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February 10, 2010

Board of Directors
The Museums at Prophetstown, Inc.
d/b/a/ Historic Prophetstown
3549 Prophetstown Trl.
Battle Ground, IN 47920

We have reviewed the audit report prepared by Huth Thompson, LLP, Independent Public Accountants, for the period January 1, 2008 to December 31, 2008. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of The Museums at Prophetstown, Inc. d/b/a Historic Prophetstown, as of December 31, 2008, and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

STATE BOARD OF ACCOUNTS

Financial Statements

**THE MUSEUMS AT
PROPHETSTOWN, INC.**

d/b/a HISTORIC PROPHETSTOWN

DECEMBER 31, 2008 AND 2007

**THE MUSEUMS AT PROPHETSTOWN, INC.
d/b/a HISTORIC PROPHETSTOWN**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Museums at Prophetstown, Inc.
d/b/a Historic Prophetstown
Battle Ground, Indiana

We have audited the accompanying statements of financial position of The Museums at Prophetstown, Inc. d/b/a Historic Prophetstown as of December 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Museums at Prophetstown, Inc. d/b/a Historic Prophetstown as of December 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As explained in Note 14 to the financial statements, as of December 31, 2007, the Organization has inadequate funds to comply with donor restrictions.

Huth Thompson LLP

July 28, 2009
Lafayette, Indiana



**THE MUSEUMS AT PROPHETSTOWN, INC.
d/b/a HISTORIC PROPHETSTOWN**

**STATEMENTS OF FINANCIAL POSITION
As of December 31,**

	2008	2007
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents, Including Interest Bearing Accounts of \$150,032 and \$100,748 in 2008 and 2007, Respectively	\$ 197,400	\$ 118,788
Certificates of Deposit	52,506	154,379
Pledges Receivable--Current Portion, Less Discount for Present Value of \$-0- and \$325 in 2008 and 2007, Respectively	6,422	7,175
Appropriations Receivable	18,230	42,490
Inventories	4,723	2,335
Prepaid Assets	2,534	5,114
TOTAL CURRENT ASSETS	281,815	330,281
PROPERTY, PLANT AND EQUIPMENT		
Buildings and Improvements	2,578,472	2,576,254
Land Improvements	216,570	180,375
Equipment, Furniture and Fixtures	116,605	104,908
Vehicles	23,091	18,091
	2,934,738	2,879,628
Accumulated Depreciation	(1,196,194)	(1,025,148)
	1,738,544	1,854,480
OTHER ASSETS		
Pledges Receivable--Long-Term Portion, Less Discount for Present Value of \$1,567 and \$2,487 in 2008 and 2007, Respectively	8,433	13,728
Beneficial Interest in Assets Held by The Community Foundation of Greater Lafayette	75,127	115,964
	83,560	129,692
	\$ 2,103,919	\$ 2,314,453

See Notes to Financial Statements.

	<u>2008</u>	<u>2007</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 5,222	\$ 11,374
Accounts Payable	10,157	3,345
Deposits	300	-
Accrued Expenses--		
Payroll	<u>5,551</u>	<u>-</u>
TOTAL CURRENT LIABILITIES	21,230	14,719
LONG-TERM DEBT, Less Current Maturities	<u>78,203</u>	<u>83,426</u>
TOTAL LIABILITIES	99,433	98,145
NET ASSETS		
Unrestricted	1,781,157	1,503,690
Temporarily Restricted	104,626	594,915
Permanently Restricted	<u>118,703</u>	<u>117,703</u>
	<u>2,004,486</u>	<u>2,216,308</u>
	<u>\$ 2,103,919</u>	<u>\$ 2,314,453</u>

THE MUSEUMS AT PROPHETSTOWN, INC.
d/b/a HISTORIC PROPHETSTOWN

STATEMENTS OF ACTIVITIES
For The Years Ended December 31,

	TOTALS		UNRESTRICTED		TEMPORARILY RESTRICTED		PERMANENTLY RESTRICTED	
	2008	2007	2008	2007	2008	2007	2008	2007
REVENUE AND SUPPORT								
Public Support--								
Contribution Income	\$ 53,813	\$ 178,658	\$ 36,313	\$ 139,118	\$ 16,500	\$ 33,540	\$ 1,000	\$ 6,000
Appropriations--								
Hotel/Motel	143,898	86,097	143,898	86,097	-	-	-	-
Native American License Plates	79,478	47,091	79,478	47,091	-	-	-	-
Grants--								
Other Operating Grants	26,381	-	26,381	-	-	-	-	-
Special Events	43,516	40,039	43,516	40,039	-	-	-	-
In-Kind Contributions	7,722	3,000	7,722	3,000	-	-	-	-
Program Services--								
Admissions	6,833	7,232	6,833	7,232	-	-	-	-
Farm Income	6,138	5,501	6,138	5,501	-	-	-	-
Merchandise Sales								
Gross Sales	5,807	12,687	5,807	12,687	-	-	-	-
Less: Cost of Sales	(1,682)	(5,672)	(1,682)	(5,672)	-	-	-	-
Net Merchandise Sales	4,125	7,015	4,125	7,015	-	-	-	-
School Tours and Programs	23,084	19,002	23,084	19,002	-	-	-	-
Rental Income	920	21,471	920	21,471	-	-	-	-
Membership Dues and Gifts	17,255	22,791	17,255	22,791	-	-	-	-
Annual Meeting	1,365	1,260	1,365	1,260	-	-	-	-
Interest	5,540	8,992	5,540	8,992	-	-	-	-
Increase (Decrease) in Beneficial Interest in Assets Held by The Community Foundation of Greater Lafayette	(37,213)	5,884	-	5,884	(37,213)	-	-	-
Miscellaneous	717	337	717	337	-	-	-	-
Reclassification of Net Assets	-	-	(41,838)	41,838	41,838	-	-	-
Net Assets Released from Restrictions	-	-	511,414	(511,414)	(511,414)	(63,076)	-	-
TOTAL REVENUE AND SUPPORT	383,572	454,370	872,861	477,906	(490,289)	(29,536)	1,000	6,000
EXPENSES	595,394	546,257	595,394	546,257	-	-	-	-
INCREASE (DECREASE) IN NET ASSETS	(211,822)	(91,887)	277,467	(68,351)	(490,289)	(29,536)	1,000	6,000
NET ASSETS--Beginning of Year	2,216,308	2,308,195	1,503,690	1,572,041	594,915	624,451	117,703	111,703
NET ASSETS--End of Year	\$ 2,004,486	\$ 2,216,308	\$ 1,781,157	\$ 1,503,690	\$ 104,626	\$ 594,915	\$ 118,703	\$ 117,703

See Notes to Financial Statements.

**THE MUSEUMS AT PROPHETSTOWN, INC.
d/b/a HISTORIC PROPHETSTOWN**

**STATEMENTS OF CASH FLOWS
For The Years Ended December 31,**

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
(Decrease) in Net Assets	\$ (211,822)	\$ (91,887)
Adjustments to Reconcile (Decrease) in Net Assets to Net Cash Provided (Used) by Operating Activities--		
Depreciation	171,282	156,378
In-Kind Contribution of Property	(6,216)	(2,800)
Discount for Present Value on Pledges Receivable	(1,245)	1,150
Contribution Restricted for Permanent Endowment	(1,000)	(6,000)
(Increase) Decrease in Assets--		
Pledges Receivable	7,293	400
Appropriations Receivable	24,260	(4,926)
Inventory	(2,388)	(2,335)
Prepaid Expenses	2,580	(2,282)
Increase (Decrease) in Liabilities--		
Accounts Payable	6,812	2,945
Deposits	300	-
Accrued Expenses	5,551	(4,959)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(4,593)	45,684
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in Certificates of Deposit	101,873	64,162
Beneficial Interest in Assets Held by The Community Foundation of Greater Lafayette	40,837	(7,960)
Purchase of Property and Equipment	(49,130)	(55,934)
NET CASH PROVIDED BY INVESTING ACTIVITIES	93,580	268
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt	(11,375)	(13,414)
Proceeds from Contributions Restricted for-- Investment In Permanent Endowment	1,000	6,000
NET CASH (USED) BY FINANCING ACTIVITIES	(10,375)	(7,414)
INCREASE IN CASH	78,612	38,538
CASH AND CASH EQUIVALENTS--Beginning of Year	118,788	80,250
CASH AND CASH EQUIVALENTS--End of Year	\$ 197,400	\$ 118,788
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Paid During the Year for--		
Interest	\$ 4,358	\$ 7,006

See Notes to Financial Statements.

**THE MUSEUMS AT PROPHETSTOWN, INC.
d/b/a HISTORIC PROPHETSTOWN**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007**

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of The Museums at Prophetstown, Inc. d/b/a Historic Prophetstown's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

- A) Nature of Organization and Operations--The Museums at Prophetstown, Inc. d/b/a Historic Prophetstown (the Organization) was formed in October, 1995 as a not-for-profit corporation located in Lafayette, Indiana. The Organization is dedicated to preserving and interpreting Woodland Native American and Wabash Valley agricultural history, culture and traditions; to restoring examples of Indiana's prairie and savanna ecosystems; and to sharing these treasures through educational experiences and cultural programs. The Organization is located on a 300 acre campus near Battle Ground, Indiana.
- B) Use of 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses. Actual results could differ from those estimates.
- C) Cash Equivalents--For the purpose of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. There were no cash equivalents as of December 31, 2008 and 2007, respectively.
- D) Receivables--Receivables consists of pledges and appropriations. Uncollectible receivables are charged directly against income when they are determined to be uncollectible. Use of this method does not result in a material difference from the valuation method required by accounting principles generally accepted in the United States of America.
- E) Property and Equipment--Property and equipment are stated at cost less accumulated depreciation. If donated, the cost is the fair market value at the date of receipt. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives on the straight-line method. Maintenance, repairs and minor renewals are charged to operations as incurred. Improvements and major renewals are capitalized. Upon sale or disposition of properties, the asset account is relieved of the cost and the accumulated depreciation account is charged with depreciation taken prior to the sale. Any resultant gain or loss is credited or charged to operations. Depreciation expense was \$171,282 and \$156,738 for the years ended December 31, 2008 and 2007, respectively.

THE MUSEUMS AT PROPHETSTOWN, INC.
d/b/a HISTORIC PROPHETSTOWN

NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

- F) **Pledges Receivable**--Pledges receivable are unconditional promises to give that are expected to be collected within one year and are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Conditional promises to give are not included as support until the conditions are substantially met.
- G) **Inventories**--Inventories consist of gift shop merchandise and are valued at the lower of cost or market with cost determined by the first-in-first-out (FIFO) method.
- H) **Deferred Revenue**--Payments or registrations received for planned events that have not occurred are considered prepayments and will be recognized as revenue in a subsequent period.
- I) **Contributions**--Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes.

- J) **Net Assets**--In accordance with Statement of Financial Accounting Standards No. 117, "*Financial Statements for Not-for-Profit Organizations*," the net assets of the Organization are reported in each of the following three classes:
- 1) ***Unrestricted Net Assets***--Net assets that are not subject to donor-imposed stipulations.
 - 2) ***Temporarily Restricted Net Assets***--Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time.
 - 3) ***Permanently Restricted Net Assets***--Net assets subject to donor-imposed stipulations that the assets be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

**THE MUSEUMS AT PROPHETSTOWN, INC.
d/b/a HISTORIC PROPHETSTOWN**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007**

**NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

J) **Net Assets** (Continued)--All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the restriction even if the restriction is met in the same period. When a 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. Restrictions on gifts of fixed assets or contributions restricted for the purchase of fixed assets expire when the asset is placed in service, unless otherwise stipulated by the donor.

K) **Income Taxes**--The Organization is a not-for-profit organization exempt from federal income taxes under Internal Revenue Code Section 501(c)(3) and state income taxes under the Indiana General Not-for-Profit Act.

As of December 31, 2008, the Organization has not adopted FIN 48, Accounting for Uncertainty in Income Taxes. Management evaluates all tax positions annually and had not identified any uncertain tax position as of and for the year ended December 31, 2008.

L) **Donated Goods and Services**--The Organization records various types of in-kind support including property and equipment, professional services, and materials. Property and equipment donated are capitalized on the basis explained in Note 1E. Contributed professional services are recognized if the services either create or enhance long-lived assets, or require specialized skills and would typically need to be purchased if not provided by the donation. Contributions of supplies and materials are recognized at fair market value when received. In-kind contributions for the years ended December 31, 2008 and 2007 were \$7,722 and \$3,000, respectively.

The Organization also receives significant donations of time from volunteers that do not meet the two recognized criteria described above. Accordingly, the value of this contributed time has not been determined and is not reflected in the financial statements.

M) **Advertising**--The Organization expenses advertising costs as incurred. For the year ended December 31, 2008 and 2007, advertising costs totaled \$26,371 and \$15,330, respectively.

N) **Accrued Vacation**--The Organization has not accrued compensated absences because the amount cannot be reasonably estimated.

**THE MUSEUMS AT PROPHETSTOWN, INC.
d/b/a HISTORIC PROPHETSTOWN**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007**

**NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

O) Collections--Collection items acquired either through purchase or donation are not capitalized. Purchases of collection items are recorded as expenses when purchased. Contributions of collection items are not recognized in the statement of activities. Proceeds from sales or insurance recoveries are reflected in the statement of activities based on the absence or existence and nature of donor-imposed restrictions. In prior years, the Organization acquired an art collection known as the "Tarvin Art Collection". Collections are acquired, cared for, and interpreted with sensitivity to their cultural origins. Part of the Tarvin Art Collection is on display at a museum and the remaining collection is located in a storage facility. No items were deaccessioned during the years ended December 31, 2008 and 2007. The Tarvin Art Collection is not significant to the Organization's activities.

NOTE 2: CONCENTRATION OF CREDIT RISK

At certain times during the year, the Organization maintained cash deposits with its bank which exceed the amount insured by the Federal Deposit Insurance Corporation (FDIC). Effective October 2008, the FDIC increased insurance limits from \$100,000 to \$250,000. The amount of cash over the FDIC limit at December 31, 2008 and 2007 was \$-0- and \$75,749, respectively.

NOTE 3: PLEDGES RECEIVABLE

Included in pledges receivable are the following unconditional promises to give as of December 31:

	<u>2008</u>	<u>2007</u>
Prophetstown Society Pledges	\$ 16,422	\$ 23,715
Less: Unamortized Discount	<u>(1,567)</u>	<u>(2,812)</u>
	14,855	20,903
Less: Current Portion	<u>(6,422)</u>	<u>(7,175)</u>
Long-Term Pledges Receivable	<u>\$ 8,433</u>	<u>\$ 13,728</u>

**THE MUSEUMS AT PROPHETSTOWN, INC.
d/b/a HISTORIC PROPHETSTOWN**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007**

NOTE 3: PLEDGES RECEIVABLE (Continued)

Gross amounts due as of December 31:

2009	\$	6,422
2010		-
2011		4,320
2012		<u>4,113</u>
	\$	<u>14,855</u>

The discount rate utilized for 2008 and 2007 was .37% and 5.00%, respectively.

NOTE 4: APPROPRIATIONS

Continuing until 2012, the State of Indiana appropriates to the Organization not less than 40% of the money received from the Tippecanoe County's Innkeeper's Tax. As of December 31, 2008 and 2007, \$16,280 and \$16,543, respectively, was owed to the Organization for the innkeeper's tax collected and not yet distributed to the Organization.

The State of Indiana also appropriates to the Organization money received from the Native American license plate fee. As of December 31, 2008 and 2007, an estimated \$1,950 and \$25,947, respectively, was owed to the Organization for the license plate fees collected and not yet distributed to the Organization. Effective January 2009, the Organization will no longer receive appropriations of Native American License plate fees.

NOTE 5: CONCENTRATION OF REVENUE

Approximately 58% and 29% of the Organization's total revenue and support for the years ended December 31, 2008 and 2007, respectively, was provided by the State of Indiana appropriations.

**THE MUSEUMS AT PROPHETSTOWN, INC.
d/b/a HISTORIC PROPHETSTOWN**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007**

NOTE 6: PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment included the following at December 31:

	<u>2008</u>	<u>2007</u>
Buildings and Improvements--		
Admissions Booth	\$ 1,199	\$ 1,199
Barn	282,262	282,262
Milk Shed	35,111	35,111
Brooder House	844	844
Chicken Coop	1,855	1,855
Machinery Shed	79,380	79,380
Chief's Cabin	1,618	1,618
Corn Crib	22,500	22,400
Gibson Farm House	9,698	8,254
Sears Tenant House	98,579	98,579
Medicine Lodge	20,408	20,408
Staff Residence House	4,611	4,611
Native American Granary	46,202	45,527
Footprints in History Plaza	19,852	19,853
Model T Garage	3,859	3,859
Restrooms	120,887	120,887
Wabash Valley Farm Livestock	1,650	1,650
Wabash Valley Living History Farm	1,316,355	1,316,355
Prophetstown Village	185,591	185,591
Prophetstown Prairie Environment Center	93,076	93,076
General Site Design	<u>232,935</u>	<u>232,935</u>
	2,578,472	2,576,254
Land Improvements--		
Land Improvement	8,196	1,980
Signage	207,574	177,595
Fence	800	800
	<u>216,570</u>	<u>180,375</u>
Equipment, Furniture and Fixtures--		
Office Equipment	38,301	38,301
Furniture and Fixtures	23,681	23,681
General Operating Equipment	23,346	23,346
Farm Tools	<u>31,277</u>	<u>19,580</u>
	116,605	104,908
Vehicles	<u>23,091</u>	<u>18,091</u>
	2,934,738	2,879,628
Accumulated Depreciation	<u>(1,196,194)</u>	<u>(1,025,148)</u>
	<u>\$ 1,738,544</u>	<u>\$ 1,854,480</u>

**THE MUSEUMS AT PROPHETSTOWN, INC.
d/b/a HISTORIC PROPHETSTOWN**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007**

NOTE 7: BENEFICIAL INTEREST IN ASSETS HELD BY THE COMMUNITY FOUNDATION OF GREATER LAFAYETTE

During 2000, the Organization transferred irrevocably \$75,000 to The Community Foundation of Greater Lafayette (the Foundation) and created an Agency Fund Endowment to solely benefit the Organization. The Foundation is granted variance power in the endowment agreement. The Organization contributed an additional \$32,000 from 2005 to 2008 to the endowment as per donors' instructions. On an annual basis, the Organization receives income distributions from the fund held at the Foundation. While this endowment is treated as a quasi-endowment between the Organization and the Foundation, these funds were permanently endowed by donors to the Organization and the principal portion of the funds received from donors must be held in perpetuity. At December 31, 2008 and 2007, the Organization has recorded a beneficial interest in assets held by the Foundation in the amount of \$75,127 and \$115,964, respectively.

As of December 31, 2008, the market value of the Organization's beneficial interest has fallen below historic gift value. The following table shows the net deficit of the Organization's beneficial interest.

	<u>Historic Gift Value</u>	<u>Market Value</u>	<u>Deficit</u>
Beneficial Interest in Assets			
Held by the Greater Lafayette			
Community Foundation	\$ 107,000	\$ 75,127	\$ (31,873)

As these funds are held by the Greater Lafayette Community Foundation and included in their investment pool, the Organization's position is that the Foundation has the ability and intent to hold these investments for a reasonable period of time sufficient for a recovery of the fair value. Therefore, the Organization does not consider the underlying investments in these beneficial interests to be other-than-temporarily impaired as of December 31, 2008.

NOTE 8: RELATED PARTY TRANSACTIONS

The Organization leases on an annual basis, horses and horse related equipment from a company owned by the Chief Operating Officer of the Organization. For the years ended December 31, 2008 and 2007, the Organization paid \$25,000 in each year for the lease of the horses and related equipment.

**THE MUSEUMS AT PROPHETSTOWN, INC.
d/b/a HISTORIC PROPHETSTOWN**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007**

NOTE 9: LONG-TERM DEBT

At December 31, 2008 long-term debt consisted of:

	2008	2007
Note Payable to the Foundation, unsecured semi-annual payments of \$4,665, including interest at 5% through December 2010. Beginning June 2011, semi- annual payments of \$8,309, including interest at 5% through December 2015. Principal due December 2015.	\$ 83,425	\$ 88,396
Note Payable to Finance Company, secured by Case tractor, loader, and bush hog. Annual payments of \$6,404 beginning July 2006 through July 2008. The note was paid in full in 2008.	<u>-</u>	<u>6,404</u>
	83,425	94,800
Less: Current Maturities	<u>(5,222)</u>	<u>(11,374)</u>
	<u>\$ 78,203</u>	<u>\$ 83,426</u>

Maturities of long-term debt for the years ending December 31 are as follows:

2009	\$	5,222
2010		5,487
2011		13,143
2012		13,809
2013		14,508
Thereafter		<u>31,256</u>
	<u>\$</u>	<u>83,425</u>

Total interest expense was \$4,358 and \$4,621 for the years ended December 31, 2008 and 2007, respectively.

**THE MUSEUMS AT PROPHETSTOWN, INC.
d/b/a HISTORIC PROPHETSTOWN**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007**

NOTE 10: RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following funds as of December 31:

	<u>2008</u>	<u>2007</u>
Restricted by Purpose--		
Footprints and Benches	\$ 1,250	\$ 1,250
Rotary Plaza	57,646	57,646
Eagle Wing Center	-	484,241
Maple Sugaring Cabin	21,250	21,250
Software	6,955	6,955
Estate Planning	600	600
Prairie Restoration	813	813
Education Trunks	322	322
Prairie Center	935	935
Restricted by Time--		
Pledges	<u>14,855</u>	<u>20,903</u>
	<u>\$ 104,626</u>	<u>\$ 594,915</u>

Permanently restricted net assets consisted of the following funds as of December 31:

	<u>2008</u>	<u>2007</u>
Endowment Funds	\$ 118,703	\$ 117,703

Included in cash and cash equivalents are temporary restrictions of \$80,841 and \$118,438 as of December 31, 2008 and 2007, respectively. The beneficial interest in assets held by the Foundation is all permanently restricted funds. All certificates of deposit are temporarily and permanently restricted funds as of December 31, 2008 and 2007.

THE MUSEUMS AT PROPHETSTOWN, INC.
d/b/a HISTORIC PROPHETSTOWN

NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 11: LEASE AGREEMENTS

The Organization leases land of approximately 300 acres for no monetary value from the State of Indiana through the Department of Natural Resources. The estimated fair-rental value of the property has not been reflected in the financial statements. The lease is set to renew again on February 2017. Either party to this land lease can terminate the lease with a 90-day notice in advance of the renewal date of the lease. Upon termination of the lease, title to all land improvements and structures transfer to the State of Indiana Department of Natural Resources.

The Organization leases horses and horse related equipment on an annual basis. The Organization also leases a copier under a non-cancelable operating lease expiring in 2014. In addition, the Organization leases equipment on an as needed basis. Rental and lease expense for the years ended December 31, 2008 and 2007 was \$29,533 and \$33,080, respectively. Future minimum lease payments are as follows:

2009	\$	1,390
2010		1,440
2011		1,440
2012		1,440
2013		1,440
2014		<u>600</u>
	\$	<u>7,750</u>

NOTE 12: CONDITIONAL PROMISE TO GIVE

During 2005, the Organization received a conditional promise to give of up to \$150,000 to be used to complete the second phase of the signage project, a state of the art interpretive program to enhance the educational experience for visitors. Funds will be released when project costs of the second phase are incurred. During 2006, costs of \$123,619 were incurred and revenue recognized for the second phase of this project. During 2008, this project was completed. Costs of \$23,681 were incurred and revenue recognized for the final phase of this project.

**THE MUSEUMS AT PROPHETSTOWN, INC.
d/b/a HISTORIC PROPHETSTOWN**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007**

NOTE 13: FUNCTIONAL EXPENSE

The costs of providing program activities have been summarized on a functional basis below. Accordingly, certain costs have been allocated among the program services benefited. The major programs operated by the Organization are described in Note 1A. Salaries and related payroll items for certain employees are allocated as follows:

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>
Chief Operations Officer	10%	70%	20%
Reservations Clerk	10%	90%	0%
Agricultural Staff	90%	10%	0%

The breakdown of functional expenses are as follows:

	<u>2008</u>	<u>2007</u>
Program Services	\$ 496,251	\$ 452,961
Management and General	27,274	68,326
Fundraising	<u>71,869</u>	<u>24,970</u>
	<u>\$ 595,394</u>	<u>\$ 546,257</u>

NOTE 14: RESTRICTED FUNDS

As of December 31, 2007, the Organization has inadequate funds to comply with all donor purpose restrictions. The Organization used cumulatively \$302,934 in donor-restricted funds for non-donor intended purposes as of December 31, 2007. While in prior years the Organization received verbal authorization from a donor to release the restriction of the gift in the amount of \$323,691, no written documentation was obtained evidencing the verbal authorization. The Organization used these donor restricted resources to supplement operations in 2006 and to pay off the mortgage in 2005. Effective 2008, written authorization from the donor to release the restriction in the amount of \$484,241 was obtained by the Organization. Adequate funds exist as of December 31, 2008 to comply with all donor purpose restrictions.

**THE MUSEUMS AT PROPHETSTOWN, INC.
d/b/a HISTORIC PROPHETSTOWN**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007**

NOTE 15: FAIR VALUE MEASUREMENTS

Effective January 1, 2008, the Organization adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157), which provides a framework for measuring fair value under GAAP. SFAS 157 defines fair value as the exchange 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. SFAS 157 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. SFAS 157 also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

There are three general valuation techniques that may be used to measure fair value, as described below:

- A) **Market approach** – Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Prices may be indicated by pricing guides, sales transactions, market trades, or other sources.
- B) **Cost approach** – Based on the amount that currently would be required to replace the service capacity of an asset (replacement cost); and
- C) **Income approach** – Uses valuation techniques to convert future amounts to a single present amount based on current market expectations about the future amounts (include present value techniques, and option pricing models). Net present value is an income approach where a stream of expected cash flows is discounted at an appropriate market interest rate.

Assets itemized below were measured at fair value during the years ended December 31, 2008 and 2007. The market approach was used for Level 1 and Level 3 inputs and the income approach was used for Level 2 inputs.

**THE MUSEUMS AT PROPHETSTOWN, INC.
d/b/a HISTORIC PROPHETSTOWN**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007**

NOTE 15: FAIR VALUE MEASUREMENTS (Continued)

Fair values of assets measured on a recurring basis at December 31, 2008 are as follows:

	<u>Fair Value Measurements at Reporting Date Using:</u>			
	Fair Value	Quoted Prices In Active Markets for Identical Assets/ Liabilities Level 1	Significant Other Observable Inputs Level 2	Significant Other Unobservable Inputs Level 3
Financial Assets--				
Pledges Receivable	\$ 14,855	\$ -	\$ 14,855	\$ -
Beneficial Interest in Assets Held by the Greater Lafayette Community Foundation	<u>75,127</u>	<u>-</u>	<u>-</u>	<u>75,127</u>
Total Assets	<u>\$ 89,982</u>	<u>\$ -</u>	<u>\$ 14,855</u>	<u>\$ 75,127</u>

Financial assets valued using level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets valued using level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets. Financial assets using level 3 inputs were primarily valued using managements assumptions about the assumptions market participants would utilize in pricing the asset. Valuation techniques utilized to determine fair value are consistently applied.

Financial assets listed under level 3 inputs are reported at fair value on a recurring basis on the statement of financial position as of December 31, 2008. The resulting activity for the year ended December 31, 2008 is as follows:

<u>Fair Value Measurements Using Significant Unobservable Inputs (Level 3)</u>	
Beneficial Interest in Assets Held by the Greater Lafayette Community Foundation--	
January 1, 2008	\$ 115,964
Contributions	1,000
Interest and Dividends	3,310
Expenses/Debt Service	(5,946)
Total Unrealized/Realized Losses Included in Unrestricted Net Assets	<u>(39,201)</u>
December 31, 2008	<u>\$ 75,127</u>

**THE MUSEUMS AT PROPHETSTOWN, INC.
d/b/a HISTORIC PROPHETSTOWN**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007**

NOTE 16: ENDOWMENT

In August 2008, the Financial Accounting Standards Board issued Staff Position No. FAS 117-1, Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds (FAS 117-1). FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) (the Act).

FAS 117-1 also improves disclosures about an organization's endowment funds (both donor restricted endowment funds and board designated endowment funds) whether or not the organization is subject to UPMIFA. The State of Indiana adopted UPMIFA effective July 2007. The Organization has adopted FAS 117-1 for the year ended December 31, 2008.

Interpretation of Relevant Law

The Organization has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with the Act, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

**THE MUSEUMS AT PROPHETSTOWN, INC.
d/b/a HISTORIC PROPHETSTOWN**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007**

NOTE 16: ENDOWMENT (Continued)

For the years ended December 31, 2008 and 2007, the Organization had the following endowment related activities:

	Donor-Restricted Endowment Funds		
	Unrestricted	Temporarily Restricted	Permanently Restricted
<u>December 31, 2008</u>			
Endowment Net Assets, Beginning of Year	\$ -	\$ -	\$ 117,703
Investment Return:			
Investment Income	-	3,309	-
Net Appreciation (Depreciation),			
Realized and Unrealized	-	(39,201)	-
Total Investment Return	-	(35,892)	117,703
Contributions	-	-	1,000
Appropriation of Endowment Assets for Expenditure	-	(5,946)	
Other Changes:			
Reclassification of Net Assets	(41,838)	41,838	-
Endowment Net Assets, End of Year	<u>\$ (41,838)</u>	<u>\$ -</u>	<u>\$ 118,703</u>
<u>December 31, 2007</u>			
Endowment Net Assets, Beginning of Year	\$ -	\$ -	\$ 111,703
Investment Return:			
Investment Income	-	8,040	-
Net Appreciation (Depreciation),			
Realized and Unrealized	-	68	-
Total Investment Return	-	8,108	111,703
Contributions	-	-	6,000
Appropriation of Endowment Assets for Expenditure	-	(8,108)	-
Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 117,703</u>

**THE MUSEUMS AT PROPHETSTOWN, INC.
d/b/a HISTORIC PROPHETSTOWN**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007**

NOTE 16: ENDOWMENT (Continued)

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature that are reported in unrestricted net assets were \$31,873 as of December 31, 2008. These deficiencies resulted from unfavorable market fluctuations that occurred. There were no such deficiencies as of December 31, 2007.

Return Objectives and Risk Parameters and Strategies Employed for Achieving Objectives

The Organization has not adopted investment and spending policies for endowment assets. The Organization maintains its endowment with the Greater Lafayette Community Foundation and allows the Foundation to determine the investment strategy.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Income received from the Endowment Fund is used to reduce the note payable balance with the Greater Lafayette Community Foundation as approved by management.



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**INDEPENDENT AUDITOR'S REPORT
ON THE SUPPLEMENTARY INFORMATION**

To the Board of Directors
The Museums at Prophetstown, Inc.
d/b/a Historic Prophetstown
Battle Ground, Indiana

Our report on our audits of the basic financial statements of The Museums at Prophetstown, Inc. d/b/a Historic Prophetstown for December 31, 2008 and 2007 appears on page 1. Those audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Huth Thompson LLP

July 28, 2009
Lafayette, Indiana



**THE MUSEUMS AT PROPHETSTOWN, INC.
d/b/a HISTORIC PROPHETSTOWN**

SCHEDULES OF EXPENSES

For The Years Ended December 31,

(See Independent Auditor's Report on the Supplementary Information)

	2008	2007
Special Events	\$ 27,452	\$ 13,537
Program	19,560	16,448
Farm items	2,145	1,805
Rental and Lease	29,533	33,080
Annual Meeting	928	1,240
Payroll	148,107	146,529
Payroll Taxes	11,964	11,286
Advertising	26,371	15,243
Professional Development	1,262	1,772
Insurance	21,630	20,389
Interest	4,358	4,621
Dues and Subscriptions	2,071	2,066
Postage and Delivery	2,695	2,827
Printing and Reproduction	7,121	8,061
Repairs and Maintenance	10,523	11,878
Telephone	10,630	12,327
Utilities	14,103	13,589
Depreciation	171,282	156,378
Meals and Travel	30	-
Supplies	28,772	26,025
Office Supplies	3,684	3,006
Catering	6,451	7,009
Computer/Website Support	2,742	1,661
Service Contracts	33,229	28,647
Other	8,751	6,833
	\$ 595,394	\$ 546,257

**THE MUSEUMS AT PROPHETSTOWN, INC.
d/b/a HISTORIC PROPHETSTOWN**

STATEMENTS OF FINANCIAL POSITION BY RESTRICTION

As of December 31,
(See Independent Auditor's Report on the Supplementary Information)

	ASSETS							
	2008			2007				
	TOTAL	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED
CURRENT ASSETS								
Cash and Cash Equivalents	\$ 197,400	\$ 116,559	\$ 80,841	\$ -	\$ 118,788	\$ 350	\$ 118,438	\$ -
Certificates of Deposit	52,506	-	8,930	43,576	154,379	-	152,640	1,739
Pledges Receivable--Current Portion, Less Discount for Present Value of \$-0- and \$325 in 2008 and 2007, Respectively	6,422	-	6,422	-	7,175	-	7,175	-
Appropriations Receivable	18,230	18,230	-	-	42,490	42,490	-	-
Inventories	4,723	4,723	-	-	2,335	2,335	-	-
Prepaid Assets	2,534	2,534	-	-	5,114	5,114	-	-
TOTAL CURRENT ASSETS	281,815	142,046	96,193	43,576	330,281	50,289	278,253	1,739
PROPERTY, PLANT AND EQUIPMENT								
Buildings and Improvements**	2,578,472	2,578,472	-	-	2,576,254	2,273,320	302,934	-
Land Improvements	216,570	216,570	-	-	180,375	180,375	-	-
Equipment, Furniture and Fixtures	116,605	116,605	-	-	104,908	104,908	-	-
Vehicles	23,091	23,091	-	-	18,091	18,091	-	-
Accumulated Depreciation	2,934,738	2,934,738	-	-	2,879,628	2,576,694	302,934	-
	<u>(1,196,194)</u>	<u>(1,196,194)</u>	<u>-</u>	<u>-</u>	<u>(1,025,148)</u>	<u>(1,025,148)</u>	<u>-</u>	<u>-</u>
OTHER ASSETS	1,738,544	1,738,544	-	-	1,854,480	1,551,546	302,934	-
Pledges Receivable--Long-Term Portion, Less Discount for Present Value of \$1,567 and \$2,487 in 2008 and 2007, Respectively	8,433	-	8,433	-	13,728	-	13,728	-
Beneficial Interest in Assets Held by The Community Foundation of Greater Lafayette	75,127	-	-	75,127	115,964	-	-	115,964
	<u>83,560</u>	<u>-</u>	<u>8,433</u>	<u>75,127</u>	<u>129,692</u>	<u>-</u>	<u>13,728</u>	<u>115,964</u>
TOTAL ASSETS	\$ 2,103,919	\$ 1,880,590	\$ 104,626	\$ 118,703	\$ 2,314,453	\$ 1,601,835	\$ 594,915	\$ 117,703

**\$302,934 in 2007 noted above--see Note 14

(Continued on Page 24)

THE MUSEUMS AT PROPHETSTOWN, INC.
d/b/a HISTORIC PROPHETSTOWN

STATEMENTS OF FINANCIAL POSITION BY RESTRICTION
As of December 31,
(See Independent Auditor's Report on the Supplementary Information)
(Continued from Page 23)

	LIABILITIES AND NET ASSETS			
	2008		2007	
	TOTAL UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL UNRESTRICTED	TEMPORARILY PERMANENTLY RESTRICTED
CURRENT LIABILITIES				
Current Maturities of Long-Term Debt	\$ 5,222	\$ -	\$ 11,374	\$ -
Accounts Payable	10,157	-	3,345	-
Deposits	300	-	-	-
Accrued Expenses--				
Payroll	5,551	-	-	-
TOTAL CURRENT LIABILITIES	21,230	-	14,719	-
LONG-TERM DEBT, Less Current Maturities	78,203	-	83,426	-
TOTAL LIABILITIES	99,433	-	98,145	-
NET ASSETS				
Unrestricted	1,781,157	-	1,503,690	-
Temporarily Restricted	104,626	104,626	-	594,915
Permanently Restricted	118,703	118,703	-	117,703
	<u>2,004,486</u>	<u>218,703</u>	<u>1,503,690</u>	<u>117,703</u>
	<u>1,781,157</u>	<u>118,703</u>	<u>2,216,308</u>	<u>117,703</u>
	<u>\$ 2,103,919</u>	<u>\$ 104,626</u>	<u>\$ 2,314,453</u>	<u>\$ 594,915</u>
	<u>\$ 1,880,590</u>	<u>\$ 118,703</u>	<u>\$ 1,601,835</u>	<u>\$ 117,703</u>