

**DOUGLAS COUNTY HISTORICAL SOCIETY
LAWRENCE, KANSAS**

**FINANCIAL STATEMENTS
For the year ended December 31, 2010**

And

INDEPENDENT AUDITORS' REPORT

**Long CPA, PA
A Professional Association
Certified Public Accountants**

Long CPA, PA

James M. Long, CPA
Shareholder

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August 8, 2011

To the Board of Directors
Douglas County Historical Society, Inc.

We have audited the financial statements of Douglas County Historical Society, Inc. for the year ended December 31, 2010, and have issued our report thereon dated August 8, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 29, 2010. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Douglas County Historical Society, Inc. are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ending December 31, 2010. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements was (were):

Management's estimate of the depreciation is based on estimated useful life of an asset. We evaluated the key factors and assumptions used to develop the depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure(s) affecting the financial statements was (were):

The disclosure of cash.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 8, 2011.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

During the course of our examination of the financial statements of Douglas County Historical Society, Inc. for the year ended December 31, 2010, we made observations, which in our professional judgment are neither a significant deficiency or a material weakness, we feel will be of benefit to you in your continuing management or the Organization's affairs and policies.

1. We noted no items to note at this time.

The overall accounting records were found to be in excellent order. We have enjoyed working with organization personnel on the annual audit and look forward to a continuing professional association. We would be happy to make ourselves available to organization personnel or board members if any questions arise as a result of this year's examination.

This information is intended solely for the use of Board of Directors and management of Douglas County Historical Society, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

Cordially,

Long CPA, PA

Long CPA, PA

Certified Public Accountant

DOUGLAS COUNTY HISTORICAL SOCIETY, INC.

Lawrence, Kansas

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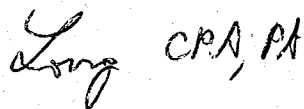
To the Board of Directors
Douglas County Historical Society
1047 Massachusetts
Lawrence, KS 66044

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying statement of financial position of the Douglas County Historical Society (a not-for-profit organization) as of December 31, 2010, and the related statements of activities and cash flows for the year then ended. These statements are the responsibility of the Organization's management. 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 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 audit provides 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 Douglas County Historical Society as of December 31, 2010, and its change in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



Long CPA, PA
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Certified Public Accountant

August 8, 2011

DOUGLAS COUNTY HISTORICAL SOCIETY

Lawrence, Kansas

STATEMENT OF FINANCIAL POSITION

As of December 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Assets				
Current assets				
Cash (Note 1)	\$ 119,073	\$ -	\$ -	\$ 119,073
Investments (Note 4)	703,210			703,210
Inventory (Note 1)	5,687			5,687
Prepaid expenses (Note 3)	<u>2,787</u>			<u>2,787</u>
Total current assets	<u>830,757</u>	<u>-</u>	<u>-</u>	<u>830,757</u>
Fixed assets (Note 1)				
Property, plant and equipment	508,474		139,630	648,104
Accumulated depreciation	<u>(173,279)</u>			<u>(173,279)</u>
Total fixed assets	<u>335,195</u>	<u>-</u>	<u>139,630</u>	<u>474,825</u>
Total assets	<u>\$ 1,165,952</u>	<u>\$ -</u>	<u>\$ 139,630</u>	<u>\$ 1,305,582</u>
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Other accrued liabilities	<u>5,302</u>			<u>5,302</u>
Total current liabilities	<u>5,302</u>	<u>-</u>	<u>-</u>	<u>5,302</u>
Net Assets				
Unrestricted	1,160,650			1,160,650
Temporarily restricted		-		-
Permanently restricted			139,630	139,630
Total net assets	<u>1,160,650</u>	<u>-</u>	<u>139,630</u>	<u>1,300,280</u>
Total liabilities and net assets	<u>\$ 1,165,952</u>	<u>\$ -</u>	<u>\$ 139,630</u>	<u>\$ 1,305,582</u>

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

DOUGLAS COUNTY HISTORICAL SOCIETY

Lawrence, Kansas

STATEMENT OF ACTIVITIES

For the year ended December 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support				
Membership income	\$ 11,045	\$ -	\$ -	\$ 11,045
Donations	5,845			5,845
Bequests	5,000			5,000
Museum sales	2,200			2,200
Program fees	2,266			2,266
Douglas County grant	130,692			130,692
Fundraising income	2,360			2,360
Investment income	76,983			76,983
Miscellaneous	31,555			31,555
Other grant income	15,015			15,015
Release of restricted net assets				-
Total support	282,961	-	-	282,961
Expenditures				
Salaries	86,489			86,489
Payroll taxes	9,453			9,453
Employee benefits	7,016			7,016
Accounting	8,818			8,818
Advertising	282			282
Cost of inventory sales	2,405			2,405
Depreciation	14,498			14,498
Exhibit costs	698			698
Insurance	8,936			8,936
Investment fees	4,298			4,298
Miscellaneous	869			869
Office expenses	8,179			8,179
Postage	977			977
Printing and publications				-
Professional fees	645			645
Program expenses	1,615			1,615
Recruiting expense	558			558
Repairs and maintenance	13,425			13,425
Utilities	20,128			20,128
Grant program expense	3,335			3,335
Fundraising expenses				-
Total expenditures	192,624	-	-	192,624
Increase (Decrease) in Net Assets	90,337	-	-	90,337
Net Assets - Beginning of year	1,070,313		139,630	1,209,943
Net Assets - End of year	\$ 1,160,650	\$ -	\$ 139,630	\$ 1,300,280

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

DOUGLAS COUNTY HISTORICAL SOCIETY
Lawrence, Kansas

STATEMENT OF CASH FLOWS
For the year ended December 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Cash flows from operating activities				
Increase (decrease) in net assets	\$ 90,337	\$ -	\$ -	\$ 90,337
Adjustments to reconcile net assets to net cash flows				
Depreciation	14,498			14,498
Unrealized loss (gain) on marketable securities	(63,521)			(63,521)
(Increase) decrease in operating assets				
Inventory	2,131			2,131
Prepaid expenses	(68)			(68)
Increase (decrease) in operating liabilities				
Accounts payable				-
Other accrued liabilities	2,239			2,239
Net cash provided (used) by operating activities	<u>45,616</u>	<u>-</u>	<u>-</u>	<u>45,616</u>
Cash flows from investing activities				
Purchase and improvement of long-term assets	(525)			(525)
Reinvestment of investment income, net of investment fees	(12,989)			(12,989)
Loss(gain) from sale of marketable securities	3,893			3,893
Proceeds from transfer of investment account funds				-
Net cash provided (used) by investing activities	<u>(9,621)</u>	<u>-</u>	<u>-</u>	<u>(9,621)</u>
Net increase (decrease) in cash for period	35,995	-	-	35,995
Cash as of beginning of period	<u>83,078</u>	<u>-</u>	<u>-</u>	<u>83,078</u>
Cash as of end of period	<u><u>\$ 119,073</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 119,073</u></u>
<u>Supplemental Information</u>				
Interest paid				<u><u>\$ -</u></u>
Income taxes paid				<u><u>\$ -</u></u>

The accompanying notes to financial statements
are an integral part of this statement

DOUGLAS COUNTY HISTORICAL SOCIETY

Lawrence, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies

Description of Activities

The Douglas County Historical Society's (the Organization) mission is to collect and preserve historical materials of Douglas County, Kansas, to interpret local history and to encourage research. The Organization is responsible for the operation, preservation and development of collections in the Watkins Community Museum of History.

Financial Statement Presentation

The Organization has adopted Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations". Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, Organization is required to present a statement of cash flows. The Organization has discontinued its use of fund accounting and, accordingly, has reclassified its financial statements to present the three classes of net assets.

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 certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Income Tax Status

The Organization is a not-for-profit organization that is exempt from income taxes under section 501(c)(3) of the Internal Revenue Code. The Organization reported \$ -0- of unrelated business income for 2010.

Donations and Contributions

The Organization utilizes SFAS No. 116 "Accounting for Contributions Received and Contributions Made", whereby contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restriction. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions.

DOUGLAS COUNTY HISTORICAL SOCIETY
Lawrence, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (continued)

Support and Revenue

Grants and other contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are classified as unrestricted contributions.

Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

Organization members and others act as unpaid volunteers for various activities. Management has determined the volunteer services provided to the Organization do not require recognition in the financial statements.

Advertising Costs

Advertising costs, except for associated with direct-response advertising, are charged to operations when incurred. The costs of direct-response advertising are capitalized and amortized over the period during which future benefits are expected to be received. There were no capitalized costs.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments

Investments are composed of common stocks, mutual funds, US government bonds, certificates of deposit and investment account money market funds and are carried at fair value.

Inventories

Inventories consist primarily of gift shop items held for resale and are valued at the lower of actual cost or market. Cost is determined by specific identification of each unit.

DOUGLAS COUNTY HISTORICAL SOCIETY

Lawrence, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (continued)

Building, Building Improvements, Furniture and Equipment

Building, building improvements, furniture and equipment are capitalized at cost. Furniture and equipment are being depreciated over estimated useful lives of 5 or 7 years using a straight-line method. Building improvements are being amortized over the estimated useful life of 39 years using a straight-line method. Depreciation expense for the year ended December 31, 2010 was \$14,498.

In June of 1971, the Organization was conveyed the building located at 1047 Massachusetts Street, Lawrence, Kansas through the last will and testament of Elizabeth M. Watkins. The building was donated to the Organization to be used exclusively for the public or community benefit without profit. If the Organization determined to utilize the building for uses or operations not directly benefiting the public or community without profit the property is to be sold and one-ninth of the net proceeds of the sale shall be distributed to the grantor. As a result, the donated building has been valued at the building's estimated fair value at the time on donation and recorded as a permanently restricted net asset.

NOTE 2 – Cash and Credit Risk

At year end, the bank carrying amounts of the Organization's deposits were \$823,406, which consisted of \$2,904 in checking accounts, \$117,292 in money markets and \$703,210 in brokerage accounts.

The Federal Deposit Insurance Corporation insures up to at least \$250,000 per depositor until December 31, 2010. On January 1, 2011, FDIC deposit insurance for all deposit accounts—except for certain retirement accounts—will return to at least \$100,000 per depositor. In addition, FDIC announced its temporary Transaction Account Guarantee Program, which provides full coverage for non-interest bearing transaction deposit accounts at FDIC-insured institutions that agree to participate in the program. The transaction account guarantee applies to all personal and business checking deposit accounts that do not earn interest at participating institutions. This unlimited insurance coverage is temporary and will remain in effect for participating institutions until December 31, 2010. The deposits were under secured by \$703,210 as of December 31, 2010. The board has determined to accept the risk involved for under secured deposits.

NOTE 3 – Prepaid Expenses

Prepaid expenses consist of the following:

Prepaid Insurance

\$ 2,787

DOUGLAS COUNTY HISTORICAL SOCIETY

Lawrence, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – Investments

Investments are presented in the financial statements at fair value as determined by quoted price and are composed of the following common stocks, mutual funds, US government bonds, and money markets as of December 31, 2010:

	<u>Fair Market Value</u>	<u>Cost Basis</u>	<u>Unrealized Gain (Loss)</u>
Money markets	\$ 8,901	\$ 8,901	\$ -
Common stocks and mutual funds	669,053	585,811	83,242
US government bonds	25,256	25,000	256
	<u>\$ 703,210</u>	<u>\$ 619,712</u>	<u>\$ 83,498</u>

Investment activity on the statement of activities consists of the following:

Interest income	\$ 577
Dividend income	13,332
Realized gain (loss) on sale of securities	(447)
Unrealized gain (loss) on sale of securities	<u>63,521</u>
	<u>\$ 76,983</u>

NOTE 5 – Operating Lease Commitments

The Organization has a copier on an operating lease. The copier lease is being paid at \$253 per month. Total copier lease payments for 2010 totaled \$3,419. The following is a schedule by years of future minimum payments required under the lease as of December 31, 2010:

December 31, 2011	\$ 3,036
2012	<u>2,024</u>
	<u>\$ 5,060</u>

DOUGLAS COUNTY HISTORICAL SOCIETY
Lawrence, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 6 – Pension Plan

Staff members are eligible for inclusion in the Organization's Section 403 (b) defined contribution plan. Eligible employees receive a base contribution of 3% of compensation. Pension costs charged to expense for 2010 totaled \$4,123.

NOTE 7 – Concentration of Support

The Organization receives support primarily through county grants, membership dues, general public donations and other not-for-profit organization grants. Approximately 33% of the Organization's support came from a single county grant. This creates a concentration of support, which if funding were to be discontinued would severely handicap current operations.

NOTE 8 – Risk Management

The Organization is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the Organization carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

NOTE 9 – Subsequent Events

Subsequent events for management's review have been evaluated through August 8, 2011. The date in the prior sentence is the date the financial statements were available to be issued.