. Accordingly, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. As all material used in soliciting contributions gives the Organization variance power to use the contribution “for the most critical need at the time received,” all contribution revenue is considered to be unrestricted.

**Income taxes:** The Organization qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code and is not subject to federal income tax. In addition, the Organization has been determined by the IRS not to be a “private foundation” within the meaning of Section 509(a)(1) of the Internal Revenue Code. The Organization is subject to income tax on any unrelated business net income. At August 31, 2015 and 2014 the Organization had an outstanding liability for securities purchased on margin. Therefore, the Organization incurred unrelated debt-financed income which is subject to income tax. The Organization incurred \$0 and \$0 in unrelated business income tax for the years ended August 31, 2015 and 2014, respectively. The federal income tax returns of the Organization for 2015, 2014 and 2013 are subject to examination by the IRS, generally for three years after they were filed.

**Concentrations:** The Organization receives a significant portion of its contributions from America’s Second Harvest, Good 360, and BluSource, the loss of which could have an impact on the Organization.

2. Restrictions on assets:

In accordance with FASB No.117, “Financial Statements of Not-for-Profit Organizations,” the Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. No temporarily or permanently restricted net assets exist at August 31, 2015 and 2014.

3. Property and equipment:

Major classifications of property and equipment and their respective depreciable lives at August 31, 2015 and 2014, are summarized below:



NATIVE AMERICAN HERITAGE ASSOCIATION  
Notes to Financial Statements (continued)

3. Property and equipment (continued):

	<u>2015</u>	<u>2014</u>
Buildings and leasehold improvements (27-35 Years)	\$2,105,445	\$2,105,445
Furniture and equipment (3-10 Years)	342,629	323,641
Vehicles (5 Years)	750,392	750,392
Website development (5 Years)	24,755	24,755
Land	<u>183,371</u>	<u>183,371</u>
	3,406,592	3,387,604
Less: accumulated depreciation	<u>1,213,720</u>	<u>1,051,027</u>
Net property and equipment	<u>\$2,192,872</u>	<u>\$2,336,577</u>

4. Pension Plan:

Effective January 1, 2002, the Organization adopted a SEP IRA pension plan, whereby full-time employees with a minimum employment period of two years, and who have attained the age of 21 are eligible for the plan. Effective for 2007, the Organization contributes 25% of each eligible employee's wages to the plan. For the years ended August 31, 2015 and 2014, the Organization contributed \$105,867 and \$147,578, respectively. The plan follows the calendar year.

5. Margin Loan:

In 2012, the Organization opened a margin account with Wells Fargo Advisors to purchase securities. The securities purchased on margin are considered collateral for the margin loan.

The amount of the loan changes daily when securities are purchased and sold. The rate of interest charged is calculated monthly, based on the average daily debit balance in the margin account. The interest rates at August 31, 2015 and 2014 were 2.75% and 2.75%, respectively. Management, based on income information from Wells Fargo Advisors, has calculated the return on investments for the years ended August 31, 2015 and 2014, to be approximately (1.67%) and 16.2%, respectively.

6. Marketable Securities:

The Organization holds marketable securities at August 31, 2015 and 2014. A summary of these holdings is as follows:



NATIVE AMERICAN HERITAGE ASSOCIATION  
Notes to Financial Statements (continued)

6. Marketable Securities (continued):

	<u>August 31, 2015</u>		
	<u>Cost Basis</u>	<u>Cumulative Unrealized Gain(Loss)</u>	<u>Fair Value</u>
Held-to-maturity – Debt securities	<u>\$1,591,855</u>	<u>\$ 70,341</u>	<u>\$1,662,196</u>
Available-for-sale – Equity securities	<u>\$3,178,909</u>	<u>\$585,226</u>	<u>\$3,764,135</u>
Mutual Funds	<u>\$1,491,503</u>	<u>\$(256,097)</u>	<u>\$1,235,406</u>

	<u>August 31, 2014</u>		
	<u>Cost Basis</u>	<u>Cumulative Unrealized Gain(Loss)</u>	<u>Fair Value</u>
Held-to-maturity – Debt securities	<u>\$1,595,555</u>	<u>\$182,382</u>	<u>\$1,777,937</u>
Available-for-sale – Equity securities	<u>\$2,718,516</u>	<u>\$798,707</u>	<u>\$3,517,223</u>
Mutual Funds	<u>\$1,461,698</u>	<u>\$ 69,488</u>	<u>\$1,531,186</u>

The Organization holds \$26,230 and \$26,857 in cash and cash equivalents at August 31, 2015 and 2014, respectively. The unrealized gains and losses on marketable securities for the current year are included as a separate component of other revenue in the accompanying statement of activities.

The Fair Value Measurements Topic of the FASB Accounting Standards Codification establishes 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 briefly described below:

- Level 1      Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2      Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the assets or liability, either directly or indirectly, for substantially the full term of the financial instrument.



## NATIVE AMERICAN HERITAGE ASSOCIATION

### Notes to Financial Statements (continued)

#### 6. Marketable Securities (continued):

Level 3      Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The fair values of all of the marketable securities as of August 31, 2015 and 2014 are based on unadjusted, quoted prices in active markets as of the measurement date (often referred to as Level 1 inputs).

#### 7. Commitments:

As of August 31, 2015, the Organization has entered into the following agreements for costs associated with a fundraising cruise occurring January 21, 2016:

- Cruise ship guest accommodations with Royal Caribbean Cruises, Ltd. for \$1,775,137; of this \$1,597,623 was paid as of August 31, 2015.
- Talent buyer services with American Artist Corporation for 10% of the total of all artist guarantees. As of August 31, 2015, total artist guarantees was \$1,537,000, and \$123,150 has been paid for the 10% fee.
- Cruise logistics planning services with Landry & Kling, Inc. for \$125,000; of this \$87,500 was paid as of August 31, 2015.
- Operational management and onsite implementation with Sea Planners Group for \$45,000; of this \$22,500 was paid as of August 31, 2015.
- Production services with Light Action Productions for \$569,042; of this \$426,782 was paid as of August 31, 2015.

#### 8. Subsequent Events:

Subsequent events have been evaluated through December 1, 2015, as this is the date the financial statements were available to be issued.