

Financial Statements
December 31, 2025 and 2024

Dubuque County Historical Society

Dubuque County Historical Society

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December 31, 2025 and 2024

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Independent Auditor's Report

The Board of Directors
Dubuque County Historical Society
Dubuque, Iowa

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Dubuque County Historical Society (Organization), which comprise the statements of financial position as of December 31, 2025 and 2024, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2025 and 2024, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated May 27, 2026, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

The image shows a handwritten signature in cursive script that reads "Eide Sully LLP".

Dubuque, Iowa
May 27, 2026

Dubuque County Historical Society
Statements of Financial Position
December 31, 2025 and 2024

	2025	2024
Assets		
Cash and cash equivalents	\$ 6,300	\$ 385,613
Accounts receivable	33,780	209,703
Grants receivable	2,134	138,703
Promises to give, net	588,733	709,334
Operating investments	352,100	365,231
Inventory	372,654	355,737
Prepaid expenses and other assets	60,531	151,873
Collections - Note 1	-	-
Property, equipment and exhibits, net	29,418,186	29,553,087
Board-designated endowment investments	2,241,118	2,957,322
Endowment investments	4,448,789	3,982,070
	\$ 37,524,325	\$ 38,808,673
Liabilities and Net Assets		
Cash overdrawn	\$ 80,932	\$ -
Accounts payable	274,054	149,458
Construction payable	123,997	114,231
Accrued expenses and other liabilities	268,128	407,337
Deferred revenue	558,731	540,691
Line of credit	2,518,136	2,845,869
Notes payable	1,056,394	771,975
	4,880,372	4,829,561
Net Assets		
Without donor restrictions		
Undesignated	25,013,212	25,442,297
Designated by the Board for operating reserve	352,100	365,231
Designated by the Board for endowment	2,241,118	2,957,322
	27,606,430	28,764,850
With donor restrictions		
Perpetual in nature	4,098,810	3,993,826
Purpose restrictions	380,237	639,166
Time-restricted for future periods	558,476	593,027
Underwater endowments	-	(11,757)
	5,037,523	5,214,262
	32,643,953	33,979,112
	\$ 37,524,325	\$ 38,808,673

Dubuque County Historical Society

Statement of Activities

Year Ended December 31, 2025

	2025		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Support, and Gains			
Program service fees			
Museum operations			
Admissions	\$ 2,349,240	\$ -	\$ 2,349,240
Gift shop sales	946,294	-	946,294
Membership dues	505,991	-	505,991
Food and beverage sales	267,616	-	267,616
Tours and historic dining	286,152	-	286,152
Education - admissions	168,809	-	168,809
Net investment return	526,116	595,941	1,122,057
Federal and state contracts and grants	561,730	-	561,730
Contributions	1,199,484	221,667	1,421,151
Donated facilities and materials	370,123	-	370,123
Gross special events revenue	16,279	-	16,279
Other income	144,229	-	144,229
Net assets released from restrictions	994,347	(994,347)	-
Total revenue, support, and gains	<u>8,336,410</u>	<u>(176,739)</u>	<u>8,159,671</u>
Expenses			
Program services expense			
Museum operations	6,154,166	-	6,154,166
Collections	1,161,824	-	1,161,824
Education	860,092	-	860,092
Total program services expenses	<u>8,176,082</u>	<u>-</u>	<u>8,176,082</u>
Supporting services expense			
Management and general	960,318	-	960,318
Fundraising and development	358,430	-	358,430
Total supporting services expenses	<u>1,318,748</u>	<u>-</u>	<u>1,318,748</u>
Total expenses	<u>9,494,830</u>	<u>-</u>	<u>9,494,830</u>
Change in Net Assets	(1,158,420)	(176,739)	(1,335,159)
Net Assets, Beginning of Year	<u>28,764,850</u>	<u>5,214,262</u>	<u>33,979,112</u>
Net Assets, End of Year	<u>\$ 27,606,430</u>	<u>\$ 5,037,523</u>	<u>\$ 32,643,953</u>

Dubuque County Historical Society

Statement of Activities

Year Ended December 31, 2024

	2024		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Support, and Gains			
Program service fees			
Museum operations			
Admissions	\$ 2,171,928	\$ -	\$ 2,171,928
Gift shop sales	862,384	-	862,384
Membership dues	515,223	-	515,223
Food and beverage sales	259,037	-	259,037
Tours and historic dining	314,740	-	314,740
Education - admissions	180,847	-	180,847
Net investment return	356,222	453,240	809,462
Federal and state contracts and grants	1,103,081	-	1,103,081
Contributions	224,136	673,212	897,348
Donated facilities and materials	336,321	-	336,321
Gross special events revenue	29,690	-	29,690
Other income	322,428	-	322,428
Net assets released from restrictions	593,127	(593,127)	-
Total revenue, support, and gains	<u>7,269,164</u>	<u>533,325</u>	<u>7,802,489</u>
Expenses			
Program services expense			
Museum operations	5,779,195	-	5,779,195
Collections	1,129,525	-	1,129,525
Education	865,092	-	865,092
Total program services expenses	<u>7,773,812</u>	<u>-</u>	<u>7,773,812</u>
Supporting services expense			
Management and general	858,529	-	858,529
Fundraising and development	344,749	-	344,749
Total supporting services expenses	<u>1,203,278</u>	<u>-</u>	<u>1,203,278</u>
Total expenses	<u>8,977,090</u>	<u>-</u>	<u>8,977,090</u>
Change in Net Assets	(1,707,926)	533,325	(1,174,601)
Net Assets, Beginning of Year	<u>30,472,776</u>	<u>4,680,937</u>	<u>35,153,713</u>
Net Assets, End of Year	<u>\$ 28,764,850</u>	<u>\$ 5,214,262</u>	<u>\$ 33,979,112</u>

Dubuque County Historical Society
Statement of Functional Expenses
Year Ended December 31, 2025

	Program Services				Supporting Services		
	Museum Operations	Collections	Education	Total	Management and General	Fundraising and Development	Total
Salaries and wages	\$ 1,338,220	\$ 549,083	\$ 488,387	\$ 2,375,690	\$ 523,064	\$ 298,723	\$ 3,197,477
Employee benefits	124,761	51,190	45,531	221,482	48,764	27,849	298,095
Payroll taxes	125,692	51,573	45,872	223,137	49,129	28,058	300,324
Food, beverage and gift shop	714,988	-	-	714,988	-	-	714,988
Professional fees	524,773	932	-	525,705	53,385	3,800	582,890
Collections and archives	-	96,907	-	96,907	-	-	96,907
Events	63,683	-	-	63,683	-	-	63,683
Exhibits and other projects	22,201	-	280,302	302,503	-	-	302,503
Advertising	197,267	-	-	197,267	-	-	197,267
Maintenance	167,177	-	-	167,177	-	-	167,177
Donated facilities and materials	370,123	-	-	370,123	-	-	370,123
Utilities	335,491	258,953	-	594,444	-	-	594,444
Office and other expenses	315,781	-	-	315,781	17,455	-	333,236
Miscellaneous	177,868	8,434	-	186,302	3,980	-	190,282
Interest	-	-	-	-	264,541	-	264,541
Depreciation	1,676,141	144,752	-	1,820,893	-	-	1,820,893
Total expenses	\$ 6,154,166	\$ 1,161,824	\$ 860,092	\$ 8,176,082	\$ 960,318	\$ 358,430	\$ 9,494,830

Dubuque County Historical Society
Statement of Functional Expenses
Year Ended December 31, 2024

	Program Services				Supporting Services		
	Museum Operations	Collections	Education	Total	Management and General	Fundraising and Development	Total
Salaries and wages	\$ 1,403,378	\$ 487,239	\$ 567,894	\$ 2,458,511	\$ 483,187	\$ 267,365	\$ 3,209,063
Employee benefits	138,549	48,102	56,065	242,716	47,702	26,395	316,813
Payroll taxes	124,258	43,141	50,282	217,681	42,782	23,673	284,136
Food, beverage and gift shop	678,178	-	-	678,178	-	-	678,178
Professional fees	89,912	14,113	125,755	229,780	65,809	27,316	322,905
Collections and archives	-	138,787	-	138,787	-	-	138,787
Events	97,524	-	-	97,524	-	-	97,524
Exhibits and other projects	13,815	-	65,096	78,911	-	-	78,911
Advertising	215,917	-	-	215,917	-	-	215,917
Maintenance	203,863	-	-	203,863	-	-	203,863
Donated facilities and materials	336,321	-	-	336,321	-	-	336,321
Utilities	310,688	243,745	-	554,433	-	-	554,433
Office and other expenses	341,681	-	-	341,681	31,115	-	372,796
Miscellaneous	169,678	13,255	-	182,933	15,330	-	198,263
Interest	-	-	-	-	172,604	-	172,604
Depreciation	1,655,433	141,143	-	1,796,576	-	-	1,796,576
Total expenses	\$ 5,779,195	\$ 1,129,525	\$ 865,092	\$ 7,773,812	\$ 858,529	\$ 344,749	\$ 8,977,090

Dubuque County Historical Society

Statements of Cash Flows

Years Ended December 31, 2025 and 2024

	2025	2024
Operating Activities		
Change in net assets	\$ (1,335,159)	\$ (1,174,601)
Adjustments to reconcile change in net assets to net cash (used for) operating activities		
Depreciation	1,820,893	1,796,576
Realized and unrealized (gain) loss on operating investments	(47,227)	(31,355)
Contributions restricted to endowment	(40,000)	-
Endowment net investment loss (return)	(1,038,524)	(758,583)
Changes in operating assets and liabilities		
Accounts and grants receivable	312,492	(33,666)
Promises to give, net	120,601	273,526
Inventory	(16,917)	28,822
Prepaid expenses and other assets	91,342	(87,361)
Cash overdrawn	80,932	-
Accounts payable	124,596	(15,239)
Accrued expenses and other liabilities	(139,209)	16,073
Deferred revenue	18,040	(355,789)
Net Cash (used for) Operating Activities	(48,140)	(341,597)
Investing Activities		
Withdrawal from endowment	169,222	169,248
Proceeds from sales of operating investments	1,568,617	168,430
Purchases of investments	(349,472)	(337,181)
Purchases of property, equipment and exhibits	(1,676,226)	(1,678,064)
Net Cash (used for) Investing Activities	(287,859)	(1,677,567)
Financing Activities		
Net borrowings (repayments) on line of credit	(327,733)	1,708,881
Proceeds from issuance of note	469,422	625,510
Principal payments on note	(185,003)	(468,246)
Net Cash from (used for) Financing Activities	(43,314)	1,866,145
Net Change in Cash and Cash Equivalents	(379,313)	(153,019)
Cash and Cash Equivalents, Beginning of Year	385,613	538,632
Cash and Cash Equivalents, End of Year	\$ 6,300	\$ 385,613
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	\$ 264,541	\$ 172,604
Supplemental Disclosure of Non-cash Investing Activity		
Accounts payable for property and equipment	\$ 123,997	\$ 114,231

Note 1 - Principal Activity and Significant Accounting Policies

Organization

Dubuque County Historical Society d/b/a National Mississippi River Museum & Aquarium and National Rivers Hall of Fame (the Organization) owns and/or operates the National Mississippi River Museum & Aquarium, the National Rivers Hall of Fame, RiverWorks Discovery, and the Mathias Ham Historical Site in Dubuque County, Iowa. The mission of the Dubuque County Historical Society is to inspire stewardship by creating educational experiences where history and rivers come alive. The Organization fulfills its mission by focusing efforts in these primary service areas:

Museum Operations – The Organization utilizes exhibits and animals to depict the regional history and culture for visitors.

Collections – Various collections and artifacts are preserved to interpret the rich history of the region, Mississippi, and rivers of America.

Education – The Organization strives to educate engaged citizens on the history and culture of the region and rivers of America.

The Organization operates in the tri-state area of northeastern Iowa, southwest Wisconsin, and northwest Illinois. Due to this, the Organization's operations are dependent on this region's economic condition.

Cash and Cash Equivalents

All cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, are considered to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to building projects, endowments that are perpetual in nature, or other long-term purposes are excluded from this definition.

Receivables and Allowance for Credit Losses

Accounts receivable consist primarily of noninterest-bearing amounts due from customers for events. The Organization historically has not had uncollectible accounts due to the nature of receivables relating to events held at the Organization. Management believes that the historical loss information it has compiled is a reasonable base on which to determine expected credit losses for accounts receivable held at December 31, 2025 and 2024, because the composition of the accounts receivable at those dates are consistent with that used in developing the historical credit-loss percentages. Accounts receivable are written off when deemed uncollectable. At December 31, 2025 and 2024, there were no allowances.

Receivables from contracts with customers are reported as accounts receivable in the accompanying statements of financial position. Accounts receivable as of January 1, 2024 was \$78,438. Contract liabilities are reported as deferred revenue in the accompanying statements of financial position. The following table provides information about significant changes in deferred revenue for the years ended December 31, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Deferred revenue, beginning of year	\$ 540,691	\$ 896,480
Revenue recognized that was included in deferred revenue at the beginning of the year	(326,882)	(672,671)
Increases in deferred revenue due to cash received during the year	<u>344,922</u>	<u>316,882</u>
Deferred revenue, end of year	<u>\$ 558,731</u>	<u>\$ 540,691</u>

Grants receivable consist of amounts due from granting agencies for expenses the Organization has already incurred but has not yet been reimbursed for.

Promises to Give

The Organization records unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates (3% for 2025 and 2024) designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. Allowance for uncollectible promises to give is determined based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectible. At December 31, 2025 and 2024, the allowance was \$14,925.

Collections

The Organization's collections, which were acquired through purchases and contributions, are not recognized as assets in the statements of financial position. Purchases of collection items are recorded as decreases in net assets without donor restrictions in the year in which the items are acquired, or as decreases in net assets with donor restrictions if the assets used to purchase the items are restricted by donors. The Organization's collections are made up of artifacts of historical significance, art objects, and similar assets held for educational, research, and curatorial purposes. Each of the items is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously. The collections are subject to a policy that requires proceeds from their sales to be used for the acquisition of new collection items, the direct care of existing collections, or both. The Organization defines direct care expenditures as costs incurred to enhance the life, usefulness and quality of the collection. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes. In 2025, the deaccessioning review process successfully removed 47 objects from the permanent collection through disposal or donation to other organizations. An additional 84 objects were approved for deaccession by the end of 2025 but remained onsite as of December 31, 2025. In 2024, the deaccessioning review process successfully removed 44 objects from the permanent collection through disposal or donation to other organizations. An additional 15 objects were approved for deaccession by the end of 2024 but remained onsite as of December 31, 2024.

Inventory

Inventory is comprised of program-related merchandise held for sale in the gift shop and concession stand and is stated at the lower of cost or net realizable value determined by the first-in first-out method. No allowance for inventory obsolescence has been recorded.

Property, Equipment, and Exhibits

Property, equipment and exhibits additions over \$5,000 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from three to forty years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The carrying values of property, equipment and exhibits are reviewed for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended December 31, 2025 and 2024.

Beneficial Interest in Assets Held by Community Foundation

The Organization established an endowment fund that is perpetual in nature (the Fund) under the Community Foundation of Greater Dubuque's (CFGD) program and named itself beneficiary. The Organization granted variance power to CFGD which allows CFGD to modify any condition or restriction on its distributions for any specified charitable purpose or to any specified organization if, in the sole judgment of CFGD's Board of Directors, such restriction or condition becomes unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community. The Fund is held and invested by CFGD for the benefit of the Organization and is reported at fair value in the statements of financial position (included with investments), with trust distributions and changes in fair value recognized as net investment return in the statements of activities.

The CFGD also holds funds that are contributed by individual donors for the benefit of the Organization. It should be noted, however, that the CFGD has variance power, which allows the CFGD to modify the donor's stipulations under certain circumstances as they monitor the changing needs of the community. These funds are not recorded as an asset on the financial statements of the Organization. These funds that are held by the CFGD and are permanently endowed for the support of the Organization were \$2,096,383 and \$1,931,555 at December 31, 2025 and 2024.

Investments

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment return/(loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external investment expenses.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and a board-designated endowment.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor or grantor. Other restrictions are perpetual in nature, where the donor or grantor stipulates that resources be maintained in perpetuity. The Organization reports contributions restricted by donors or grantors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Revenue and Revenue Recognition

The Organization recognizes revenue from ticket sales at the time of admission. Membership dues collected, which are nonrefundable, are recognized as revenue ratably over the period to which the dues relate. Dues collected in advance are recorded as deferred revenue until they are earned. Gift shop sales, and food and beverage sales are recognized at the time of purchase. Tours and historic dining revenue is recognized when the services are provided. The Organization records special events revenue equal to the fair value of direct benefits to donors, and contribution income for the excess received when the event takes place.

The Organization recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right or return – are not recognized until the conditions on which they depend have been met.

A portion of the Organization's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as deferred revenue in the statements of financial position.

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to the Organization's program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Donated materials and facilities are recorded at fair value at the date of donation (Note 11).

Advertising Costs

Advertising costs are expensed as incurred and approximated \$197,000 and \$216,000 during the years ended December 31, 2025 and 2024.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include utilities and depreciation, which are allocated based on estimated use.

Income Taxes

The Organization has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as organizations described in Section 501(c)(3), qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi), and has been determined not to be a private foundation under Section 509(a)(1). The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purposes. Dubuque County Historical Society files an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS to report its unrelated business taxable income.

The Organization believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and those differences could be material.

Financial Instruments and Credit Risk

Deposit concentration risk is managed by placing cash in financial institutions believed by the Organization to be creditworthy. At times, amounts on deposit may exceed insured limits. Insured accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor, per insured bank, for each account ownership category. As of December 31, 2025 and 2024, the organization had \$0 and \$53,110 in excess of the FDIC limits, respectively. To date, no losses have been experienced in any of these accounts. Credit risk associated with accounts receivable, grants receivable, and promises to give are limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from Board members, governmental agencies, and foundations supportive of the Organization’s mission. Investments are made by diversified investment managers whose performance is monitored by the Organization. Although the fair values of investments are subject to fluctuation on a year-to-year basis, the Organization and the investment committee believe that the investment policies and guidelines are prudent for the long-term welfare of the organizations.

Subsequent Events

Subsequent events have been evaluated through May 27, 2026, the date the financial statements were available to be issued.

Note 2 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	2025	2024
Cash and cash equivalents	\$ 6,300	\$ 385,613
Accounts receivable	33,780	209,703
Grants receivable	2,134	138,703
Promises to give	251,512	265,863
Operating investments	352,100	365,231
Endowment spending-rate distributions and appropriations	334,065	310,416
Financial assets available to meet general expenditures within one year	\$ 979,891	\$ 1,675,529

Endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted endowments is available for general use. Donor-restricted endowment funds are not available for general expenditure.

The board-designated endowment annual target spending rate is five percent. Although the Organization does not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of the Board’s annual budget approval and appropriation), these amounts could be made available if necessary.

As part of a liquidity management plan, cash in excess of daily requirements is invested in money market and short-term investments. The Board designates a portion of investments as operating reserve to approximate five percent of the trailing five-year average of the total investment portfolio.

Note 3 - Fair Value Measurements and Disclosures

Certain assets are reported at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, inputs are developed using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, considering factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Organization's assessment of the quality, risk, or liquidity profile of the asset or liability.

A significant portion of investments are classified within Level 1 because they are comprised of mutual funds with readily determinable fair values based on daily redemption values. The fair value of beneficial interest in net assets held by Community Foundation is based on the fair value of fund investments reported by the Community Foundation. This is considered a Level 3 measurement.

Dubuque County Historical Society

Notes to Financial Statements

December 31, 2025 and 2024

The following table presents assets measured at fair value on a recurring basis, except those measured at cost, at December 31, 2025:

	Total	Fair Value Measurements at Report Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>December 31, 2025</u>				
Operating Investments				
Money market (at cost)	\$ 16,178	\$ -	\$ -	\$ -
Fixed income mutual fund	68,555	68,555	-	-
Equity mutual fund	266,559	266,559	-	-
Beneficial interest in net assets held by Community Foundation	808	-	-	808
	<u>\$ 352,100</u>	<u>\$ 335,114</u>	<u>\$ -</u>	<u>\$ 808</u>
Board-designated Endowment Investments				
Money market (at cost)	\$ 102,976	\$ -	\$ -	\$ -
Fixed income mutual fund	436,356	436,356	-	-
Equity mutual fund	1,696,645	1,696,645	-	-
Beneficial interest in net assets held by Community Foundation	5,141	-	-	5,141
	<u>\$ 2,241,118</u>	<u>\$ 2,133,001</u>	<u>\$ -</u>	<u>\$ 5,141</u>
Endowment Investments				
Money market (at cost)	\$ 204,415	\$ -	\$ -	\$ -
Fixed income mutual fund	866,200	866,200	-	-
Equity mutual fund	3,367,968	3,367,968	-	-
Beneficial interest in net assets held by Community Foundation	10,206	-	-	10,206
	<u>\$ 4,448,789</u>	<u>\$ 4,234,168</u>	<u>\$ -</u>	<u>\$ 10,206</u>

Dubuque County Historical Society

Notes to Financial Statements

December 31, 2025 and 2024

The following table presents assets measured at fair value on a recurring basis, except those measured at cost, at December 31, 2024:

	Total	Fair Value Measurements at Report Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>December 31, 2024</u>				
Operating Investments				
Money market (at cost)	\$ 12,793	\$ -	\$ -	\$ -
Fixed income mutual fund	66,490	66,490	-	-
Equity mutual fund	285,204	285,204	-	-
Beneficial interest in net assets held by Community Foundation	744	-	-	744
	<u>\$ 365,231</u>	<u>\$ 351,694</u>	<u>\$ -</u>	<u>\$ 744</u>
Board-designated Endowment Investments				
Money market (at cost)	\$ 103,587	\$ -	\$ -	\$ -
Fixed income mutual fund	538,378	538,378	-	-
Equity mutual fund	2,309,331	2,309,331	-	-
Beneficial interest in net assets held by Community Foundation	6,026	-	-	6,026
	<u>\$ 2,957,322</u>	<u>\$ 2,847,709</u>	<u>\$ -</u>	<u>\$ 6,026</u>
Endowment Investments				
Money market (at cost)	\$ 139,481	\$ -	\$ -	\$ -
Fixed income mutual fund	724,933	724,933	-	-
Equity mutual fund	3,109,542	3,109,542	-	-
Beneficial interest in net assets held by Community Foundation	8,114	-	-	8,114
	<u>\$ 3,982,070</u>	<u>\$ 3,834,475</u>	<u>\$ -</u>	<u>\$ 8,114</u>

Dubuque County Historical Society

Notes to Financial Statements

December 31, 2025 and 2024

Below is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Beneficial Interest in Net Assets Held by Community Foundation		
Beginning Balance	\$ 14,884	\$ 14,559
Net investment return	1,981	1,025
Distributions	<u>(710)</u>	<u>(700)</u>
Ending Balance	<u>\$ 16,155</u>	<u>\$ 14,884</u>

Note 4 - Promises to Give

Unconditional promises to give are estimated to be collected as follows at December 31, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Within one year	\$ 280,227	\$ 300,381
In one to five years	<u>361,158</u>	<u>471,384</u>
	641,385	771,765
Less discount to net present value at 3%	(37,727)	(47,506)
Less allowance for uncollectable promises to give	<u>(14,925)</u>	<u>(14,925)</u>
	<u>\$ 588,733</u>	<u>\$ 709,334</u>

At December 31, 2025, 4 donors accounted for 35% of total contributions and 2 donors account for 35% of promises to give. At December 31, 2024, 1 donor accounted for 33% of total contributions and 2 donors account for 37% of promises to give.

Note 5 - Property, Equipment and Exhibits

Property, equipment and exhibits consists of the following:

	<u>2025</u>	<u>2024</u>
Land and non-depreciable land improvements	\$ 3,211,147	\$ 3,211,147
Land improvements	2,270,139	2,270,139
Buildings and improvements	33,160,650	32,977,410
Equipment	1,364,697	1,297,487
Exhibits	22,544,805	22,508,719
Construction in progress	<u>3,174,908</u>	<u>1,775,454</u>
	65,726,346	64,040,356
Less accumulated depreciation	<u>(36,308,160)</u>	<u>(34,487,269)</u>
	<u>\$ 29,418,186</u>	<u>\$ 29,553,087</u>

Construction in progress at December 31, 2025, consists of costs related to Ham House restoration and improvements, building renovations, and exhibits. The projects have estimated completion dates of May 2026 – December 2026 and are being funded through the Capital Campaign and grant funds.

Note 6 - Notes Payable

Notes payable consists of the following at December 31, 2025 and 2024:

	2025	2024
Note payable, due in a lump sum payment of principal plus interest at the prime lending rate less 0.50% (6.25% as of December 31, 2025) on September 20, 2027, secured by assets of the Organization	\$ 465,047	\$ 464,711
Note payable, due in monthly installments of \$641 beginning December 7, 2022, plus interest at 2.75% to June 7, 2050, secured by assets of the Organization	148,944	150,000
Construction note payable, due in a lump sum payment of principal plus interest at the prime lending rate less 0.50% (6.25% as of December 31, 2025) on December 9, 2027, secured by assets of the Organization	425,446	136,360
1.9% note payable for a new vehicle, due in monthly installments of \$360 through March 15, 2030, secured by assets of the Organization	16,957	20,904
	\$ 1,056,394	\$ 771,975

Future maturities of notes payable are as follows:

Years Ending December 31,	
2026	\$ 7,650
2027	898,321
2028	8,010
2029	8,197
2030	4,407
Thereafter	129,809
	\$ 1,056,394

Note 7 - Line of Credit

The Organization has a \$3,000,000 revolving line of credit with a bank, secured by property. Accrued interest and principal are due at maturity (September 20, 2027). Borrowings under the line incur interest at the Wall Street Journal prime rate less 0.5%, not to be less than 4.00% (6.75% at December 31, 2025 and 7.5% at December 31, 2024). The agreement requires the Organization to comply with certain financial and non-financial covenants.

Note 8 - Endowments

The Organization's endowment (the Endowment) consists of approximately 10 individual funds established by donors to provide annual funding for general operations. The Endowment also includes certain net assets without donor restrictions that have been designated for endowment by the Board of Directors.

The Board of Directors has interpreted the Iowa Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At December 31, 2025 and 2024, there were no such donor stipulations. As a result of this interpretation, the Organization retains in perpetuity (a) the original value of initial and subsequent gift amounts (including promises to give net of discount and allowance for doubtful accounts) donated to the Endowment and (b) any accumulations to the Endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. The following factors are considered in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

Dubuque County Historical Society

Notes to Financial Statements

December 31, 2025 and 2024

As of December 31, 2025, endowment net asset composition by type of fund is as follows:

<u>December 31, 2025</u>	<u>Without Donor Restriction</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-Designated Endowment Funds	\$ 2,241,118	\$ -	\$ 2,241,118
Donor-Restricted Endowment Funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	4,098,810	4,098,810
Accumulated investment gains	-	349,980	349,980
	<u>\$ 2,241,118</u>	<u>\$ 4,448,790</u>	<u>\$ 6,689,908</u>

As of December 31, 2024, endowment net asset composition by type of fund is as follows:

<u>December 31, 2024</u>	<u>Without Donor Restriction</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-Designated Endowment Funds	\$ 2,957,322	\$ -	\$ 2,957,322
Donor-Restricted Endowment Funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	3,993,826	3,993,826
Accumulated investment losses	-	(11,757)	(11,757)
	<u>\$ 2,957,322</u>	<u>\$ 3,982,069</u>	<u>\$ 6,939,391</u>

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Organization has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2024, funds with original gift values of \$3,993,826, fair values of \$3,982,069, and deficiencies of \$11,757 were reported in net assets with donor restrictions. These deficiencies, which the Organization believes are temporary, resulted from unfavorable market fluctuations in the past year. These amounts were fully recovered during 2025 due to favorable market fluctuations.

Investment and Spending Policies

The Organization's endowment assets are commingled with its other investments. Under its investment policy, as approved by the board of directors, the assets are invested in a manner that will help to ensure that the assets are managed in the best interest of the Organization and at the most economical cost. The primary goal of the Organization's investment assets is to achieve long-term real rate-of-return growth. The Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). A significant portion of the funds are invested to seek growth of principal over time.

According to the investment policy, the total expected return of the investment portfolio should exceed comparable benchmarks by, at a minimum, 0.25% over rolling three-to-five-year periods. Actual returns in any given year may vary from this amount. The Organization can assume an above-average degree of fluctuation in the return to maintain the purchasing power of the investments. Specifically relating to endowments, the investment policy states that principal in permanently restricted endowment funds shall not be invaded for any reason other than to satisfy the requirements of applicable law, which would otherwise deprive the Organization of its tax-exempt and/or public charity status. The principal in board-designated endowment funds can be utilized for short-term cash needs with approval of the Board.

An endowment spending-rate formula is used to determine the maximum amount to spend from the Endowment, including those endowments deemed to be underwater, each year. The rate, determined and adjusted from time to time by the Board of Directors, is applied to the total year-end value averaging over the trailing 20 quarters. During 2025 and 2024, the spending rate maximum was 5.0 percent. In establishing this policy, the Board of Directors considered the long-term expected return on the Endowment and set the rate with the objective of maintaining the purchasing power of the Endowment over time.

Changes in endowment net assets for the years ended December 31, 2025 are as follows:

	Without Donor Restriction	With Donor Restrictions	Total
Endowment Net Assets, Beginning of Year	\$ 2,957,322	\$ 3,982,069	\$ 6,939,391
Investment Return, Net	442,581	595,943	1,038,524
Contributions	342,040	40,000	382,040
Appropriation of Endowment Assets Pursuant to Spending-Rate Policy	(125,674)	(169,222)	(294,896)
Other Changes			
Distribution from board-designated endowment	(1,375,151)	-	(1,375,151)
Endowment Net Assets, End of Year	<u>\$ 2,241,118</u>	<u>\$ 4,448,790</u>	<u>\$ 6,689,908</u>

Dubuque County Historical Society

Notes to Financial Statements

December 31, 2025 and 2024

Changes in endowment net assets for the years ended December 31, 2024 are as follows:

	<u>Without Donor Restriction</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment Net Assets, Beginning of Year	\$ 2,491,344	\$ 3,698,077	\$ 6,189,421
Investment Return, Net	305,343	453,240	758,583
Contributions	328,611	-	328,611
Appropriation of Endowment Assets Pursuant to Spending-Rate Policy	(114,020)	(169,248)	(283,268)
Other Changes			
Distribution from board-designated endowment	<u>(53,956)</u>	<u>-</u>	<u>(53,956)</u>
Endowment Net Assets, End of Year	<u>\$ 2,957,322</u>	<u>\$ 3,982,069</u>	<u>\$ 6,939,391</u>

Note 9 - Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods.

	2025	2024
Subject to Expenditure for Specified Purpose		
Restoration projects	\$ -	\$ 522,859
Promises to give, the proceeds from which have been restricted by donors for restoration projects	30,257	116,307
	30,257	639,166
Subject to the Passage of Time		
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due	558,476	593,027
	588,733	1,232,193
Endowments		
Subject to appropriation and expenditure when a specified event occurs		
Accumulated investment gains which are subject to endowment spending policy appropriation	349,980	-
Perpetual in nature, earnings from which are subject to endowment spending policy appropriation		
General use	4,098,810	3,993,826
Underwater endowments	-	(11,757)
	4,098,810	3,982,069
Total endowments	4,448,790	3,982,069
	\$ 5,037,523	\$ 5,214,262

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows:

	2025	2024
Expiration of Time Restrictions		
General	\$ 385,438	\$ 593,127
Restoration projects	86,050	-
Satisfaction of Purpose Restrictions		
Restoration projects	522,859	-
	\$ 994,347	\$ 593,127

Note 10 - Employee Benefits

The Organization sponsors a tax-deferred annuity plan (the Plan) qualified under IRC Section 403(b) covering substantially all full-time employees. The plan provides that after 90 days of employment, employees may voluntarily contribute up to the maximum contribution allowed by the IRS. For any eligible employee working 1,000 hours or more during the calendar year, the Organization will match 50% of the deferral up to a total of 4% of their compensation. During the years ended December 31, 2025 and 2024, the Organization matched employee voluntary contributions resulting in contributions to the plan of \$51,863 and \$60,798.

Note 11 - Donated Facilities and Materials

The value of donated facilities and materials received are reported on the statements of activities (Museum Operations) and are as follows:

	2025	2024
Rent	\$ 230,677	\$ 223,958
Auction and raffle items	139,446	112,363
	\$ 370,123	\$ 336,321

Rent represents riverfront property and the Ham House. The Organization has entered into agreements to use these properties for programing in exchange for nominal monetary consideration.

Auction and raffle items are used in fundraising services.

All donated facilities and materials received during the years ended December 31, 2025 and 2024, were unrestricted and are recognized at fair value based on current rates for similar goods or rates of similar properties in the respective areas

Note 12 - Related Party Transactions

At December 31, 2025 and 2024, Board members had promises to give balances totaling \$88,852 and \$145,852.



Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Dubuque County Historical Society
Dubuque, Iowa

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of Dubuque County Historical Society (Organization), which comprise the Organization's statement of financial position as of December 31, 2025, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated May 27, 2026.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses as item 2025-001, that we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Dubuque County Historical Society's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Responses. The Organization's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dubuque, Iowa
May 27, 2026

Findings – Related to Financial Statement:

**2025-001 Preparation of Financial Reports and Audit Adjustments
Significant Deficiency**

Criteria: A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes (financial reports) by internal personnel of the entity. Management is responsible for establishing and maintaining internal control over financial reporting and procedures relating to the fair presentation of the financial reports in accordance with U.S. generally accepted accounting principles (GAAP).

Condition: The Organization does not have an internal control system designed to provide for the preparation of the financial reports as required by GAAP. As auditors, we were requested to draft the financial reports. Additionally, an audit adjustment was proposed during the audit to recognize construction payable.

Cause: The outsourcing of preparation of the annual year-end financial reporting is not unusual in an organization of your size. We realize that obtaining the expertise necessary to prepare the financial reports, including all necessary disclosures, in accordance with GAAP can be considered costly and ineffective.

Effect: The effect of this condition is that the year-end financial reporting is prepared by a party outside the entity. The outside party does not have the constant contact with ongoing financial transactions that internal staff have. It is also possible that new standards may not be adopted and applied timely to the interim financial reporting. Furthermore, a journal entry was proposed as a result of audit procedures.

Recommendation: It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. We recommend that management continue reviewing operating procedures in order to obtain the maximum internal control over financial reporting possible under the circumstances to enable staff to draft the financial reports internally.

Views of Responsible Officials: Management agrees with the finding.