FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT DECEMBER 31, 2018 (AUDITED) AND 2017 (UNAUDITED)



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INDEPENDENT AUDITOR'S REPORT

Board of Directors Mount Rushmore National Memorial Society Rapid City, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of MOUNT RUSHMORE NATIONAL MEMORIAL SOCIETY (the Society), which comprise the statement of financial position as of December 31, 2018, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Society'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 Society'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 **MOUNT RUSHMORE NATIONAL MEMORIAL SOCIETY** as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Board of Directors Mount Rushmore National Memorial Society

Prior Period Financial Statements

The 2018 statement of financial position was reviewed by us, and our report thereon, dated July 23, 2018, stated we were not aware of any material modifications that should be made to those financial statements for them to be in conformity with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements. We did not audit or review the 2017 statement of activities, functional expenses, and cash flows and, accordingly, express no opinion or other form of assurance on them.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The 2018 supplementary divisional information is presented for purposes of additional analysis and is not a required part of the 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 information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole. We did not audit or review the 2017 supplementary divisional information and, accordingly, express no opinion or other form of assurance on the information as presented.

KETEL THORSTENSON, LLP Certified Public Accountants

Ketel Thorstonen LLP

April 12, 2019

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2018 (AUDITED) AND 2017(UNAUDITED)

| <u>ASSETS</u> | (Audited) 2018 | (Unaudited) 2017 |
|---------------------------------------|-----------------------|------------------|
| Cash and Cash Equivalents (Note 2) | \$ 1,062,020 | \$ 2,396,279 |
| Investments (Note 2) | 12,648,211 | 13,888,894 |
| Promises to Give | 67,389 | - |
| Inventory | 378,752 | 337,613 |
| Prepaid Expenses | 41,411 | 22,840 |
| Other | 16,403 | 24,447 |
| Total Current Assets | 14,214,186 | 16,670,073 |
| Property and Equipment, Net (Note 3) | 2,012,979 | 935,935 |
| TOTAL ASSETS | \$ 16,227,165 | \$ 17,606,008 |
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities | | |
| Accounts Payable and Accrued Expenses | \$ 143,800 | \$ 74,019 |
| Promise to Give to Others (Note 6) | - | 100,000 |
| Total Current Liabilities | 143,800 | 174,019 |
| Commitments (Notes 7, 8, and 9) | | |
| Net Assets | | |
| With Donor Restrictions (Note 4) | 106,424 | - |
| Without Donor Restrictions | 15,976,941 | 17,431,989 |
| Total Net Assets | 16,083,365 | 17,431,989 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 16,227,165 | \$ 17,606,008 |

The accompanying notes are an integral part of these financial statements.

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2018 (AUDITED)

| | Net Assets without Donor Restrictions | | Net Assets with Donor Restrictions | Total |
|--|---|-------------|--|------------------|
| Support and Revenue | | | | |
| Net Educational and Product Sales (Note 5) | \$ | 1,062,133 | \$ - | \$ 1,062,133 |
| Net Investment Return | | (830,140) | - | (830,140) |
| Events Revenue | | 33,439 | - | 33,439 |
| Contributions | | 57,050 | 106,424 | 163,474 |
| Membership Sales | | 70,915 | - | 70,915 |
| Loss on Disposal of Assets | | (15,559) | - | (15,559) |
| Total Support and Revenue | | 377,838 | 106,424 | 484,262 |
| Expenses Program Expenses: | | | | |
| Direct Program Support for Memorial | | 234,030 | - | 234,030 |
| Indirect Program Support for Memorial | | 321,957 | - | 321,957 |
| Retail Program Support | | 741,124 | - | 741,124 |
| | | 1,297,111 | - | 1,297,111 |
| Support Expenses: | | | | |
| General and Administrative | | 375,021 | - | 375,021 |
| Fundraising | | 160,754 | - | 160,754 |
| | | 535,775 | - | 535,775 |
| Total Expenses | | 1,832,886 | - | 1,832,886 |
| Change in Net Assets | | (1,455,048) | 106,424 | (1,348,624) |
| Net Assets Beginning of Year | | 17,431,989 | - | 17,431,989 |
| Net Assets End of Year | \$ | 15,976,941 | \$ 106,424 | \$ 16,083,365 |

The accompanying notes are an integral part of this financial statement.

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2017 (UNAUDITED)

| | Net Assets without Donor Restrictions | | Net Assets with Donor Restrictions | | Total |
|--|---|------------|--|---|------------------|
| Support and Revenue | | | | | |
| Net Educational and Product Sales (Note 5) | \$ | 1,114,025 | \$ | - | \$ 1,114,025 |
| Net Investment Return | | 1,781,200 | | - | 1,781,200 |
| Events Revenue | | 88,610 | | | 88,610 |
| Contributions | | 94,309 | | | 94,309 |
| Membership Sales | | 44,280 | | | 44,280 |
| Miscellaneous Income | | 2,889 | | - | 2,889 |
| Total Support and Revenue | | 3,125,313 | | - | 3,125,313 |
| Expenses Program Expenses: | | | | | |
| Direct Program Support for Memorial | | 256,057 | | - | 256,057 |
| Indirect Program Support for Memorial | | 399,684 | | - | 399,684 |
| Retail Program Support | | 802,317 | | - | 802,317 |
| | | 1,458,058 | | - | 1,458,058 |
| Support Expenses: | | | | | |
| General and Administrative | | 409,046 | | - | 409,046 |
| Fundraising | | 185,344 | | - | 185,344 |
| | | 594,390 | | - | 594,390 |
| Total Expenses | | 2,052,448 | | - | 2,052,448 |
| Change in Net Assets | | 1,072,865 | | - | 1,072,865 |
| Net Assets Beginning of Year | | 16,359,124 | | - | 16,359,124 |
| Net Assets End of Year | \$ | 17,431,989 | \$ | - | \$ 17,431,989 |

The accompanying notes are an integral part of this financial statement.

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2018 (AUDITED)

| | Pro | ogram | Supporting | Total | |
|--|------------|------------|------------------------|-----------------|--------------|
| | Memorial | Retail | Management and General | Fund Raising | 2018 |
| Expenses | | | | | |
| Cost of Sales (Note 5) | \$ - | \$ 923,544 | \$ - | \$ - | \$ 923,544 |
| Payroll and Related Benefits (Note 7) | 139,140 | 425,919 | 280,435 | 69,570 | 915,064 |
| Aid to the Park | 4,523 | 229,507 | - | _ | 234,030 |
| Professional Fees | 49,954 | 54,319 | 22,278 | 49,954 | 176,505 |
| Retail Processing Supplies | - | 65,032 | 13,692 | - | 78,724 |
| Rent Minimum Annual Guarantee (Note 8) | - | 63,067 | - | - | 63,067 |
| Depreciation and Amortization | 11,340 | 27,368 | 14,793 | 5,670 | 59,171 |
| Occupancy | 10,841 | 29,994 | 5,420 | 5,420 | 51,675 |
| Advertising | 14,486 | 17,665 | 1,891 | 4,893 | 38,935 |
| Event Facilities | 38,927 | - | - | - | 38,927 |
| Office | 7,579 | 13,257 | 7,103 | 3,789 | 31,728 |
| Conferences and Meetings | 13,818 | 4,072 | - | 4,606 | 22,496 |
| Insurance | 2,523 | 5,359 | 11,847 | 2,523 | 22,252 |
| Repairs and Maintenance | 4,010 | 12,913 | 2,404 | 2,005 | 21,332 |
| Telephone | 3,663 | 7,685 | 5,125 | 1,832 | 18,305 |
| Licenses and Taxes | 6,985 | 3,283 | 4,313 | 3,493 | 18,074 |
| Dues and Subscriptions | 4,438 | 3,722 | 2,876 | 2,219 | 13,255 |
| Travel | 9,068 | - | - | 3,023 | 12,091 |
| Other | 5,125 | 5,710 | 2,120 | 328 | 13,283 |
| Meals and Entertainment | 1,429 | 390 | 724 | 1,429 | 3,972 |
| Total Expenses | 327,849 | 1,892,806 | 375,021 | 160,754 | 2,756,430 |
| Less expenses included with revenues on | | | | | |
| the Statement of Activities | <u>-</u> | (923,544) | - | <u>-</u> | (923,544) |
| Total expenses included in expense section | | | | | |
| on the Statement of Activities | \$ 327,849 | \$ 969,262 | \$ 375,021 | \$ 160,754 | \$ 1,832,886 |

The accompanying notes are an integral part of this financial statement.

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2017 (UNAUDITED)

| | Pro | gram | Supporting | Total | |
|--|------------|--------------|------------------------|-----------------|---------------------------------------|
| | Memorial | Retail | Management and General | Fund Raising | 2017 |
| Expenses | | | | | |
| Cost of Sales (Note 5) | \$ - | \$ 1,033,979 | \$ - | \$ - | \$ 1,033,979 |
| Payroll and Related Benefits (Note 7) | 172,162 | 447,025 | 302,470 | 81,582 | 1,003,239 |
| Aid to the Park | 37,691 | 218,366 | = | - | 256,057 |
| Professional Fees | 68,849 | 56,766 | 11,356 | 51,228 | 188,199 |
| Retail Processing Supplies | - | 64,691 | 13,748 | - | 78,439 |
| Rent Minimum Annual Guarantee (Note 8) | - | 80,610 | - | - | 80,610 |
| Depreciation and Amortization | 5,817 | 23,850 | 9,702 | 2,909 | 42,278 |
| Occupancy | 10,701 | 15,772 | 5,351 | 5,351 | 37,175 |
| Advertising | 17,865 | 22,425 | 3,358 | 10,526 | 54,174 |
| Event Facilities | 36,106 | - | - | - | 36,106 |
| Office | 4,445 | 13,003 | 18,057 | 14,806 | 50,311 |
| Conferences and Meetings | 2,449 | 5,102 | - | 816 | 8,367 |
| Insurance | 11,005 | 6,859 | 10,042 | 1,585 | 29,491 |
| Repairs and Maintenance | 24,265 | 26,009 | 1,001 | 197 | 51,472 |
| Telephone | 4,261 | 7,146 | 5,192 | 2,130 | 18,729 |
| Licenses and Taxes | 14,363 | 28,765 | 8,848 | 1,656 | 53,632 |
| Dues and Subscriptions | 1,193 | 618 | 706 | 596 | 3,113 |
| Travel | 15,011 | - | - | 5,004 | 20,015 |
| Other | 4,234 | 3,081 | 18,109 | - | 25,424 |
| Meals and Entertainment | 6,958 | 595 | 1,106 | 6,958 | 15,617 |
| | 437,375 | 2,054,662 | 409,046 | 185,344 | 3,086,427 |
| Less expenses included with revenues on | | | | | |
| the Statement of Activities | - | (1,033,979) | - | _ | (1,033,979) |
| Total expenses included in expense section | | · | | | · · · · · · · · · · · · · · · · · · · |
| on the Statement of Activities | \$ 437,375 | \$ 1,020,683 | \$ 409,046 | \$ 185,344 | \$ 2,052,448 |

The accompanying notes are an integral part of this financial statement.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2018 (AUDITED) AND 2017 (UNAUDITED)

| | (Audited) 2018 | (Unaudited) 2017 |
|--|-------------------|------------------|
| Cash Flows from Operating Activities | | |
| Change in Net Assets | \$ (1,348,624) | \$ 1,072,865 |
| Adjustments to Reconcile Change in Net Assets to | | |
| Net Cash Flows Provided by (Used in) Operating Activities: | | |
| Depreciation | 53,061 | 38,806 |
| Amortization | 6,109 | 3,472 |
| Loss on Disposal of Assets | 15,559 | - |
| Net Realized and Unrealized (Gain) Loss on Investments | 1,156,284 | (501,762) |
| Working Capital Changes Increasing (Decreasing) Cash: | | |
| Promises to Give | (67,389) | - |
| Inventory | (41,139) | 78,235 |
| Prepaid Expenses | (24,680) | 620 |
| Other | 8,044 | (1,814) |
| Accounts Payable and Accrued Expenses | 69,781 | 14,785 |
| Promise to Give to Others | (100,000) | (100,000) |
| Net Cash Flows Provided by (Used in) Operating Activities | (272,994) | 605,207 |
| Cash Flows from Investing Activities | | |
| Purchase of Property and Equipment | (1,145,664) | (540,246) |
| Purchase of Investments | (902,471) | (1,790,022) |
| Proceeds from Sale of Investments | 986,870 | 1,761,264 |
| Net Cash Flows Used in Investing Activities | (1,061,265) | (569,004) |
| Tet Cash Flows Oscu in investing Activities | (1,001,203) | (307,004) |
| Change in Cash and Cash Equivalents | (1,334,259) | 36,203 |
| Cash and Cash Equivalents Beginning of Year | 2,396,279 | 2,360,076 |
| Cash and Cash Equivalents End of Year | \$ 1,062,020 | \$ 2,396,279 |

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 (AUDITED) AND 2017 (UNAUDITED)

(1) Nature of Operations and Summary of Significant Accounting Policies

Operations

Mount Rushmore National Memorial Society (the Society), is a non-profit organization incorporated in the District of Columbia, for the purpose of supporting America's national and state parks, monuments, memorials, and other lands. The Society's main focus has been to cooperate with the National Park Service (NPS) in operating and maintaining the Mount Rushmore National Memorial (the Memorial) in the best interest of the public. The Society raises funds to finance improvements and programs at the Memorial. Furthermore, the Society promotes the historical, cultural, scientific, and educational activities of the Memorial and the NPS. The Society changed its fiscal year (previously ending September 30) to the calendar year starting January 1, 2018 and ending December 31, 2018.

The Society, under the division of the Mount Rushmore Bookstores (the Bookstores), also sells historical and educational Memorial-related products at the Memorial and Rapid City Regional Airport (Airport), the activities of which are included in the accompanying financial statements.

The Society also operates a 100 percent-owned subsidiary, known as Mount Rushmore Institute (the Institute) to provide forums, interpret and measure the value of democracy, and to advance the cause of freedom to the world. The Institute had no activity for the year ended December 31, 2018 (audited) or 2017 (unaudited).

Summary of Significant Accounting Policies

Basis of Accounting and Financial Statement Presentation

The financial statements are prepared on the accrual basis of accounting in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-205, Not-for-Profit Entities, Presentation of Financial Statements. During 2018, the Society adopted the provisions of Accounting Standards Update ("ASU") 2016-14: Not-for-Profit Entities Presentation of Financial Statements of Not-for-Profit Entities, which improves the current net asset classification and the related information presented in the consolidated financial statements and notes about the Society's liquidity, financial performance, and cash flows. The net assets as presented prior to the implementation of ASU 2016-14 represented only unrestricted net assets. Therefore, implementation changed the title of these net assets to net assets without donor restrictions, but no changes to the balances were necessary. Accordingly, the accounts of the Society are reported in the following net asset categories:

Net Assets with Donor Restrictions – The part of net assets of the Society that is subject to donor-imposed restrictions (donors include other types of contributors, including makers of certain grants). Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. No such net assets exist at December 31, 2018 (audited) or 2017 (unaudited). Donor-imposed restrictions are released when a restriction expires, that is when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both and are reported as reclassifications between the applicable classes of net assets.

Net Assets without Donor Restrictions – Net assets of the Society that are not subject to donor-imposed restrictions and are available for general operations. Although they may in the future, the Board of Directors has not designated any net assets without donor restrictions for specific purposes.

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2018 (AUDITED) AND 2017 (UNAUDITED)

(1) Nature of Operations and Summary of Significant Accounting Policies (Continued)

Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in accordance 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.

Cash and Cash Equivalents

For purposes of the financial statements, the Society considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

The Society maintains cash balances at various individual financial institutions that often exceed the federally insured limit of \$250,000 set by the Federal Deposit Insurance Corporation. The Society has not experienced any losses in such accounts and feels the risk of exposure to loss is minimal.

Investments

The Society records its investments at fair market value with changes in fair market value accounted for in the Statements of Activities as net investment return. Net investment return consists of realized and unrealized gains and losses, interest and dividend income, and external and direct internal investment expenses. Realized gains and losses are determined on a specific identity basis. Net investment return is recorded as net assets without donor restrictions unless such amounts are restricted by the donor or by law.

In general, investments are exposed to various risks, such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect the investment and the amounts reported.

Contributions and Promises to Give

Contributions and unconditional promises to give are recognized as assets and revenue in the period received at their fair value. Amounts are distinguished between those that increase net assets with and without donor restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Management estimates an allowance for uncollectible promises to give based on potential collection issues and previous history with donors.

Inventory

Inventory consists primarily of educational and historical products held for resale. Inventory is stated at the lower of cost or net realizable value.

Property and Equipment

Property and equipment purchases in excess of \$500 are capitalized at cost. Donated property and equipment are recorded at fair market value at the date of the donation.

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2018 (AUDITED) AND 2017 (UNAUDITED)

(1) Nature of Operations and Summary of Significant Accounting Policies (Continued)

Summary of Significant Accounting Policies (Continued)

Property and Equipment (Continued)

Depreciation is computed on a straight-line basis over the estimated useful lives of the respective assets:

| Office Equipment | 5 to 10 years |
|------------------------|---------------|
| Motion Picture | 10 years |
| Building | 40 years |
| Vehicles | 5 years |
| Leasehold Improvements | 3 to 10 years |

Revenue Recognition

Merchandise sales and tour rentals, which are included in net educational and product sales on the Statements of Activities, and membership sales are recorded at the point of sale. Fundraising event tickets are recorded as income when the event occurs.

Functional Allocation of Expenses

The costs of providing Memorial and Society programs have been summarized on a functional basis in the Statement of Activities. Direct program support for Memorial expenses consist of payments made directly to the NPS and various independent contractors to perform work on and provide materials, expertise, talent, and program support for various Memorial related projects. NPS guidance allows for philanthropic partners to donate funds directly to the Memorial or maintain the funds in an account and spend at the park management's request. This process typically takes place through NPS Partner Annual Work Plans and Aid to Park requests.

The Statements of Functional Expenses present the natural classification detail of expenses by function. Costs are directly charged to the functions they benefit. Certain categories of expenses that are attributable to more than one program or supporting function require allocation on a reasonable basis that is consistently applied. Payroll and related expenses are allocated on estimates of time and effort based on historical time studies. Facility related and other expenses are allocated to each function based on square footage utilized by the function.

Subsequent Events

Subsequent events have been evaluated through April 12, 2019, the date which the financial statements were available to be issued.

Federal Income Taxes

The Society is a non-profit organization and, therefore, is generally exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Society has been determined by the Internal Revenue Service not to be a "private foundation" under Section 509(a)(2) of the Internal Revenue Code. At December 31, 2018 (audited) and 2017 (unaudited), the Society believes no significant uncertain tax positions or liabilities exist.

The most significant tax positions of the Society are its assertion that it is exempt from income taxes and its determination of whether any amounts are subject to unrelated business tax (UBIT). The Society follows the guidance of Accounting Standards Codification (ASC) 740, Accounting for Income Taxes, related to uncertain income taxes, which prescribes a threshold of more likely than not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. All significant tax positions have been considered by management, who has determined it is more likely than not that all tax positions would be sustained upon examination by taxing authorities. Accordingly, no provision for income taxes has been recorded.

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2018 (AUDITED) AND 2017 (UNAUDITED)

(1) Nature of Operations and Summary of Significant Accounting Policies (Concluded)

Summary of Significant Accounting Policies (Concluded)

Emerging Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which removes inconsistencies and weaknesses in revenue requirements, provides a more robust framework for addressing revenue issues, improves comparability of revenue recognition practices across entities, provides more useful information to users of financial statements through improved disclosure requirements, and simplifies the preparation of financial statements by reducing the number of requirements to which an entity must refer. The ASU outlines five steps to achieve proper revenue recognition: identify the contract with the customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) the entity satisfies the performance obligation. This standard is effective for annual reporting periods beginning after December 15, 2018. The Society is currently evaluating the impact this standard will have on the financial statements but do not expect the effect to be material to the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* which supersedes FASB ASC Topic 840, *Leases (Topic 840)* and provides principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than twelve months regardless of classification. If the available accounting election is made, leases with a term of twelve months or less can be accounted for similar to existing guidance for operating leases. The standard is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The Society is currently evaluating the impact this standard will have on the financial statements.

In June 2018, the FASB issued ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made, which will assist entities in determining whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions. This determination is based on whether or not the resource provider is receiving commensurate value in return for resources transferred, and clarifies that executing the mission or providing societal benefit does not equate to commensurate value. The standard will also assist entities in determining whether a contribution is conditional on the basis of whether a barrier must be overcome and either a right of return of assets transferred or a right of release of the promisor from its obligation to transfer assets exists. The standard is effective for contributions received in annual periods beginning after December 15, 2018 and for contributions made in annual periods beginning after December 15, 2019. The Society is currently evaluating the impact this standard will have on the financial statements.

(2) Investments

Fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value is based on assumptions that market participants would use, including consideration of nonperformance risk.

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2018 (AUDITED) AND 2017 (UNAUDITED)

(2) Investments (Continued)

The three-level hierarchy is defined as follows:

- Level One: Observable inputs such as quoted market prices for identical assets or liabilities in active markets. The types of assets and liabilities included in Level One are highly liquid and actively traded investments with quoted market prices.
- Level Two: Inputs include quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. The types of assets and liabilities included in Level Two are typically either comparable to actively traded securities or priced with models using observable inputs.
- Level Three: Inputs are based on prices or valuation techniques that are non-observable. The types of assets and liabilities included in Level Three require significant management judgment or estimation.

Fixed income funds and corporate bonds are valued at either the yields currently available on comparable securities of issuers with similar credit ratings or valued under a discounted cash flow approach that maximizes observable inputs such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable such as credit and liquidity risks. Certain money market funds are valued based on the funds deposited and net investment earnings, less withdrawals and fees.

The valuation methodologies used by the Society may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Society's management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables present the assets carried at fair value as of December 31, 2018 (audited) and 2017 (unaudited), on the accompanying Statements of Financial Position by fair value hierarchy, as described above. All are measured on a recurring basis. The Society carried no other assets or liabilities measured at fair value on a recurring or non-recurring basis.

| For the Year Ended December 31, 2018 (Audited) | I | Level One | L | evel Two | Lev | el Three | Total |
|--|----|-----------|----|-----------|-----|----------|------------------|
| Money Market Funds | \$ | 693,218 | \$ | 29,841 | \$ | - | \$ 723,059 |
| Total Money Market Funds included in | | | | | | | _ |
| Cash and Cash Equivalents | \$ | 693,218 | \$ | 29,841 | \$ | - | 723,059 |
| | | | | | | | |
| Investments: | | | | | | | |
| Publicly Traded Common Stock | \$ | 7,153,604 | \$ | - | \$ | - | \$ 7,153,604 |
| Corporate Bonds | | - | | 1,215,507 | | - | 1,215,507 |
| Mutual Funds: | | | | | | | |
| Fixed Income Funds | | 416,551 | | 1,573,476 | | - | 1,990,027 |
| Equity Funds | | 2,058,917 | | - | | - | 2,058,917 |
| Bond Funds | | 30,942 | | - | | - | 30,942 |
| Real Estate Investment Funds | | 3,219 | | - | | - | 3,219 |
| Other Investments | | 115,995 | | - | | - | 115,995 |
| Total Investments Held at Fair Value | \$ | 9,779,228 | \$ | 2,788,983 | \$ | - | 12,568,211 |
| Certificates of Deposits Held at Cost | | | | | | | 80,000 |
| Total Investments | | | | | | | \$ 12,648,211 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2018 (AUDITED) AND 2017 (UNAUDITED)

(2) Investments (Continued)

| For the Year Ended December 31, 2017 (Unaudited) | L | evel One | L | evel Two | Lev | el Three | Total |
|--|-----|-----------|----|-----------|-----|----------|------------------|
| Money Market Funds | \$ | 880,264 | \$ | 26,670 | \$ | - | \$ 906,934 |
| Total Money Market Funds included in | | | | | | | _ |
| Cash and Cash Equivalents | \$ | 880,264 | \$ | 26,670 | \$ | - | 906,934 |
| | | | | | | | |
| Investments: | | | | | | | |
| Publicly Traded Common Stock | \$ | 5,703,907 | \$ | - | \$ | - | \$ 5,703,907 |
| Corporate Bonds | | - | | 1,978,516 | | - | 1,978,516 |
| Mutual Funds: | | | | | | | |
| Fixed Income Funds | | 474,388 | | 1,257,163 | | - | 1,731,551 |
| Equity Funds | | 3,396,498 | | - | | - | 3,396,498 |
| Bond Funds | | 50,023 | | - | | - | 50,023 |
| Real Estate Investment Funds | | 27,045 | | - | | - | 27,045 |
| Other Investments | | 921,354 | | - | | - | 921,354 |
| Total Investments Held at Fair Value | \$1 | 0,573,215 | \$ | 3,235,679 | \$ | - | 13,808,894 |
| Certificates of Deposits Held at Cost | | | | | | | 80,000 |
| Total Investments | | | | | | | \$ 13,888,894 |

(3) Property and Equipment

| Property and equipment consists of the following at December 31: | (Audited) 2018 | | | (Unaudited) 2017 |
|--|-------------------|-----------|----|---------------------|
| Office Equipment | \$ | 754,604 | \$ | 528,543 |
| Building | | 1,338,385 | | 495,218 |
| Motion Picture | | 108,472 | | 108,472 |
| Leasehold Improvements | | 95,536 | | 97,327 |
| Vehicles | | 45,148 | | 45,148 |
| | | 2,342,145 | | 1,274,708 |
| Accumulated Depreciation | | 670,288 | | 686,714 |
| | | 1,671,857 | | 587,994 |
| Construction In Progress | | - | | 6,819 |
| Land | | 341,122 | | 341,122 |
| Property and Equipment, Net | \$ | 2,012,979 | \$ | 935,935 |

(4) Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the purpose of funding the production and equipment for two new films described as the Monumental Movie Campaign. The films will enhance the visitor experience and provide an educational, inspirational experience for Mount Rushmore National Memorial. At December 31, 2018 and 2017, net assets with donor restrictions totaled **\$106,424** (audited) and \$-0- (unaudited), respectively.

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2018 (AUDITED) AND 2017 (UNAUDITED)

(5) Educational and Product Sales

Gross educational and product sales and related cost of sales are as follows for the years ended December 31:

| | (Audited) 2018 | | | (Unaudited) 2017 |
|--|-------------------|------------------------|----|--------------------------|
| Gross Memorabilia Sales Cost of Sales | \$ | 1,915,008 (923,544) | \$ | 2,103,077 (1,033,979) |
| | | 991,464 | | 1,069,098 |
| Audio Tour Wand Rentals | | 70,669 | | 44,927 |
| Net Educational and Product Sales | \$ | 1,062,133 | \$ | 1,114,025 |

(6) Promise to Give to Others

In 2016, the Society had agreed to contribute \$200,000 to the NPS for sculpture preservation and maintenance. As such, a \$200,000 promise to give to others was recorded on the Statement of Financial Position for the year ended September 30, 2016. The balance of the promise to give was paid in full during 2018.

(7) Pension Plan

The Society offers a SIMPLE IRA retirement plan covering substantially all full-time employees. The Society matches up to 3 percent of employee contributions. The Society's contributions to the plan were \$12,810 (audited) and \$15,618 (unaudited) for the years ended December 31, 2018 and 2017, respectively.

(8) Rapid City Airport Concession and Lease Agreement

On December 23, 2014, the Society entered into a five year concession and lease agreement (the Agreement) with the Rapid City Regional Airport, to operate a retail, news, and gift concession store. The initial term of the Agreement is from January 1, 2015 to December 31, 2019, and the Society has the option to extend the Agreement for an additional five years.

The Agreement states rent will be paid monthly based on gross receipts with a minimum annual guarantee. Rent will be adjusted annually, to the greater of a percentage rent based on annual gross receipts or the minimum annual guarantee. The Society's rent expense for the years ending December 31, 2018 and 2017 was \$63,067 (audited) and \$86,470 (unaudited), respectively. During the year ended December 31, 2018, the Airport and Society agreed to reduce the rent expense by \$20,000 due to additional downtime because of construction at the airport location. The future minimum rental payment, based on the minimum annual guarantee, for the year ending December 31, 2019 is \$80,031.

(9) Commitment

The Society's Board of Directors agreed to contribute \$100,000 for an environmental impact study of the Mickelson Connector Trail. This contribution is contingent upon additional studies to be performed by various governmental agencies. Accordingly, the contingent contribution has not been recorded in the accompanying financial statements at December 31, 2018.

NOTES TO FINANCIAL STATEMENTS (CONCLUDED) DECEMBER 31, 2018 (AUDITED) AND 2017 (UNAUDITED)

(10) Liquidity and Availability of Financial Assets

The Society's working capital and cash flows have seasonal variations during the year attributable to the tourism industry. To manage liquidity, the Society uses investment returns. The following reflects the Society's financial assets as of the Statement of Financial Position date, reduced by amounts not available for general use within one year of the balance sheet date because of donor-imposed restrictions.

| | (Audited) | | | (Unaudited) | | | |
|--|-----------|------------|----|-------------|--|--|--|
| | | 2018 | | 2017 | | | |
| Cash and cash equivalents | \$ | 1,062,020 | \$ | 2,396,279 | | | |
| Promises to Give | | 67,389 | | - | | | |
| Investments | | 12,648,211 | | 13,888,894 | | | |
| Total financial assets | | 13,777,620 | | 16,285,173 | | | |
| Donor-imposed Restrictions: | | | | | | | |
| Cash restricted by donors to specific uses | | (106,424) | | = | | | |
| Financial assets available to meet cash needs for expenditures | | | | | | | |
| within one year | \$ | 13,671,196 | \$ | 16,285,173 | | | |



STATEMENT OF ACTIVITIES BY DIVISION FOR THE YEAR ENDED DECEMBER 31, 2018 (AUDITED)

| | | | ъ | Devil | | Parking | Mamanian | | | A :t | | Total |
|---------------------------------------|--------|----------|----|-----------|----|----------|----------|--------|----|----------|----|-------------|
| C | Sc | ociety | В | ookstores | | Facility | Me | mories | | Airport | | Total |
| Support and Revenue | Ф | | Ф | 747.006 | Φ | | Ф | | Ф | 215 107 | ф | 1 0/2 122 |
| Net Educational and Product Sales | \$ | - | \$ | 747,026 | \$ | - | \$ | - | \$ | 315,107 | \$ | 1,062,133 |
| Net Investment Return (Loss) | (| 830,441) | | 301 | | - | | - | | - | | (830,140) |
| Events Revenue | | 33,439 | | - | | - | | - | | - | | 33,439 |
| Contributions | | 163,474 | | - | | - | | - | | - | | 163,474 |
| Membership Sales | | 4,280 | | 66,635 | | - | | - | | - | | 70,915 |
| Loss on Disposal of Assets | | - | | (42) | | - | | - | | (15,517) | | (15,559) |
| | (| 629,248) | | 813,920 | | - | | - | | 299,590 | | 484,262 |
| Expenses | | | | | | | | | | | | |
| Program Expenses: | | | | | | | | | | | | |
| Direct Program Support for Memorial | | 4,523 | | 229,507 | | - | | - | | - | | 234,030 |
| Indirect Program Support for Memorial | | 321,957 | | - | | _ | | - | | _ | | 321,957 |
| Retail Program Support | | - | | 496,523 | | _ | | - | | 244,601 | | 741,124 |
| | | 326,480 | | 726,030 | | - | | - | | 244,601 | | 1,297,111 |
| Support Expenses: | | | | | | | | | | | | |
| General and Administrative | | 123,307 | | 181,118 | | _ | | - | | 70,596 | | 375,021 |
| Fundraising | | 160,754 | | - | | _ | | - | | - | | 160,754 |
| | | 284,061 | | 181,118 | | - | | - | | 70,596 | | 535,775 |
| Total Expenses | | 610,541 | | 907,148 | | - | | - | | 315,197 | | 1,832,886 |
| | /* | 220 700 | | (02.222) | | | | | | (15.607) | | (1.040.604) |
| Change in Net Assets | (1, | 239,789) | | (93,228) | | - | | - | | (15,607) | | (1,348,624) |
| Net Assets Beginning of Year | 17, | 126,429 | | 230,740 | | - | | - | | 74,820 | | 17,431,989 |
| Net Assets End of Year | \$ 15, | 886,640 | \$ | 137,512 | \$ | - | \$ | - | \$ | 59,213 | \$ | 16,083,365 |

STATEMENT OF ACTIVITIES BY DIVISION FOR THE YEAR ENDED DECEMBER 31, 2017 (UNAUDITED)

| | Parking | | | | | | |
|--|---------------|------------|--------------|-----------|------------|-------|-----------|
| | Society | Bookstores | Facility | Memories | Airport | , | Total |
| Support and Revenue | | | | | | | |
| Net Educational and Product Sales | \$ - | \$ 790,942 | \$ - | \$ - | \$ 323,083 | \$ 1 | 1,114,025 |
| Net Investment Return (Loss) | 502,075 | 330 | 1,286,940 | (8,145) | - | 1 | 1,781,200 |
| Events Revenue | 88,610 | - | - | - | - | | 88,610 |
| Contributions | 94,309 | - | - | - | - | | 94,309 |
| Membership Sales | 6,794 | 37,486 | - | - | - | | 44,280 |
| Miscellaneous Income | - | 863 | - | - | 2,026 | | 2,889 |
| Transfers between Divisions | 15,758,358 | - | (16,308,525) | 550,167 | - | | - |
| | 16,450,146 | 829,621 | (15,021,585) | 542,022 | 325,109 | 3 | 3,125,313 |
| Expenses | | | | | | | |
| Program Expenses: | | | | | | | |
| Direct Program Support for Memorial | 37,691 | 218,366 | - | - | - | | 256,057 |
| Indirect Program Support for Memorial | 364,941 | · - | 34,743 | - | _ | | 399,684 |
| Retail Program Support | - | 557,013 | _ | - | 245,304 | | 802,317 |
| | 402,632 | 775,379 | 34,743 | = | 245,304 | 1 | 1,458,058 |
| Support Expenses: | | | | | | | |
| General and Administrative | 149,156 | 195,947 | 382 | 103 | 63,458 | | 409,046 |
| Fundraising | 185,344 | _ | _ | - | _ | | 185,344 |
| | 334,500 | 195,947 | 382 | 103 | 63,458 | | 594,390 |
| Total Expenses | 737,132 | 971,326 | 35,125 | 103 | 308,762 | 2 | 2,052,448 |
| Change in Net Assets | 15,713,014 | (141,705) | (15,056,710) | 541,919 | 16,347 | 1 | 1,072,865 |
| Net Assets (Deficit) Beginning of Year | 1,413,415 | 372,445 | 15,056,710 | (541,919) | 58,473 | 16 | 5,359,124 |
| Net Assets End of Year | \$ 17,126,429 | \$ 230,740 | \$ - | \$ - | \$ 74,820 | \$ 17 | 7,431,989 |