



**Bozeman Public Library Foundation**

**Financial Statements  
with  
Independent Auditors' Report**

**December 31, 2018**

**Bozeman Public Library Foundation**  
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**December 31, 2018**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Bozeman Public Library Foundation  
Bozeman, Montana

We have audited the accompanying financial statements of the Bozeman Public Library Foundation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility**

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

### **Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bozeman Public Library Foundation as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Rudd & Company, PLLC*

Bozeman, Montana  
June 12, 2019

**Bozeman Public Library Foundation**  
**Statement of Financial Position**  
**As of December 31, 2018**

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**Assets**

Current Assets

Cash and cash equivalents	\$ 59,628
Investment income receivable	<u>14,931</u>
Total Current Assets	<u>74,559</u>

Other Assets

Investments	3,915,198
Beneficial interest in assets held by others	206,602
Website, net	9,380
Artwork	<u>10,046</u>
Total Other Assets	<u>4,141,226</u>

Total Assets	<u>\$ 4,215,785</u>
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**Liabilities and Net Assets**

Current Liabilities

Accounts payable	\$ 29,199
Accrued payroll and other expenses	<u>4,963</u>
Total Current Liabilities	<u>34,162</u>

Long-term notes payable	<u>45,000</u>
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Total Liabilities	<u>79,162</u>
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Net Assets

Without Donor Restrictions	3,465,870
Without Donor Restrictions - Board Designated	206,602
With Donor Restrictions	<u>464,151</u>

Total Net Assets	<u>4,136,623</u>
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Total Liabilities and Net Assets	<u>\$ 4,215,785</u>
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The accompanying notes are an integral part of these statements.

**Bozeman Public Library Foundation**  
**Statement of Activities**  
**For the Year Ended December 31, 2018**

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Support and Revenues</b>			
Contributions	\$ 168,779	\$ 242,703	\$ 411,482
Special Event - Gala	112,672	-	112,672
Grants	73,871	20,906	94,777
Interest and dividends, net	105,985	-	105,985
In-kind contributions	5,790	-	5,790
Realized gain on investments	214,206	-	214,206
Unrealized loss on investments	(495,541)	-	(495,541)
Other income	5,294	-	5,294
<b>Total Revenue and Support</b>	<b>191,056</b>	<b>263,609</b>	<b>454,665</b>
<b>Net assets released from program restrictions</b>	<b>64,872</b>	<b>(64,872)</b>	<b>-</b>
<b>Expenses</b>			
Program services	269,014	-	269,014
General and administrative	103,412	-	103,412
Fundraising	126,485	-	126,485
<b>Total Expenses</b>	<b>498,911</b>	<b>-</b>	<b>498,911</b>
Change in Net Assets	(242,983)	198,737	(44,246)
Net Assets, Beginning of Year	3,915,455	265,414	4,180,869
Net Assets, End of Year	\$ 3,672,472	\$ 464,151	\$ 4,136,623

The accompanying notes are an integral part of these statements.

**Bozeman Public Library Foundation**  
**Statement of Functional Expenses**  
**For the Year Ended December 31, 2018**

Description	Program Services	General and Administrative	Fundraising	Total
Amortization	\$ -	\$ 494	\$ -	\$ 494
Arts/Culture	78,786	-	-	78,786
Bank charges	-	3,169	-	3,169
Children's department	40,619	-	-	40,619
Dues	-	4,877	-	4,877
Equipment	-	2,024	-	2,024
Direct library support	49,012	-	-	49,012
Insurance	-	929	-	929
Miscellaneous	-	2,591	331	2,922
MCF endowment contribution	18,204	-	-	18,204
Office and administrative	-	5,359	12,315	17,674
Outreach and adult education	36,159	-	-	36,159
Personnel and related costs	46,234	66,115	87,247	199,596
Professional fees	-	13,632	-	13,632
Special event - Gala	-	-	26,592	26,592
Training	-	4,222	-	4,222
Total	<u>\$ 269,014</u>	<u>\$ 103,412</u>	<u>\$ 126,485</u>	<u>\$ 498,911</u>

The accompanying notes are an integral part of these statements.

**Bozeman Public Library Foundation**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2018**

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**Cash Flows from Operating Activities**

Change in Net Assets	\$ (44,246)
Adjustment to reconcile change in net assets to net cash provided by operating activities	
Amortization	494
Net unrealized and realized loss on investments	281,335
Conversion of note payable to a contribution	(30,000)
(Increase) decrease in assets:	
Investment income receivable	(136)
Other assets	9,220
Increase (decrease) in liabilities	
Accounts payable	8,236
Accrued payroll and other expenses	680
Net Cash Provided by Operating Activities	<u>225,583</u>

**Cash Flows from Investing Activities**

Purchase of website	(9,874)
Proceeds from Montana Community Foundation	10,204
Proceeds from sale of investments	21,810
Purchase of investments	<u>(355,246)</u>
Net Cash Used by Investing Activities	<u>(333,106)</u>

Net decrease in cash and cash equivalents (107,523)

Cash and cash equivalents, Beginning of Year 167,151

Cash and cash equivalents, End of Year \$ 59,628

**Supplemental Disclosure of Cash Flow Information**

Non-cash contribution - debt conversion	\$ 30,000
Non-cash donation of other in-kind items	\$ 5,790

The accompanying notes are an integral part of these statements.

**Bozeman Public Library Foundation**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2018**

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**1. Summary of Significant Accounting Policies**

**Organization**

Bozeman Public Library Foundation (the “Foundation”), is a nonprofit agency organized to support the Bozeman Public Library through raising, receiving, administering, and disbursing funds, grants, bequests and gifts for the benefit of the library. The Foundation was incorporated with the State of Montana on August 29, 1983, and subsequently amended on December 15, 1989. The governing board consists of an elected president and elected members of the board of directors.

The Foundation’s support comes primarily from donor contributions and various fundraising events. They are a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal and state income taxes.

**Basis of Accounting**

The financial statements of the Foundation are reported on the accrual basis in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

*Net assets without donor restrictions* represents net amounts that have been earned and expended according to contract restrictions and net amounts from generally unrestricted activities. The Board of Directors has voluntarily designated \$206,602 of net assets without donor restrictions in a Montana Community Foundation agency fund as of December 31, 2018.

*Net assets with donor restrictions* represents net assets subject to donor- (or certain grantor-) imposed restrictions. The Foundation had \$464,151 of net assets with donor restrictions as of December 31, 2018, primarily relating to contributions for an endowment and programs.

Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as contributions without donor restrictions.

As of December 31, 2018, the Foundation had \$200,000 of net assets restricted in perpetuity.

**Bozeman Public Library Foundation**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2018**

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**1. Summary of Significant Accounting Policies (continued)**

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Foundation considers cash and cash equivalents to be cash on hand, cash deposited with banks and financial institutions, money market funds, and all highly liquid investments available for current use with an original maturity of three months or less. Account balances held in financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per bank, per depositor. As of December 31, 2018, cash and cash equivalents did not exceed federally insured limits.

**Artwork**

Artwork consists of art prints generated from the donation of an original painting. Artworks are valued at the lower of cost or market and not considered material to the overall financial statements.

**Investments**

The Foundation carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values based on quoted prices in active markets (all Level 1 measurements) in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities.

**Property, Equipment and Intangibles**

Property, equipment and intangibles are carried at cost or, if donated, at the approximate fair value at the date of donation. Improvements and betterments are capitalized, while repairs and maintenance expenditures are expensed. The Foundation follows the practice of capitalizing all expenditures or donations at fair market value in excess of \$2,500 for property, equipment and intangibles with a useful life of more than one year. The Foundation has elected to depreciate/amortize these assets using the straight-line method. Estimated useful life of the property, equipment and intangibles are as follows:

Website	5 years
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**Functional Expenses**

Expenses are charged directly to the program, to fundraising, or to the general and administrative based on specific identification; however, some indirect expenses are allocated between program, fundraising, and general and administrative. On an annual basis, management estimates allocation percentages based on overall time analysis provided by each employee.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Bozeman Public Library Foundation**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2018**

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**1. Summary of Significant Accounting Policies (continued)**

**Contributions**

Contributed support is reported as with or without donor restrictions depending on the existence and/or nature of any donor restrictions. All contributions are considered to be available for 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 donor restricted support that increase that net asset class.

**Compensated Absences**

The Foundation has not accrued any compensated absences as amounts are not significant to the overall financial statements.

**Subsequent Events**

Management has evaluated subsequent events through June 12, 2019, the date on which the financial statements were available to be issued.

**Adoption of New Accounting Standard**

Bozeman Public Library Foundation adopted the provisions of Accounting Standard Update 2016-14, Presentation of Financial Statements of Not-for Profits Entities. The adoption does not change any prior reported numbers for net assets or changes in net assets, but rather an increase in disclosure and change of classification of net assets from three categories to two categories, those with donor imposed restrictions and those without donor imposed restrictions. The adoption also requires additional liquidity disclosures and reporting investment expenses net of investment income.

**2. Investments**

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and enhances disclosures about fair value measurements. Fair value is defined under ASC 820 as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under ASC 820 must maximize the use of observable inputs and minimize the use of unobservable inputs.

The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable, and the last unobservable, that may be used to measure fair value, which are the following:

Level 1 - Quoted market prices in active markets for identical assets or liabilities.

**Bozeman Public Library Foundation**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2018**

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**2. Investments (continued)**

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted market prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that the observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis: Investments in mutual funds are valued based upon quoted market prices. Bank insured deposit funds are insured cash accounts and are valued at the closing cash balance.

Cost and fair market value of investments as of December 31, 2018 are as follows:

	<b>2018</b>		
	Cost	Unrealized Loss	Fair Value
Bank insured deposit - Level 1	\$ 21,450	\$ -	\$ 21,450
Mutual funds - Level 1	4,174,598	(280,850)	\$ 3,893,748
	<u>\$ 4,196,048</u>	<u>\$ (280,850)</u>	<u>\$ 3,915,198</u>

Components of investment income for the year ended December 31, 2018 consist of the following:

	<b>2018</b>
Interest and dividends	\$ 127,185
Investment fees	(21,200)
Realized gains	214,206
Unrealized loss	<u>(495,541)</u>
Total investment income (loss)	<u>\$ (175,350)</u>

**3. Related Party Transactions**

A board member of the Foundation is also a member of an organization which granted the Foundation \$60,000 during the year ended December 31, 2018.

**Bozeman Public Library Foundation**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2018**

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**4. Endowment**

As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. During the year ended December 31, 2018, fees paid for management of endowment funds were \$16.

**Interpretation of Relevant Law**

The Board of Directors has interpreted the Montana Uniform Prudent Management of Institutional Funds Act ("MUPMIFA") 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 Foundation classified as permanently restricted net assets (a) the original value of gifts donated to the net assets without donor restrictions endowment, (b) the original value of subsequent gifts to the net assets without donor restrictions endowment, and (c) any accumulations to the net assets without donor restrictions 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 are classified in net assets without donor restrictions until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by MUPMIFA.

In accordance with MUPMIFA, the Foundation 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 Foundation 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 Foundation; and
- (7) The investment policies of the Foundation.

**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 of MUPMIFA requires the Foundation to retain as a fund of perpetual direction. As of December 31, 2018, the endowment fund had no such deficiency.

**Return Objectives and Risk Parameters**

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to operations while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s).

**Bozeman Public Library Foundation**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2018**

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**4. Endowment (continued)**

The Foundation expects its endowment funds, over time, to provide a reasonable level of current income to support the spending policy authorized by the Board of Directors and to grow equity assets. Actual returns in any given year may vary from this amount.

**Strategies Employed for Achieving Objectives**

To satisfy its long-term rate-of-return objectives, 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). The Organization targets a diversified asset allocation including cash equivalents, fixed income, and equity securities to achieve its long-term return objectives within prudent risk constraints.

**Spending Policy and How the Investment Objectives Relate to Spending Policy**

The objective of the Organization's spending policy is to preserve the fair value of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Endowment net asset composition by type of fund as of December 31, 2018, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ -	\$ -
Endowment net assets, end of year	\$ 50,915	\$ 200,000	\$ 250,915

Changes in net assets composition by type of fund for the year ended December 31, 2018 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, as of December 31, 2017	\$ -	\$ -	\$ -
Contributions:	50,000	200,000	250,000
Investment income:			
Interest and dividends	125	-	125
Net appreciation (unrealized)	790	-	790
Endowment net assets, as of December 31, 2018	\$ 50,915	\$ 200,000	\$ 250,915

**Bozeman Public Library Foundation**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2018**

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**5. Beneficial Interest in Assets Held by Others**

Pursuant to Financial Accounting Standards Boards Statement No. 136, Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others, the Foundation records amounts held by the Montana Community Foundation Endowment Agency. Under the terms of the agreement with Montana Community Foundation, earnings from the endowment are distributed each year. At the time of assets the Foundation granted variance power to the Montana Community Foundation. This gives Montana Community Foundation the right to modify any restrictions or conditions on the distributions of funds for any specified charitable purposes or to specified charitable organizations if, in the sole judgment of the Board of Directors of Montana Community Foundation, such restrictions or conditions become, in effect, unnecessary, undesirable, incapable of fulfillment, or inconsistent with the charitable needs of the state of Montana or the surrounding region. To start the fund, the Foundation made an initial investment of \$151,627. At December 31, 2018 the endowment fund had a value of \$206,602 which is report in the statement of financial position as a beneficial interest assets held by others and included in net assets without donor restrictions – board designated.

**6. Endowment Funds Held by Others**

The Montana Community Foundation has endowment funds held on behalf of Bozeman Public Library Foundation at December 31, 2018 in the amount of \$110,557. During the year ended December 31, 2018, the Foundation transferred contributions totaling \$18,203 to the fund. This amount does not qualify to be recorded on the statement of financial position of the Foundation, but may provide an income stream in perpetuity.

**7. Notes Payable**

Notes payable at December 31, 2018 consist of the following:

0% note payable to David Kingman; dated August 1, 2017; due with in 1 year of substantial completion of the Labyrinth Project; payable in a lump sump payment. The note is unsecured and imputed interest is not considered material to the overall financial statements. \$ 45,000

During the year ended December 31, 2018, \$30,000 of this note was forgiven by Mr. Kingman and converted to contribution revenue. Future maturities of note payable for the year ended December 31, 2018 are as follows:

2019	\$	-	
2020		45,000	
		45,000	
	\$	45,000	

**Bozeman Public Library Foundation**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2018**

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**8. Liquidity and Availability**

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

Cash	\$ 59,628
Investment income receivable	14,931
Investments	3,915,198
Net assets with donor restrictions	<u>(464,151)</u>
 Total Financial Assets Available	 <u>\$ 3,525,606</u>

The Foundation is primarily supported by contributions, grants and investment income. As a part of the Foundation's liquidity management, management reviews its liquidity on a monthly basis with the board of directors.

**9. Retirement Plan**

Bozeman Public Library Foundation offers employees the opportunity to participate in a contributory retirement plan. Under the plan, eligible employees are allowed to make contributions to a SIMPLE IRA plan, and the Organization will contribute a matching contribution to each eligible employee's plan, equal to the employee's contributions, up to a limit of 3% of the employee's compensation for the calendar year. The Organization's contributions totaled \$4,451 for the year ended December 31, 2018.

**10. Donated Services, Materials, and Facilities**

The following in-kind donations were recognized for the year ended December 31, 2018.

	<u>2018</u>
Children's department	\$ 1,747
Direct library support	1,228
Miscellaneous	602
Office and administrative	113
Outreach and adult education	600
Professional fees	<u>1,500</u>
	<u>\$ 5,790</u>

The in-kind support was used for program services, fundraising, and general and administrative purposes.

**Bozeman Public Library Foundation**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2018**

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**11. Net Assets**

Net assets with donor project restrictions consist of the following at December 31, 2018:

	<u>2018</u>
Anderson Endowment - Teen Library	\$ 200,000
Bookmobile Operation	186,857
CFOB	1,800
Children's	856
Creative Workshops	234
Homeless Assistance	1,000
Kendeda - Community Service Office	18,344
Kendeda - Marketing	2,328
Labyrinth	11,942
SymBozium	40,046
Teen Project	744
	<u>\$ 464,151</u>