

NATIVE AMERICAN HERITAGE ASSOCIATION  
Financial Statements  
For the Years Ended August 31, 2013 and 2012

NATIVE AMERICAN HERITAGE ASSOCIATION  
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# BULLOCK & ASSOCIATES, P.C.

## CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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### INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Native American Heritage Association (a non-profit organization), which comprise the statements of financial position as of August 31, 2013 and 2012, 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 principles 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, 2013 and 2012, 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 19, 2013

NATIVE AMERICAN HERITAGE ASSOCIATION  
 Statements of Financial Position  
 August 31, 2013 and 2012

ASSETS

	<u>2013</u>	<u>2012</u>
Current assets:		
Cash and cash equivalents	\$ 871,496	\$ 145,926
Accounts receivable	1,975,020	-
Inventory (Note 1)	3,900,442	8,260,645
Prepaid expenses	263,846	2,630,901
Total current assets	<u>7,010,804</u>	<u>11,037,472</u>
Property and equipment, at cost net of accumulated depreciation (Note 3)	<u>2,167,190</u>	<u>2,288,794</u>
Other assets:		
Marketable securities (Note 6)	5,951,082	6,952,776
Annuities	-	400,000
Unemployment & refundable deposits	11,313	5,419
Other deposits	20,000	-
Total other assets	<u>5,982,395</u>	<u>7,358,195</u>
Total assets	<u>\$ 15,160,389</u>	<u>\$ 20,684,461</u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable	\$ 112,274	\$ 95,730
Accrued expenses	13,659	25,437
Accrued salaries and benefits	31,469	35,100
Margin loan	3,520,436	2,454,066
Line of credit	-	970,000
Deferred revenue	840,049	1,937,678
Total current liabilities	<u>4,517,887</u>	<u>5,518,011</u>
Net assets:		
Unrestricted	<u>10,642,502</u>	<u>15,166,450</u>
Total liabilities and net assets	<u>\$ 15,160,389</u>	<u>\$ 20,684,461</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, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Unrestricted net assets:		
Support and revenue:		
Contributions - Cash	\$ 4,289,595	\$ 2,330,265
Contributions - Food	6,009,855	5,391,664
Contributions - Clothing	3,056,564	3,983,541
Contributions - Gifts in Kind	19,265,378	26,128,079
Sales, net of costs	(4,386)	51,352
Special events, less related expenses of \$4,798,696	(1,419,854)	(1,589,191)
Grants	-	36,100
Interest and dividends	414,017	482,739
Realized gain on investments	48,236	82,039
Unrealized gain (loss) on investments	200,342	(126,991)
Total unrestricted support and revenue	<u>31,859,747</u>	<u>36,769,597</u>
Expenses:		
Functional expenses:		
Program	34,411,426	34,271,122
Management and general	714,949	683,764
Fundraising	1,257,320	1,281,944
Total functional expenses	<u>36,383,695</u>	<u>36,236,830</u>
Increase (decrease) in unrestricted net assets	(4,523,948)	532,767
Net assets at beginning of year	<u>15,166,450</u>	<u>14,633,683</u>
Net assets at end of year	<u>\$10,642,502</u>	<u>\$ 15,166,450</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, 2013

	Program Services	Management and General	Fundraising	Total
Accounting	\$ -	\$ 76,023	\$ -	\$ 76,023
Advertising	-	533	190	723
Bank and credit card charges	-	439	8,111	8,550
Computer maintenance	-	3,343	378	3,721
Custodial	-	45	-	45
Delivery expense	106,716	-	-	106,716
Depreciation	91,161	38,270	473	129,904
Drug testing	195	-	-	195
Donated goods-clothing	3,034,862	-	-	3,034,862
Donations-cash	106,039	-	-	106,039
Donations-Gifts in Kind	23,647,284	-	-	23,647,284
Donations-food	6,009,855	-	-	6,009,855
Dues & fees	2,253	14,831	2,180	19,264
Employee benefits-child care	-	11,640	-	11,640
Employee benefits-insurance	49,362	32,071	18,691	100,124
Employee benefits-pension	60,241	65,014	26,298	151,553
Envelopes, printing & production	-	-	430,266	430,266
Food distribution expense	225,601	-	-	225,601
Gifts in Kind fee expense	572,479	-	-	572,479
Insurance	22,522	15,357	701	38,580
Interest expense	-	79,772	12,852	92,624
Legal fees	-	7,731	10,246	17,977
Meetings & travel	2,378	7,885	326	10,589
Office expense	348	4,374	1,749	6,471
Payroll taxes	18,298	19,766	6,388	44,452
Payroll process fee	365	184	184	733
Postage	1,046	8,829	404,978	414,853
Promotional fees	-	-	454	454
Property taxes	-	1,849	-	1,849
Prospect list	-	-	217,004	217,004
Real estate and other taxes	-	7,235	-	7,235
Rent	-	124	-	124
Repairs and maintenance	6,505	8,394	-	14,899
Salaries	269,309	290,526	114,538	674,373
Security	425	520	-	945
State registrations	-	6,533	-	6,533
Supplies	2,422	252	1,313	3,987
Telephone	7,661	5,029	-	12,690
Utilities	15,520	6,282	-	21,802
Vehicle expense	158,579	2,098	-	160,677
Total expenses	<u>\$34,411,426</u>	<u>\$714,949</u>	<u>\$1,257,320</u>	<u>\$36,383,695</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

	Program <u>Services</u>	Management <u>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  
Statements of Cash Flows  
For the Years Ended August 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Increase/(decrease) in net assets	\$(4,523,948)	\$ 532,767
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	129,904	134,332
Realized gain on investments	(48,236)	(82,039)
Unrealized (gain)/loss on investments	(200,342)	126,991
Increase in accounts receivable	(1,975,020)	-
(Increase)/decrease in inventories	4,360,203	(3,376,213)
Decrease in prepaid expenses	2,367,055	1,038,301
(Increase)/decrease in deposits	(25,894)	2,481
Increase/(decrease) in accounts payable	16,544	(4,902)
Increase/(decrease) in accrued salaries and benefits	(3,631)	3,335
Decrease in deferred revenue	(1,097,629)	(868,741)
Increase/(decrease) in accrued expenses	(11,778)	21,155
Total adjustments	<u>3,511,176</u>	<u>(3,005,300)</u>
Net cash used by operating activities	<u>(1,012,772)</u>	<u>(2,472,533)</u>
Cash flows from investing activities:		
Cash payments for the purchase of property	(8,300)	-
Investments, net of realized and unrealized gain/(loss)	<u>1,650,272</u>	<u>(2,737,149)</u>
Net cash provided (used) by investing activities	<u>1,641,972</u>	<u>(2,737,149)</u>
Cash flows from financing activities:		
Cash proceeds from margin loan	1,066,370	2,454,066
Cash proceeds/(repayments) on line of credit	<u>(970,000)</u>	<u>970,000</u>
Net cash provided by financing activities	<u>96,370</u>	<u>3,424,066</u>
Net increase/(decrease) in cash and equivalents	725,570	(1,785,616)
Cash and equivalents - beginning of year	<u>145,926</u>	<u>1,931,542</u>
Cash and equivalents - end of year	<u>\$ 871,496</u>	<u>\$145,926</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest expense	<u>92,624</u>	<u>56,527</u>

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

## NATIVE AMERICAN HERITAGE ASSOCIATION

### Notes to Financial Statements

August 31, 2013 and 2012

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, 2013 and 2012, there existed cash deposits of approximately \$614,000 and \$0 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 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, 2013 and 2012 was \$0 and \$0, respectively. Distribution expense is recorded at the time the food is distributed. For the years ended August 31, 2013 and 2012, the fair value of the donated food was recorded at \$1.69 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, 2013 and 2012 was \$21,702 and \$0, respectively. For the years ended August 31, 2013 and 2012, the Organization recorded the fair market value of the clothing as contribution revenue and distribution expense at an estimated \$14.42 and \$14.72 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, 2013 and 2012 was \$3,878,740 and \$8,260,645 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.

## 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, 2013 and 2012 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 also conducted a cruise as a fundraising activity during the year ended August 31, 2013 which met the criteria for a regularly conducted unrelated business. The Organization incurred \$0 and \$2,768 in unrelated business income tax for the years ended August 31, 2013 and 2012, respectively. The federal income tax returns of the Organization for 2013, 2012 and 2011 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, 2013 and 2012.

3. Property and equipment:

Major classifications of property and equipment and their respective depreciable lives at August 31, 2013 and 2012, are summarized below:

NATIVE AMERICAN HERITAGE ASSOCIATION  
Notes to Financial Statements (continued)

3. Property and equipment (continued):

	<u>2013</u>	<u>2012</u>
Buildings and leasehold improvements (27-35 Years)	\$2,105,445	\$2,105,445
Furniture and equipment (3-10 Years)	289,787	281,487
Vehicles (5 Years)	612,351	612,351
Website development (5 Years)	24,755	24,755
Land	<u>183,371</u>	<u>183,371</u>
	3,215,709	3,207,409
Less: accumulated depreciation	<u>1,048,519</u>	<u>918,615</u>
Net property and equipment	<u>\$2,167,190</u>	<u>\$2,288,794</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, 2013 and 2012, the Organization contributed \$151,553 and \$144,870, 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, 2013 and 2012 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, 2013 and 2012, to be approximately 9.67% and 6.69%, respectively.

6. Marketable Securities:

The Organization holds marketable securities at August 31, 2013 and 2012. A summary of these holdings is as follows:

NATIVE AMERICAN HERITAGE ASSOCIATION  
Notes to Financial Statements (continued)

6. Marketable Securities (continued):

	<u>August 31, 2013</u>		
	<u>Cost Basis</u>	<u>Cumulative Unrealized Gain(Loss)</u>	<u>Fair Value</u>
Held-to-maturity – Debt securities	<u>\$1,566,962</u>	<u>\$ 29,869</u>	<u>\$1,596,831</u>
Available-for-sale – Equity securities	<u>\$2,517,909</u>	<u>\$403,477</u>	<u>\$2,921,386</u>
Mutual Funds	<u>\$1,479,643</u>	<u>\$(70,708)</u>	<u>\$1,408,935</u>

	<u>August 31, 2012</u>		
	<u>Cost Basis</u>	<u>Cumulative Unrealized Gain(Loss)</u>	<u>Fair Value</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>

The Organization holds \$23,930 and \$147,916 in cash and cash equivalents at August 31, 2013 and 2012, 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, 2013 and 2012 are based on unadjusted, quoted prices in active markets as of the measurement date (often referred to as Level 1 inputs).

7. Commitments:

The Organization entered into an agreement with Royal Caribbean Cruises, Ltd. to pay \$2,010,526 from July 12, 2013 through November 21, 2014 for cruise ship guest accommodations. The Organization also entered into an agreement with American Artist Corporation effective July 31, 2013 to pay \$80,000 from October 15, 2013 through January 31, 2015 for talent buyer services. Both agreements represent costs for a fundraising cruise occurring February 19, 2015.

8. Subsequent Events:

Subsequent events have been evaluated through December 19, 2013, as this is the date the financial statements were available to be issued.