

NATIVE AMERICAN HERITAGE ASSOCIATION  
Financial Statements  
For the Years Ended August 31, 2012 and 2011

NATIVE AMERICAN HERITAGE ASSOCIATION

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1
Financial Statements:	
Statements of Financial Position	2
Statements of Activities	3
Statements of Functional Expenses	4 - 5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 11



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**INDEPENDENT AUDITOR'S REPORT**

The Board of Directors  
NATIVE AMERICAN HERITAGE ASSOCIATION  
Front Royal, Virginia

We have audited the accompanying statements of financial position of Native American Heritage Association (a non-profit organization) as of August 31, 2012 and 2011, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the organization's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Bullock & Associates, P.C.*  
BULLOCK & ASSOCIATES, P.C.  
December 17, 2012

NATIVE AMERICAN HERITAGE ASSOCIATION  
 Statements of Financial Position  
 August 31, 2012 and 2011

ASSETS

	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents	\$ 145,926	\$ 1,931,542
Inventory (Note 1)	8,260,645	4,884,432
Prepaid expenses	2,630,901	3,669,202
Total current assets	<u>11,037,472</u>	<u>10,485,176</u>
Property and equipment, at cost net of accumulated depreciation (Note 3)	<u>2,288,794</u>	<u>2,423,126</u>
Other assets:		
Marketable securities (Note 6)	6,952,776	4,260,579
Annuities	400,000	400,000
Unemployment & refundable deposits	5,419	7,900
Total other assets	<u>7,358,195</u>	<u>4,668,479</u>
Total assets	<u>\$ 20,684,461</u>	<u>\$ 17,576,781</u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable	\$ 95,730	\$ 100,632
Accrued expenses	25,437	4,282
Accrued salaries and benefits	35,100	31,765
Margin loan	2,454,066	-
Line of credit	970,000	-
Deferred revenue	1,937,678	2,806,419
Total current liabilities	<u>5,518,011</u>	<u>2,943,098</u>
Net assets:		
Unrestricted	<u>15,166,450</u>	<u>14,633,683</u>
Total liabilities and net assets	<u>\$ 20,684,461</u>	<u>\$ 17,576,781</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, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Unrestricted net assets:		
Support and revenue:		
Contributions - Cash	\$ 2,330,265	\$ 2,455,707
Contributions - Food	5,391,664	5,993,931
Contributions - Clothing	3,983,541	3,876,790
Contributions - Gifts in Kind	26,128,079	22,495,286
Sales, net of costs	51,352	2,806
Special events, less related expenses of \$5,342,779	(1,589,191)	646,979
Grants	36,100	102,069
Interest and dividends	482,739	421,298
Realized gain on investments	82,039	301,832
Unrealized gain (loss) on investments	(126,991)	198,297
Total unrestricted support and revenue	<u>36,769,597</u>	<u>36,494,995</u>
Expenses:		
Functional expenses:		
Program	34,271,122	36,182,351
Management and general	683,764	763,798
Fundraising	1,281,944	1,570,715
Total functional expenses	<u>36,236,830</u>	<u>38,516,864</u>
Increase (decrease) in unrestricted net assets	532,767	(2,021,869)
Net assets at beginning of year	<u>14,633,683</u>	<u>16,655,552</u>
Net assets at end of year	<u>\$15,166,450</u>	<u>\$ 14,633,683</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, 2012

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Accounting	\$ -	\$ 83,175	\$ -	\$ 83,175
Advertising	-	171	-	171
Bank and credit card charges	-	1,771	35,244	37,015
Computer maintenance	-	1,202	-	1,202
Consulting fees	-	1,112	3,000	4,112
Delivery expense	80,167	-	-	80,167
Depreciation	94,103	39,728	501	134,332
Donated goods-clothing	3,983,541	-	-	3,983,541
Donations-cash	176,327	-	-	176,327
Donations-Gifts in Kind	22,751,865	-	-	22,751,865
Donations-food	5,391,663	-	-	5,391,663
Dues & fees	1,550	9,935	5,300	16,785
Employee benefits-child care	-	6,026	-	6,026
Employee benefits-insurance	37,785	26,958	10,994	75,737
Employee benefits-pension	60,049	57,455	27,366	144,870
Envelopes, printing & production	-	-	345,869	345,869
Food distribution expense	204,874	-	-	204,874
Gifts in Kind fee expense	976,162	-	-	976,162
Insurance	12,680	25,326	-	38,006
Interest expense	-	50,176	6,351	56,527
Investment fee	-	30	-	30
Legal fees	-	10,561	-	10,561
Meetings & travel	16,830	10,273	-	27,103
Office expense	526	2,843	1,794	5,163
Payroll taxes	18,581	20,965	6,566	46,112
Payroll process fee	371	186	185	742
Postage	4,769	9,123	451,864	465,756
Property taxes	-	2,224	-	2,224
Prospect list	-	-	273,968	273,968
Real estate and other taxes	11,221	5,853	-	17,074
Repairs and maintenance	9,097	4,516	-	13,613
Salaries	260,585	301,518	112,347	674,450
Security	403	420	-	823
State registrations	-	71	-	71
Supplies	2,403	613	595	3,611
Telephone	6,743	4,926	-	11,669
Utilities	15,075	5,710	-	20,785
Vehicle expense	153,752	897	-	154,649
Total expenses	<u>\$34,271,122</u>	<u>\$683,764</u>	<u>\$1,281,944</u>	<u>\$36,236,830</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, 2011

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Accounting	\$ -	\$ 55,474	\$ -	\$ 55,474
Advertising	-	39	388,805	388,844
Bank and credit card charges	(7)	3,022	8,589	11,604
Computer maintenance	-	5,389	-	5,389
Consulting fees	15,274	3,818	8,650	27,742
Custodial	-	405	-	405
Delivery expense	80,034	-	-	80,034
Depreciation	107,018	35,674	2,824	145,516
Donated goods-clothing	3,910,679	-	-	3,910,679
Donations-cash	93,625	-	-	93,625
Donations-Gifts in Kind	24,504,856	-	-	24,504,856
Donations-food	6,067,717	-	-	6,067,717
Dues & fees	3,141	12,750	8,229	24,120
Employee relations	400	79	-	479
Employee benefits-child care	-	5,981	-	5,981
Employee benefits-insurance	30,547	45,012	10,522	86,081
Employee benefits-pension	57,802	66,977	27,928	152,707
Envelopes, printing & production	-	-	325,413	325,413
Food distribution expense	202,318	-	-	202,318
Gifts in Kind fee expense	674,940	-	-	674,940
Insurance	8,428	27,899	-	36,327
Interest expense	-	35,656	-	35,656
Investment fee	-	72,275	-	72,275
Legal fees	-	12,835	-	12,835
Meetings & travel	793	15,223	74	16,090
Office expense	1,841	5,020	3,255	10,116
Payroll taxes	15,572	20,966	6,000	42,538
Payroll process fee	291	155	144	590
Postage	3,853	8,472	404,729	417,054
Promotional fees	-	-	1,546	1,546
Property taxes	-	1,862	-	1,862
Prospect list	-	-	256,906	256,906
Real estate and other taxes	3,722	4,152	-	7,874
Rent	-	-	96	96
Repairs and maintenance	7,437	2,292	543	10,272
Salaries	236,635	309,420	113,782	659,837
Security	382	590	-	972
State registrations	-	55	-	55
Supplies	3,094	335	2,680	6,109
Telephone	6,290	4,686	-	10,976
Utilities	16,187	6,328	-	22,515
Vehicle expense	129,482	957	-	130,439
Total expenses	<u>\$36,182,351</u>	<u>\$763,798</u>	<u>\$1,570,715</u>	<u>\$38,516,864</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, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Increase in net assets	\$ 532,767	\$(2,021,869)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	134,332	145,516
Realized gain on investments	(82,039)	(301,832)
Unrealized (gain)/loss on investments	126,991	(198,297)
(Increase)/decrease in inventories	(3,376,213)	2,117,244
(Increase)/decrease in prepaid expenses	1,038,301	(3,629,803)
Decrease in deposits	2,481	7,274
Increase/(decrease) in accounts payable	(4,902)	53,120
Increase in accrued salaries and benefits	3,335	3,497
Increase/(decrease) in deferred revenue	(868,741)	2,806,419
Increase in accrued expenses	21,155	3,655
Total adjustments	<u>(3,005,300)</u>	<u>1,006,793</u>
Net cash used by operating activities	<u>(2,472,533)</u>	<u>(1,015,076)</u>
Cash flows from investing activities:		
Cash payments for the purchase of property	-	(89,360)
Investments, net of realized and unrealized gain/(loss)	<u>(2,737,149)</u>	<u>1,495,423</u>
Net cash provided (used) by investing activities	<u>(2,737,149)</u>	<u>1,406,063</u>
Cash flows from financing activities:		
Cash proceeds from margin loan	2,454,066	-
Cash proceeds from line of credit	970,000	-
Net cash provided by financing activities	<u>3,424,066</u>	<u>-</u>
Net increase/(decrease) in cash and equivalents	(1,785,616)	390,987
Cash and equivalents - beginning of year	<u>1,931,542</u>	<u>1,540,555</u>
Cash and equivalents - end of year	<u>\$ 145,926</u>	<u>\$1,931,542</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest expense	<u>56,527</u>	<u>35,656</u>

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



## NATIVE AMERICAN HERITAGE ASSOCIATION

Notes to Financial Statements

August 31, 2012 and 2011

### 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 America's Second Harvest and donated goods from Good 360.

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, 2012 and 2011, there existed cash deposits of approximately \$6,453,000 and \$5,423,000 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 nonperishable food items from America's Second Harvest. 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, 2012 and 2011 was \$0 and \$0, respectively. Distribution expense is recorded at the time the food is distributed. For the years ended August 31, 2012 and 2011, the fair value of the donated food was recorded at \$1.66 and \$1.66 per pound, respectively. This value was derived from a study performed by the independent auditors of America's Second Harvest 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, 2012 and 2011 was \$0 and \$0, respectively. For the years ended August 31, 2012 and 2011, the Organization recorded the fair market value of the clothing as contribution revenue and distribution expense at an estimated \$14.72 and \$13.30 per pound, respectively.

The Organization receives other contributed items from Good 360, 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, 2012 and 2011 was \$8,260,645 and \$4,884,432 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 who then passes 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.

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

NATIVE AMERICAN HERITAGE ASSOCIATION

Notes to Financial Statements (continued)

1. Summary of significant accounting policies (continued):

**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. The federal income tax returns of the Organization for 2012, 2011 and 2009 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 and Good 360, 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, 2012 and 2011.

3. Property and equipment:

Major classifications of property and equipment and their respective depreciable lives at August 31, 2012 and 2011, are summarized below:

	<u>2012</u>	<u>2011</u>
Buildings and leasehold improvements (27-35 Years)	\$2,105,445	\$2,105,445
Furniture and equipment (3-10 Years)	281,487	281,487
Vehicles (5 Years)	612,351	612,351
Purchased donor list (5 Years)	-	-
Website development (5 Years)	24,755	24,755
Land	<u>183,371</u>	<u>183,371</u>
	3,207,409	3,207,409
Less: accumulated depreciation	<u>918,615</u>	<u>784,283</u>
Net property and equipment	<u>\$2,288,794</u>	<u>\$2,423,126</u>

NATIVE AMERICAN HERITAGE ASSOCIATION  
Notes to Financial Statements (continued)

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, 2012 and 2011, the Organization contributed \$144,870 and \$152,707, respectively. The plan follows the calendar year.

5. Margin Loan:

In 2011, the Organization opened a margin account with First Internet Securities Network to purchase securities. In 2012 this account was closed and another margin account opened with Wells Fargo Advisors. 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, 2012 and 2011 were 2.75% and 0%, respectively. Management, based on income information from First Internet Securities Network and Wells Fargo Advisors, has calculated the return on investments for the years ended August 31, 2012 and 2011, to be approximately 6.69% and 14.92%, respectively.

6. Marketable Securities:

The Organization holds marketable securities at August 31, 2012 and 2011. A summary of these holdings is as follows:

	<u>August 31, 2012</u>		
	<u>Cost</u>	<u>Cumulative</u>	<u>Fair</u>
	<u>Basis</u>	<u>Unrealized</u>	<u>Value</u>
		<u>Gain(Loss)</u>	
Held-to-maturity – Debt securities	<u>\$3,500,000</u>	<u>\$(289,350)</u>	<u>\$3,210,650</u>
Available-for-sale – Equity securities	<u>\$1,835,979</u>	<u>\$279,540</u>	<u>\$2,115,519</u>
Mutual Funds	<u>\$1,375,103</u>	<u>\$103,588</u>	<u>\$1,478,691</u>

NATIVE AMERICAN HERITAGE ASSOCIATION  
Notes to Financial Statements (continued)

6. Marketable Securities (continued):

	<u>August 31, 2011</u>		
	<u>Cost Basis</u>	<u>Cumulative Unrealized Gain(Loss)</u>	<u>Fair Value</u>
Held-to-maturity – Debt securities	<u>\$1,459,794</u>	<u>\$(12,419)</u>	<u>\$1,447,375</u>
Available-for-sale – Equity securities	<u>\$1,853,203</u>	<u>\$369,358</u>	<u>\$2,222,561</u>
Mutual Funds	<u>\$ 525,365</u>	<u>\$ 59,384</u>	<u>\$ 584,749</u>

The Organization holds \$147,916 and \$5,894 in cash and cash equivalents at August 31, 2012 and 2011, 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.
- 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, 2012 and 2011 are based on unadjusted, quoted prices in active markets as of the measurement date (often referred to as Level 1 inputs).

7. Subsequent Events:

Subsequent events have been evaluated through December 17, 2012, as this is the date the financial statements were available to be issued.