

The accompanying financial statements and report are intended for the original recipient. They must be presented in their entirety and may not be modified in any manner.



FINANCIAL STATEMENTS

Bozeman Area Community Foundation

March 31, 2012



Bozeman Area Community Foundation

March 31, 2012

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Bozeman Area Community Foundation:

We have audited the accompanying statement of financial position of Bozeman Area Community Foundation (the Foundation), as of March 31, 2012, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bozeman Area Community Foundation as of March 31, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Anderson Zurmuehlen & Co., P.C.

Bozeman, Montana
February 11, 2013

Bozeman Area Community Foundation
STATEMENT OF FINANCIAL POSITION
March 31, 2012

ASSETS

ASSETS	
Cash and cash equivalents	\$ 25,245
Investments	945,035
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TOTAL ASSETS	\$ 970,280
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LIABILITIES AND NET ASSETS

LIABILITIES	
Planned gift liabilities	\$ 120,727
Funds held as agency endowments	78,356
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TOTAL LIABILITIES	199,083

NET ASSETS	
Unrestricted net assets	25,246
Temporarily restricted net assets	111,394
Permanently restricted net assets	634,557
	<hr/>
	771,197
	<hr/>
TOTAL LIABILITIES AND NET ASSETS	\$ 970,280
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The Notes to the Financial Statements are an integral part of these statements.

Bozeman Area Community Foundation
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the year ended March 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE, GAINS & OTHER SUPPORT				
Contributions	\$ 1,550	\$ -	\$ 110,603	\$ 112,153
Dividend and interest income	1,179	9,958	-	11,137
Net unrealized loss on investments	(5,761)	(5,446)	-	(11,207)
Change in value of planned gift liabilities	-	-	15,822	15,822
Other income	1,750	-	-	1,750
Total revenues	(1,282)	4,512	126,425	129,655
Net assets released from restrictions	12,719	(12,719)	-	-
Total support, revenue, other additions, and net assets released from restrictions	11,437	(8,207)	126,425	129,655
EXPENSES				
Grants and philanthropic distributions	13,880	-	-	13,880
Operating and administrative expenses	5,399	-	-	5,399
Total expenses	19,279	-	-	19,279
CHANGE IN NET ASSETS	(7,842)	(8,207)	126,425	110,376
Net assets, beginning of year	33,088	119,601	508,132	660,821
Net assets, end of year	\$ 25,246	\$ 111,394	\$ 634,557	\$ 771,197

The Notes to the Financial Statements are an integral part of these statements.

Bozeman Area Community Foundation
STATEMENT OF CASH FLOWS
For the year ended March 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	
Increase in net assets	\$ 110,376
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities:	
Unrealized loss on investments	11,207
Reinvested dividend and interest income	(11,137)
Non-cash contributions	(110,603)
Actuarial revaluation of annuities	13,803
Gain on terminated annuities	(16,725)
Net cash from operating activities	(3,079)
 Cash, beginning of year	 28,324
 Cash, end of year	 \$ 25,245
 NONCASH TRANSACTIONS	
Increase in annuity liabilities from new agreements	\$ 58,703
Increase in investments from new annuity liabilities agreements	\$ 169,306
Decrease in annuity liabilities from terminated agreements	\$ (16,725)
Agency accounts disbursed	\$ (59,480)
Permanently restricted non cash contributions	\$ 110,603

The Notes to the Financial Statements are an integral part of these statements.

Bozeman Area Community Foundation
NOTES TO FINANCIAL STATEMENTS

March 31, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Bozeman Area Community Foundation (the Foundation) is a Montana public benefit corporation whose mission is to enhance the present and future quality of life and natural resources of its community. The Foundation serves donors by maximizing the impact and flexibility of their charitable intentions through established funds. For local nonprofit organizations, the Foundation identifies current and emerging issues in the local community and offers a viable funding source, education, and support. As well, the Foundation administers an annual grant cycle and builds and manages endowments on behalf of local nonprofit organizations.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of presentation. The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.
2. Fund accounting. The accounts of the Foundation are maintained in accordance with the principles of fund accounting. As such, contributions are classified based upon their particular purpose and nature. For the purpose of investing funds, the Foundation pools them according to their purpose or whether they are considered permanently or temporarily restricted. As of March 31, 2012, the Foundation held \$541,950 in endowment funds.
3. Classification of net assets. The Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets: Resources that are not restricted by donor-imposed stipulations. Generally these assets are available for current operations of the Foundation.

Temporarily restricted net assets: Resources whose use by the Foundation has been limited by donors stipulations that expire with the passage of time or upon completion of charitable goals. This category consists of undistributed earnings on permanent endowment funds and funds held for specific projects.

Permanently restricted net assets: Resources that have been restricted by donors to be maintained by the Foundation in perpetuity. The value of contributions to permanent endowments is never spent. Generally, the earnings on permanent endowments are classified as temporarily restricted until appropriated for expenditure based on the Foundation's payout policy or other terms of the gift agreement. In some cases, the terms of the gift agreement require appreciated earnings to also be permanently restricted.

4. Cash and cash equivalents. Cash and cash equivalents consist of checking accounts, savings accounts and investments with original maturities of three months or less and are available to be used for current operating activities. The Foundation maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash accounts. The Foundation had no cash equivalents as of March 31, 2012.

Continued

Bozeman Area Community Foundation
NOTES TO FINANCIAL STATEMENTS

March 31, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

5. Investments. Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the Statement of Financial Position. Fair Value is defined as the price the Foundation would receive upon selling an asset in an orderly transaction between market participants at the measurement date. Fair market values are determined by the most relevant available and observable valuation inputs and are classified into three levels.

Level 1 Quoted priced in active markets for identical assets or liabilities.

Level 2 Directly or indirectly observable inputs other than quoted prices included in Level 1.

Level 3 Unobservable inputs that are not corroborated by market data and reflect the entity's assumptions for pricing.

The Foundation's investment portfolio is exposed to various risks, such as interest rate, market risk, and credit risk. Because of the level of risk associated with such investments, changes in their value will occur, and such changes could materially affect the amounts reported in the Foundation's financial statements for long-term investments and net assets.

6. Contributions. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted, depending on the existence and/or nature of any donor restrictions. When a restriction expires, such as a stipulated time restriction ends or a 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. Support that is not restricted by the donor is reported as an increase in unrestricted net assets.
7. Planned gift liabilities. The Foundation records an amount due to income beneficiaries of charitable gift annuities and charitable remainder trusts when it acts as trustee. The liability is based on the present value of the estimated future payments to be distributed during the income beneficiary's expected life. Annual adjustments to the liability reflect revaluation of the present value of the estimated future payments to the income beneficiary and are recognized in the statement of activities as a change in the value of planned gifts. The present value of the estimated future payments was calculated used discount rates, ranging from 6.2% to 2.0%, at the date of the gift and applicable mortality tables.
8. Funds held as agency endowments. The Foundation follows the accounting standards for transfers of assets to not-for-profit organizations and charitable trusts that raise or hold contributions for others. When a not-for-profit organization establishes a fund with the Foundation with its own funds and specifies itself as the beneficiary of that fund, the Foundation must account for the fund as a liability. The liability is recorded at the fair value of the funds, which is generally equivalent to the present value of future payments expected to be made to the not-for-profit. The Foundation refers to these funds as agency funds. According to agreements, the Foundation owns the assets of agency endowments; however, in the even the Foundation is dissolved, agency endowments would be returned to the benefitting not-for-profit.

The Foundation also holds funds in agency to be distributed in accordance with donee instructions.

Continued

Bozeman Area Community Foundation
NOTES TO FINANCIAL STATEMENTS

March 31, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

9. Income taxes. The Foundation is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code, except to the extent of unrelated business taxable income as defined under IRC Sections 511 through 515. For the year ended March 31, 2012, the Foundation did not meet the IRS public support test to be a public nonprofit. Should the Foundation not meet the public support requirements two years in a row, it could be ruled to be a private foundation. Private foundations are subject to excise tax on net investment income. With few exceptions, the Foundation is no longer subject to examinations by Federal tax authorities for years before 2009.
10. Functional expenses. Expenses, which apply to more than one functional category, are allocated between general and administrative, development and program support based on the time spent on these functions by specific employees as estimated by the Board of Directors. The remaining costs are charged directly to the appropriate functional category.
11. Grants. The Foundation awards grants to not-for-profit organizations for various purposes. The board of directors authorizes grants after review of the application. Each grant is individually approved by a vote of the board of directors. The Foundation also awards grants in accordance with beneficiary restrictions to annual, qualified not-for-profits. Grants are recognized as expenses in the period approved.
12. 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 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.
13. Subsequent events. Subsequent events are events or transactions that occur after the statement of financial position date but before the financial statements are issued. The Foundation recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The Foundation's financial statements do not recognize subsequent events that provide evidence about the conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before the financial statement are issued.

The Foundation has evaluated subsequent events through February 11, 2013, which is the date the financial statements were available to be issued.

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Bozeman Area Community Foundation
NOTES TO FINANCIAL STATEMENTS

March 31, 2012

NOTE B – INTERPRETATION OF RELEVANT LAWS

Uniform Prudent Management of Institution Funds Act (UPMIFA) (Montana Code Annotated [MCA] 72-30-101):

The Foundation classifies contributions made to endowment funds as permanently restricted net assets. The value is established on the date of contribution. Earnings on endowment funds are classified as temporarily restricted net assets until appropriated for expenditure by the Foundation unless required to be added to the corpus and then the earnings are classified as permanently restricted.

From time to time, the fair value of endowment funds may fall below the amount classified as permanently restricted net assets. These deficiencies reflect unfavorable market fluctuation during the reporting periods and are reflected as a reduction to unrestricted net assets.

Foundation's investment and payout policies:

The Foundation has adopted investment and spending policies for endowment assets that are designed and intended to provide a predictable stream of funding to programs while seeking to maintain the historical value of the Foundation's endowment assets. The Foundation's investment and payout policies work together to achieve these objectives. The investment policy attempts to establish an achievable return objective through diversification of and prescribed allocation among asset classes, restrictions on asset quality and limitations on concentrations of holdings by sector and company.

Qualified endowment credit (MCA 15-30-165):

Montana law provides for a tax credit against Montana income tax liability for individuals and businesses in exchange for planned gifts made by an individual tax payer to a qualified endowment or a direct gift made by a business to a qualified endowment.

Montana Charitable Gift Annuity Exemption Act (MCA 33-20-701):

Montana law requires charitable organizations that offer charitable gift annuities to meet certain requirements set forth by the Montana insurance commissioner. Annual registration is required.

Bozeman Area Community Foundation
NOTES TO FINANCIAL STATEMENTS

March 31, 2012

NOTE C – INVESTMENTS

Investment objectives and policies are established by the Foundation’s board of directors and are implemented by external investment managers selected and monitored by the board of directors. As of March 31, 2012, 98% of investments are held with one investment custodian. Long-term investments consist of the following as of March 31, 2012:

	Cost	Level 1	Total
Cash and cash equivalents	\$ 124,498	\$ -	\$ 124,498
Fixed Income			
Jumbo Certificate of Deposit	-	45,513	45,513
Corporate Bonds	-	87,218	87,218
Mutual Funds			
Bond	-	184,804	184,804
Equity-income	-	272,620	272,620
Growth	-	66,741	66,741
Growth and income	-	163,641	163,641
	\$ 124,498	\$ 820,537	\$ 945,035

The investments include \$403,084 of amounts held in annuity reserves to satisfy planned gift annuity obligations.

Investment income for the year ended March 31, 2012, consists of the following:

Interest and dividends	\$ 11,137
Unrealized gains	(11,207)
	\$ (70)

NOTE D – FUNDS HELD AS AGENCY ENDOWMENTS

The following is a summary of funds held as agency endowments by the Foundation at March 31, 2012:

Balance, beginning of year	\$ 79,975
Contributions	
Interest and dividends	1,105
Realized losses, net	(2,724)
Total Income	(1,619)
Balance, end of year	\$ 78,356

In addition, the Foundation disbursed \$59,480 of non-endowment agency funds during the year. As of March 31, 2012, no non-endowment agency funds were held by the Foundation.

Continued

Bozeman Area Community Foundation
NOTES TO FINANCIAL STATEMENTS

March 31, 2012

NOTE E – ENDOWMENT FUNDS

Endowment net assets composition as of March 31, 2012 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowments	\$ -	\$ 111,394	\$ 352,200	\$ 463,594

Change in donor restricted endowment net assets for the years ended March 31, 2012:

Balance, beginning of year		\$ 405,943	
Transfers from matured annuities		65,858	
Investment return:			
Interest and dividends		9,958	
Net unrealized and realized losses		(5,446)	
Total investment return		<u>4,512</u>	
Appropriation for expenditure		(4,532)	
Management fees		(8,187)	
Total expenses		<u>(12,719)</u>	
Balance, end of year		<u>\$ 463,594</u>	

Permanently restricted net assets include the endowment fund net assets as well as \$282,357 of net assets associated with annuity agreements, the remainder of which will be placed added to the endowment funds upon satisfaction of the related annuity obligation.

NOTE F – NET ASSETS RELEASED FROM RESTRICTION

As restrictions are met, assets are released and reclassified from temporarily restricted assets to unrestricted assets. The released assets are used for grant making and the payment of administrative and investment management fees. Uses of released net assets were as follows for the year ended March 31, 2012:

Payment of grants		\$ 4,532	
Payment of administrative and investment fees		8,187	
		<u>12,719</u>	

NOTE G – NET ASSETS

All temporarily restricted net assets as of March 31, 2012 were available to be used for future grants.

As of March 31, 2012, the Foundation's permanently restricted net assets included \$282,357 reserved for annuity obligations within the annuity fund.

Concluded



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