

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.



YELLOWSTONE ART MUSEUM

FINANCIAL REPORT

June 30, 2017 and 2016



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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Yellowstone Art Museum
Billings, Montana

We have audited the accompanying financial statements of Yellowstone Art Museum (a nonprofit corporation), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility 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; 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.

Auditor's Responsibility

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 audits to obtain reasonable assurance about whether the financial statements are free from 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 Yellowstone Art Museum as of June 30, 2017 and 2016, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Anderson Zurmuehlen + Co, P.C.

Billings, Montana
February 26, 2018

FINANCIAL STATEMENTS

YELLOWSTONE ART MUSEUM
STATEMENT OF FINANCIAL POSITION
June 30, 2017

ASSETS	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
CURRENT ASSETS				
Cash and cash equivalents	\$ 345,129	\$ 65,787	\$ -	\$ 410,916
Certificate of deposit	112,345	-	-	112,345
Receivables:				
Accounts receivable	67,048	-	-	67,048
Grant receivable	83,130	-	-	83,130
Pledges, current portion	28,690	-	-	28,690
Prepaid expenses	57,307	-	-	57,307
Inventory held for resale	3,647	-	-	3,647
Total current assets	<u>697,296</u>	<u>65,787</u>	<u>-</u>	<u>763,083</u>
PROPERTY AND EQUIPMENT				
Land and improvements	726,300	-	-	726,300
Building improvements	8,675,417	-	-	8,675,417
Furniture, fixtures, and equipment	487,834	-	-	487,834
	9,889,551	-	-	9,889,551
Less: accumulated depreciation	<u>(4,030,790)</u>	<u>-</u>	<u>-</u>	<u>(4,030,790)</u>
Net property and equipment	<u>5,858,761</u>	<u>-</u>	<u>-</u>	<u>5,858,761</u>
OTHER ASSETS				
Net pledges receivable,				
less current portion	-	420,154	-	420,154
Endowment fund investments	<u>-</u>	<u>536,853</u>	<u>2,945,712</u>	<u>3,482,565</u>
Total other assets	<u>-</u>	<u>957,007</u>	<u>2,945,712</u>	<u>3,902,719</u>
Total assets	<u>\$ 6,556,057</u>	<u>\$ 1,022,794</u>	<u>\$ 2,945,712</u>	<u>\$10,524,563</u>

The Notes to Financial Statements are an integral part of this statement.

YELLOWSTONE ART MUSEUM
STATEMENT OF FINANCIAL POSITION (CONTINUED)
June 30, 2017

LIABILITIES AND NET ASSETS	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
CURRENT LIABILITIES				
Accounts payable	\$ 6,817	\$ -	\$ -	\$ 6,817
Accrued payroll	53,304	-	-	53,304
Deferred revenue	223,273	-	-	223,273
Obligations under split-interest agreements, current portion	9,112	-	-	9,112
Other payables	9,358	-	-	9,358
Line of credit	22,739	-	-	22,739
Current maturities of long-term debt	-	-	-	-
Total current liabilities	<u>324,603</u>	<u>-</u>	<u>-</u>	<u>324,603</u>
NON-CURRENT LIABILITIES				
Obligations under split-interest agreements	233,126	-	-	233,126
Total non-current liabilities	<u>233,126</u>	<u>-</u>	<u>-</u>	<u>233,126</u>
Total liabilities	<u>557,729</u>	<u>-</u>	<u>-</u>	<u>557,729</u>
NET ASSETS				
Unrestricted	5,998,328	-	-	5,998,328
Temporarily restricted	-	1,022,794	-	1,022,794
Permanently restricted	-	-	2,945,712	2,945,712
Total net assets	<u>5,998,328</u>	<u>1,022,794</u>	<u>2,945,712</u>	<u>9,966,834</u>
Total liabilities and net assets	<u>\$ 6,556,057</u>	<u>\$ 1,022,794</u>	<u>\$ 2,945,712</u>	<u>\$10,524,563</u>

The Notes to Financial Statements are an integral part of this statement.

YELLOWSTONE ART MUSEUM
STATEMENT OF FINANCIAL POSITION
June 30, 2016

ASSETS	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
CURRENT ASSETS				
Cash and cash equivalents	\$ 390,642	\$ 79,631	\$ -	\$ 470,273
Certificate of deposit	111,897	-	-	111,897
Receivables:				
Accounts receivable	91,394	-	-	91,394
Grants receivable	85,800	-	-	85,800
Pledges, current portion	64,928	-	-	64,928
Prepaid expenses	28,419	-	-	28,419
Inventory held for resale	3,647	-	-	3,647
Total current assets	<u>776,727</u>	<u>79,631</u>	<u>-</u>	<u>856,358</u>
PROPERTY AND EQUIPMENT				
Land and improvements	726,300	-	-	726,300
Building improvements	8,618,215	-	-	8,618,215
Furniture, fixtures, and equipment	485,008	-	-	485,008
	9,829,523	-	-	9,829,523
Less: accumulated depreciation	<u>(3,760,414)</u>	<u>-</u>	<u>-</u>	<u>(3,760,414)</u>
Net property and equipment	<u>6,069,109</u>	<u>-</u>	<u>-</u>	<u>6,069,109</u>
OTHER ASSETS				
Net pledges receivable,				
less current portion	-	417,878	-	417,878
Endowment fund investments	<u>-</u>	<u>278,493</u>	<u>2,886,569</u>	<u>3,165,062</u>
Total other assets	<u>-</u>	<u>696,371</u>	<u>2,886,569</u>	<u>3,582,940</u>
Total assets	<u>\$ 6,845,836</u>	<u>\$ 776,002</u>	<u>\$ 2,886,569</u>	<u>\$10,508,407</u>

The Notes to Financial Statements are an integral part of this statement.

YELLOWSTONE ART MUSEUM
STATEMENT OF FINANCIAL POSITION (CONTINUED)
June 30, 2016

LIABILITIES AND NET ASSETS	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
CURRENT LIABILITIES				
Accounts payable	\$ 5,503	\$ -	\$ -	\$ 5,503
Endowment payable	31,827	-	-	31,827
Accrued payroll	45,190	-	-	45,190
Deferred revenue	170,570	-	-	170,570
Obligations under split-interest agreements, current portion	9,112	-	-	9,112
Other payables	10,058	-	-	10,058
Line of credit	21,693	-	-	21,693
Current maturities of long-term debt	28,101	-	-	28,101
Total current liabilities	<u>322,054</u>	<u>-</u>	<u>-</u>	<u>322,054</u>
NON-CURRENT LIABILITIES				
Obligations under split-interest agreements	234,097	-	-	234,097
Total non-current liabilities	<u>234,097</u>	<u>-</u>	<u>-</u>	<u>234,097</u>
Total liabilities	<u>556,151</u>	<u>-</u>	<u>-</u>	<u>556,151</u>
NET ASSETS				
Unrestricted	6,289,685	-	-	6,289,685
Temporarily restricted	-	776,002	-	776,002
Permanently restricted	-	-	2,886,569	2,886,569
Total net assets	<u>6,289,685</u>	<u>776,002</u>	<u>2,886,569</u>	<u>9,952,256</u>
Total liabilities and net assets	<u>\$ 6,845,836</u>	<u>\$ 776,002</u>	<u>\$ 2,886,569</u>	<u>\$ 10,508,407</u>

The Notes to Financial Statements are an integral part of this statement.

YELLOWSTONE ART MUSEUM
STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT				
Admissions	\$ 38,902	\$ -	\$ -	\$ 38,902
Contributions	38,192	-	-	38,192
County appropriations	162,740	-	-	162,740
Other government support	13,100	54,370	-	67,470
Grants and donations	169,805	208,712	-	378,517
Investment income	58,197	396,181	-	454,378
Membership dues	79,154	-	-	79,154
In-kind donations	96,925	2,733	-	99,658
Consignment gallery, net of discounts	24,288	-	-	24,288
Other income	80,518	8,614	-	89,132
Special events	320,249	219	-	320,468
Rental income	37,839	-	-	37,839
Gifts to annuities	-	-	17,969	17,969
Gifts to endowment	-	-	41,174	41,174
Net assets released from restrictions	<u>424,037</u>	<u>(424,037)</u>	<u>-</u>	<u>-</u>
Total revenues, gains, and other support	<u>1,543,946</u>	<u>246,792</u>	<u>59,143</u>	<u>1,849,881</u>
EXPENSES				
Program services:				
Development	468,279	-	-	468,279
Education	187,986	-	-	187,986
Curatorial	520,206	-	-	520,206
Support services:				
Development	124,858	-	-	124,858
General	500,211	-	-	500,211
Expansion campaign	33,763	-	-	33,763
Total expenses	<u>1,835,303</u>	<u>-</u>	<u>-</u>	<u>1,835,303</u>
Change in net assets	(291,357)	246,792	59,143	14,578
Net assets, beginning of year	<u>6,289,685</u>	<u>776,002</u>	<u>2,886,569</u>	<u>9,952,256</u>
Net assets, end of year	<u>\$ 5,998,328</u>	<u>\$ 1,022,794</u>	<u>\$ 2,945,712</u>	<u>\$ 9,966,834</u>

The Notes to Financial Statements are an integral part of this statement.

YELLOWSTONE ART MUSEUM
STATEMENT OF ACTIVITIES
Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT				
Admissions	\$ 47,209	\$ -	\$ -	\$ 47,209
Contributions	104,212	-	-	104,212
County appropriations	158,703	-	-	158,703
Other government support	71,783	19,525	-	91,308
Grants and donations	204,350	218,494	-	422,844
Investment income	56,737	(43,359)	-	13,378
Membership dues	80,170	-	-	80,170
In-kind donations	101,881	8,260	-	110,141
Consignment gallery, net of discounts	24,346	2,365	-	26,711
Other income	68,362	5,249	-	73,611
Special events	340,958	868	-	341,826
Rental income	35,847	-	-	35,847
Gifts to annuities	-	-	29,773	29,773
Gifts to endowment	-	-	32,115	32,115
Net assets released from restrictions	<u>423,015</u>	<u>(423,015)</u>	<u>-</u>	<u>-</u>
Total revenues, gains, and other support	<u>1,717,573</u>	<u>(211,613)</u>	<u>61,888</u>	<u>1,567,848</u>
EXPENSES				
Program services:				
Development	480,015	-	-	480,015
Education	182,533	-	-	182,533
Curatorial	540,750	-	-	540,750
Support services:				
Development	127,332	-	-	127,332
General	473,059	-	-	473,059
Expansion campaign	50,035	-	-	50,035
Total expenses	<u>1,853,724</u>	<u>-</u>	<u>-</u>	<u>1,853,724</u>
Change in net assets	(136,151)	(211,613)	61,888	(285,876)
Net assets, beginning of year	<u>6,425,836</u>	<u>987,615</u>	<u>2,824,681</u>	<u>10,238,132</u>
Net assets, end of year	<u>\$ 6,289,685</u>	<u>\$ 776,002</u>	<u>\$ 2,886,569</u>	<u>\$ 9,952,256</u>

The Notes to Financial Statements are an integral part of this statement.

YELLOWSTONE ART MUSEUM
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2017

	Program Services			Total Program Services
	Development	Education	Curatorial	
Advertising	\$ 30,201	\$ 749	\$ 10,839	\$ 41,789
Bank charges	5,843	392	291	6,526
Catering and reception	21,839	444	5,910	28,193
Commissions	84,294	-	-	84,294
Computers & IT	1,964	1,285	2,367	5,616
Consignment	-	-	730	730
Cultivation	712	206	131	1,049
Depreciation	9,761	25,883	100,767	136,411
Equipment	1,137	85	623	1,845
Exhibits	509	1,482	34,281	36,272
Human resources	216	5,131	694	6,041
In-kind	64,524	1,900	6,830	73,254
Insurance	-	1,023	12,499	13,522
Other	21,570	548	1,176	23,294
Postage and freight	5,908	818	2,152	8,878
Printing	20,081	2,834	28,948	51,863
Professional fees	19,103	1,500	33,545	54,148
Rental	6,036	-	-	6,036
Salaries and benefits	165,590	125,831	202,926	494,347
Scholarships/sponsorships	-	794	-	794
Supplies	5,997	3,827	6,015	15,839
Travel and mileage	490	3,952	2,587	7,029
Utilities and maintenance	2,504	9,302	66,895	78,701
Total expenses	<u>\$ 468,279</u>	<u>\$ 187,986</u>	<u>\$ 520,206</u>	<u>\$ 1,176,471</u>

The Notes to Financial Statements are an integral part of this statement.

YELLOWSTONE ART MUSEUM
STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)
Year Ended June 30, 2017

	Support Services				Total Expenses
	Development	General	Expansion Campaign	Total Support Services	
Advertising	\$ 50	\$ 192	\$ 18	\$ 260	\$ 42,049
Bank charges	549	3,260	27,401	31,210	37,736
Catering and reception	7,949	365	21	8,335	36,528
Commissions	-	7,830	-	7,830	92,124
Computers & IT	1,287	3,836	-	5,123	10,739
Consignment	-	5,879	-	5,879	6,609
Cultivation	1,112	163	63	1,338	2,387
Depreciation	24,329	109,636	-	133,965	270,376
Equipment	946	794	-	1,740	3,585
Exhibits	-	-	256	256	36,528
Human resources	926	1,661	-	2,587	8,628
In-kind	715	22,042	102	22,859	96,113
Insurance	962	15,371	-	16,333	29,855
Other	722	2,579	1,373	4,674	27,968
Postage and freight	895	889	208	1,992	10,870
Printing	2,622	1,044	-	3,666	55,529
Professional fees	1,893	22,086	-	23,979	78,127
Rental	1,009	-	-	1,009	7,045
Salaries and benefits	66,894	222,663	4,291	293,848	788,195
Scholarships/sponsorships	-	-	-	-	794
Supplies	2,467	8,663	30	11,160	26,999
Travel and mileage	282	959	-	1,241	8,270
Utilities and maintenance	9,249	70,299	-	79,548	158,249
Total expenses	<u>\$ 124,858</u>	<u>\$ 500,211</u>	<u>\$ 33,763</u>	<u>\$ 658,832</u>	<u>\$ 1,835,303</u>

The Notes to Financial Statements are an integral part of this statement.

YELLOWSTONE ART MUSEUM
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2016

	Program Services			Total Program Services
	Development	Education	Curatorial	
Advertising	\$ 25,113	\$ 305	\$ 6,251	\$ 31,669
Bank charges	6,355	-	1	6,356
Catering and reception	23,407	2,870	4,977	31,254
Commissions	80,653	-	-	80,653
Consignment	-	-	1,630	1,630
Depreciation	7,882	21,140	146,387	175,409
Equipment	3,728	1,407	3,859	8,994
Exhibits	289	4,688	26,411	31,388
Human resources	10	1,005	1,361	2,376
In-kind	78,036	9,626	11,546	99,208
Insurance	2,028	3,019	23,225	28,272
Other	5,828	2,332	19,665	27,825
Postage and freight	5,888	272	2,953	9,113
Printing	23,063	2,255	19,375	44,693
Professional fees	19,059	2,093	18,315	39,467
Rental	4,507	-	-	4,507
Repair and maintenance	869	3,159	16,870	20,898
Salaries and benefits	175,295	107,050	185,848	468,193
Scholarships/sponsorships	-	2,108	1,000	3,108
Supplies	14,511	6,498	7,687	28,696
Utilities	2,783	7,519	42,125	52,427
Vehicle	711	5,187	1,264	7,162
Total expenses	<u>\$ 480,015</u>	<u>\$ 182,533</u>	<u>\$ 540,750</u>	<u>\$ 1,203,298</u>

The Notes to Financial Statements are an integral part of this statement.

YELLOWSTONE ART MUSEUM
STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)
Year Ended June 30, 2016

	Support Services				Total Expenses
	Development	General	Expansion Campaign	Total Support Services	
Advertising	\$ 1,500	\$ 2,000	\$ -	\$ 3,500	\$ 35,169
Bank charges	-	3,482	26,344	29,826	36,182
Catering and reception	3,747	1,768	2,410	7,925	39,179
Commissions	-	7,130	14,250	21,380	102,033
Consignment	-	2,064	-	2,064	3,694
Depreciation	19,859	86,247	-	106,106	281,515
Equipment	2,127	3,839	330	6,296	15,290
Exhibits	-	-	-	-	31,388
Human resources	1,009	2,444	-	3,453	5,829
In-kind	1,302	8,524	1,107	10,933	110,141
Insurance	2,924	14,181	-	17,105	45,377
Other	1,262	10,434	9	11,705	39,530
Postage and freight	853	1,307	60	2,220	11,333
Printing	2,414	461	-	2,875	47,568
Professional fees	-	20,518	-	20,518	59,985
Rental	-	-	-	-	4,507
Repair and maintenance	3,378	33,506	750	37,634	58,532
Salaries and benefits	79,667	238,209	4,762	322,638	790,831
Scholarships/sponsorships	-	-	-	-	3,108
Supplies	513	3,763	-	4,276	32,972
Utilities	6,685	32,566	-	39,251	91,678
Vehicle	92	616	13	721	7,883
Total expenses	<u>\$ 127,332</u>	<u>\$ 473,059</u>	<u>\$ 50,035</u>	<u>\$ 650,426</u>	<u>\$ 1,853,724</u>

The Notes to Financial Statements are an integral part of this statement.

YELLOWSTONE ART MUSEUM
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 14,578	\$ (285,876)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	270,376	281,515
Gain on sale of equipment	-	(1,200)
Realized loss on investments, net	8,777	10,839
Change in value of split interest agreements	(971)	(3,618)
Net unrealized loss/(gain) on investments	(343,952)	86,691
Contributions restricted for long-term purposes	(59,143)	(61,888)
Change in operating assets and liabilities:		
Accounts receivable	24,346	(41,132)
Grant receivable	2,670	(85,800)
Certificate of deposit	(448)	(279)
Pledges receivable	33,962	51,564
Inventories	-	657
Prepaid expenses	(28,888)	10,543
Accounts payable	1,314	(35,279)
Endowment payable	(31,827)	31,827
Other payables	(700)	8,485
Accrued expenses	8,114	8,770
Deferred revenue	<u>52,703</u>	<u>(9,392)</u>
Net cash flows from operating activities	<u>(49,089)</u>	<u>(33,573)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Property and equipment purchases	(60,028)	(177,635)
Proceeds from sale of equipment	-	1,200
Purchase of investments	(182,454)	(201,271)
Proceeds from sale of long-term investments	<u>200,126</u>	<u>116,876</u>
Net cash flows from investing activities	<u>(42,356)</u>	<u>(260,830)</u>

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

YELLOWSTONE ART MUSEUM
STATEMENTS OF CASH FLOWS (CONTINUED)
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for long-term purposes:		
Gift value of annuities	17,969	29,773
Contributions to endowment	41,174	32,115
Proceeds from line of credit	302,635	122,199
Payments on line of credit	(301,589)	(100,506)
Payment on long-term debt	<u>(28,101)</u>	<u>(15,000)</u>
Net cash flows from financing activities	<u>32,088</u>	<u>68,581</u>
Net change in cash and cash equivalents	(59,357)	(225,822)
Cash and cash equivalents, beginning of year	<u>470,273</u>	<u>696,095</u>
Cash and cash equivalents, end of year	<u>\$ 410,916</u>	<u>\$ 470,273</u>
SUPPLEMENTAL CASH FLOWS INFORMATION		
Cash paid during the year for interest	<u>\$ 5,581</u>	<u>\$ 6,726</u>

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

YELLOWSTONE ART MUSEUM
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Organization

Yellowstone Art Museum (the Museum) is a non-profit corporation operating an art museum whose purpose is to exhibit, document, collect, and preserve contemporary and historic art, with a primary focus on the local region. As an educational institution, the Museum has the responsibility to generate and foster an understanding for visual arts with the purpose of enlightening, inspiring, and enriching the widest possible audience. The Museum serves a region encompassing Montana and northern Wyoming with historic and contemporary art exhibitions, a comprehensive education program for children and adults, and a 7,300 piece collection. The collection focuses primarily on the recent art of the region, historic Western art—in particular the Snook Collection of paintings and drawings of cowboy author/illustrator Will James and the Poindexter Collection of Abstract Expressionist art of the New York School. The Museum is controlled by a Board of Trustees, which is comprised of various community leaders. The Museum is primarily supported by individuals, private foundations, businesses, and governmental agencies through donations, grants and appropriations, membership dues, and promotional dues.

Basis of Accounting

The financial statements of the Museum have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP), as codified by the Financial Accounting Standards Board.

Income Taxes

The Museum is organized as a non-profit corporation in the state of Montana and is exempt from federal and state income taxes under Section 501(c) (3) of the Internal Revenue Code.

Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates included in the accompanying financial statements include, primarily, the valuation of gift annuities.

Cash and Cash Equivalents

For purposes of preparing the statements of cash flows, the Museum considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. Certain short-term investments held by the Museum have not been classified as cash equivalents as they are considered an integral part of the Museum's investment strategy. The Museum's cash is deposited in various accounts in which FDIC coverage is limited to \$250,000 per account holder. At June 30, 2017 and 2016, the balance of these deposits was in excess of federally insured limits by approximately \$258,981 and \$174,974, respectively.

YELLOWSTONE ART MUSEUM
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017 and 2016

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pledges Receivable

Unconditional promises to give are recognized as an asset and contribution revenue in the period the promise is received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Pledges receivable are recorded at their net realizable value, which is net of a discount and loss allowance. Pledges are discounted using the applicable risk-free rate at the date the pledge was recognized. The discount rates are based on the federal applicable rates for the time period during which the promise is outstanding, which were 2.4% and 1.6% as of June 30, 2017 and 2016, respectively.

An allowance for uncollectible pledges is estimated based on management's analysis of outstanding obligations and the Museum's collection history and is recorded as an adjustment to contribution support and the allowance for uncollectible pledges during the fiscal year when the allowance is deemed necessary. Management has determined that no allowance is necessary at June 30, 2017 and 2016.

Inventory

Inventory is stated at lower of cost (first in, first out) or market. Inventory identified in excess, slow-moving, obsolete, or defective is reduced to net realizable value.

Property and Equipment

Property and equipment are recorded at cost or estimated fair expenditures at the date of the gift or purchase. The Museum follows the practice of capitalizing expenditures for property and equipment in excess of \$1,000.

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support.

Absent donor stipulations regarding how long those donated assets must be maintained, the Museum reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Museum then reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Depreciation of property and equipment is computed using the straight-line method over the following estimated useful lives:

Buildings and building improvements	5 - 39 years
Equipment	5 - 7 years
Furniture and fixtures	5 - 7 years

YELLOWSTONE ART MUSEUM
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017 and 2016

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and Investment Income

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value. Investment income or loss, including realized and unrealized gains and losses on investments, interest, and dividends is included in the change in unrestricted net assets, unless the income or loss is restricted by a donor.

Fair Value Measurements

The Museum has determined the fair value of its marketable securities through the application of GAAP. This standard establishes a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted observable quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;
- Level 3 Prices or valuations that require inputs that are both significant to fair value measurement and unobservable.

The Museum's policy for determining the timing of significant transfers between Levels 1, 2, and 3 is the end of the reporting period. Following is a description of the valuation methodologies used for investments at fair value.

- Cash and money fund: Valued at fair value by discounting the related cash flows based on current yields of similar instruments considering the credit-worthiness of the issuer.
- Bonds: Valued using a market approach based on quoted market prices.
- Mutual funds: Valued at net asset value (NAV). NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares held at year-end. The NAV is quoted in an active market.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore although the Museum believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

A financial instrument's level, within the fair value hierarchy, is based on the lowest level of any input that is significant to the fair value measurement.

YELLOWSTONE ART MUSEUM
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017 and 2016

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Public Support and Revenue

Public support and revenue is generally available for unrestricted use unless specifically restricted by the donor. Unconditional promises to give are recorded when the written promise to give is received. Unconditional promises to give due in the next year are reflected as current promises to give and are recorded at their net realizable value. Unconditional promises to give that are due in subsequent years are reflected as long-term promise to give. The majority of the promises to give are received from a broad base of contributors. An allowance for uncollectible promises is provided based on management's evaluation of potential uncollectible promises receivable at the end of each fiscal year.

Revenue and other contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets or have time restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported to the statements of activities as net assets released from restrictions. The Board of Trustees adopted a policy whereby if temporary restrictions are accomplished within the fiscal year, the support shall be classified as unrestricted.

Admissions reported as unrestricted revenues include only those paid visits to the Museum that are not pursuant to a special event or promotion. Paid attendance by patrons to special events or promotions are included in the revenues of the special events or promotions.

Contributions of donated non-cash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, which would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

Collections

The Museum has collections of art that are held for public exhibitions and education. The collection consists of items that were donated, purchased using donated or appropriated funds, or on loan from individuals, organizations, or other museums. The Museum provides for the protection and preservation for the collection.

In conformity with GAAP, the value of the Museum's collections has been excluded from the statements of financial position, and gifts for art objects are excluded from revenue in the statements of activities. Purchase of art objects by the Museum are recorded as a decrease in unrestricted net assets in the statements of activities. The Museum recognized all proceeds from the sale of collection items as restricted for the purpose of reinvestment in other collection items.

YELLOWSTONE ART MUSEUM
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2017 and 2016

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising

The Museum expenses marketing and promotional costs as incurred, which are included in “advertising” on the statements of functional expenses. Advertising costs totaled \$42,049 and \$35,169 for the years ended June 30, 2017 and 2016, respectively.

Subsequent Events

Management has evaluated subsequent events through February 26, 2018, the date which the financial statements were available for issue.

NOTE 2. ENDOWMENT FUND INVESTMENTS

Endowment fund investments are all measured at Level 1 inputs and are comprised of the following:

	<u>2017</u>	<u>2016</u>
Cash and money funds	\$ 99,969	\$ 172,424
Equity securities:		
US equity	1,079,203	823,596
Foreign equity	45,419	-
Equity mutual funds:		
Developed foreign	229,923	226,712
Emerging foreign	98,724	81,439
Hedged	61,191	88,230
US large cap	651,260	824,091
US small & mid cap	359,258	145,081
Fixed income:		
Corporate bonds	353,212	153,199
Bond mutual funds	-	-

YELLOWSTONE ART MUSEUM
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017 and 2016

NOTE 2. ENDOWMENT FUND INVESTMENTS (CONTINUED)

	<u>2017</u>	<u>2016</u>
Taxable U.S.	9,762	154,682
Taxable high yield	100,809	70,441
Taxable foreign sovereign	79,507	111,729
US treasuries	48,170	25,447
Government agencies	49,699	25,142
Floating rate	24,340	23,387
International bond	-	91,803
Alternatives:		
Commodities	73,175	47,177
U.S. listed real estate	15,884	25,530
Foreign listed real estate	20,295	21,389
Real estate/REIT	<u>82,765</u>	<u>53,563</u>
Total endowment fund	<u>\$ 3,482,565</u>	<u>\$ 3,165,062</u>

Investment Income

Investment income and losses on assets limited as to use and investments consist of the following for the years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Interest income	\$ 140,722	\$ 130,923
Unrealized gain/(loss)	343,952	(86,691)
Investment fees	(21,519)	(19,085)
Realized (loss)	<u>(8,777)</u>	<u>(11,769)</u>
	<u>\$ 454,378</u>	<u>\$ 13,378</u>

YELLOWSTONE ART MUSEUM
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017 and 2016

NOTE 3. PLEDGES RECEIVABLE

Pledges receivable consist of the following for the years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Total pledges receivable	\$ 458,929	\$ 503,067
Less discount for pledges due in excess of one year	<u>(10,085)</u>	<u>(20,261)</u>
Net pledges receivable	448,844	482,806
Less portion that is due in less than one year	<u>(28,690)</u>	<u>(64,928)</u>
	<u>\$ 420,154</u>	<u>\$ 417,878</u>

As of June 30, 2017, pledges receivables due in one to five years are as follows:

<u>Year Ending June 30,</u>	
2018	\$ 28,690
2019	-
2020	<u>420,154</u>
	<u>\$ 448,844</u>

The pledges receivable has been discounted to reflect the net present value of payments to be received according to established payment schedules or actuarial (life expectancy) tables, based on a federally mandated rate per IRC Section 7520.

Management has considered the collectability of such promises and determined that no allowance for bad debts is deemed necessary.

NOTE 4. PROPERTY AND EQUIPMENT

A summary of property and equipment follows:

	<u>2017</u>	<u>2016</u>
Land	\$ 726,300	\$ 726,300
Buildings and building improvements	8,675,417	8,618,215
Furniture and equipment	443,009	441,223
Computer	<u>44,825</u>	<u>43,785</u>
	9,889,551	9,829,523
Less accumulated depreciation	<u>(4,030,790)</u>	<u>(3,760,414)</u>
Net property and equipment	<u>\$ 5,858,761</u>	<u>\$ 6,069,109</u>

YELLOWSTONE ART MUSEUM
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017 and 2016

NOTE 5. DEFERRED REVENUE

Deferred revenue represents amounts received in advance of being earned and are recorded as a current liability on the statements of financial position until earned. Deferred revenue as of June 30, 2017 and 2016, consisted of the following:

	<u>2017</u>	<u>2016</u>
Exhibitions	\$ 127,008	\$ -
Promotions/special events	46,575	155,930
Other development	35,630	-
Membership	-	60
Education	13,935	14,580
Other	125	-
	<u>\$ 223,273</u>	<u>\$ 170,570</u>

NOTE 6. NOTES PAYABLE

Notes payable at June 30, 2017 and 2016, consisted of the following:

	<u>2017</u>	<u>2016</u>
Note payable to First Interstate Bank, bearing a fixed interest rate of 5%. The loan is collateralized with underlying assets and requires monthly interest payments and quarterly principal payments of \$5,000. Note paid in full in 2017.	\$ -	\$ 28,101
Less current maturities	<u>-</u>	<u>(28,101)</u>
	<u>\$ -</u>	<u>\$ -</u>

YELLOWSTONE ART MUSEUM
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2017 and 2016

NOTE 7. ASSETS HELD UNDER SPLIT INTEREST AGREEMENTS

The Museum currently administers certain charitable gift annuities. The assets contributed under the charitable gift annuities are invested in equities and bonds and are carried at fair value. Contribution support is recognized at the date the annuities are established after recording liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. The present value of the estimated annuity payments associated with the gift annuities is calculated using 120% of the stated applicable federal rate at time the gift was received and the applicable mortality tables as shown in the table below.

	<u>2017</u>	<u>2016</u>
Type of Contract		
Charitable gift annuities	\$ 179,236	\$ 188,354
Deferred charitable gift annuities	<u>63,002</u>	<u>54,855</u>
	242,238	243,209
Less current scheduled principal payments	<u>(9,112)</u>	<u>(9,112)</u>
	<u>\$ 233,126</u>	<u>\$ 234,097</u>

Aggregate, scheduled principal payments required under annuity agreements for each of the succeeding five years ending June 30 are as follows:

<u>Year Ending June 30,</u>	
2018	\$ 9,112
2019	9,112
2020	9,112
2021	9,112
2022	9,112
Thereafter	<u>196,678</u>
	<u>\$ 242,238</u>

NOTE 8. PENSION PLAN

The Museum has adopted a SIMPLE retirement plan. The Museum matches employee elective contributions up to the maximum of 3% of the employee's gross annual compensation as defined by the plan. Employer contributions were \$14,094 and \$12,548 for the years ended June 30, 2017 and 2016, respectively.

YELLOWSTONE ART MUSEUM
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2017 and 2016

NOTE 9. CONTRIBUTED GOODS AND SERVICES

Contributions of services are recognized in the Museum's financial statements only if (1) the services enhance or create non-financial assets or require specialized skills (2) are provided by individuals possessing those skills, and (3) would typically need to be purchased if not provided by donation.

NOTE 10. RESTRICTIONS ON ASSETS

Temporarily restricted net assets at June 30, 2017 and 2016, were:

	<u>2017</u>	<u>2016</u>
On-going campaign projects	\$ 65,787	\$ 79,631
Pledges receivable, less current portion	420,154	417,878
Endowment earnings unappropriated	<u>536,853</u>	<u>278,493</u>
	<u>\$ 1,022,794</u>	<u>\$ 776,002</u>

Permanently restricted net assets at June 30, 2017 and 2016, were:

	<u>2017</u>	<u>2016</u>
Charitable gift annuities	\$ 780,861	\$ 718,949
General endowment	<u>2,164,851</u>	<u>2,167,620</u>
	<u>\$ 2,945,712</u>	<u>\$ 2,886,569</u>

NOTE 11. BENEFICIAL INTERESTS

The Museum is a beneficiary of funds contributed to and held by the Montana Community Foundation (MCF), a non-profit organization which provides investment management for charitable organizations. Since title of these funds is owned by and under the control of the MCF, the funds are not recorded as an asset of the Museum. The Museum receives 5% of the principal as payout each year with respect to the Yellowstone Art Center Endowment Fund.

The balances in the MCF endowment at June 30, 2017 and 2016, were \$1,024,859 and \$1,003,928, respectively. The June 30, 2017 and 2016 balance in the Sandra Banks endowment was \$51,985 and \$51,040, respectively. The Museum received distributions in 2017 and 2016 of \$48,114 and \$47,686, respectively.

YELLOWSTONE ART MUSEUM
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017 and 2016

NOTE 12. ENDOWMENT FUNDS

The Museum's endowments include both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees 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 Museum 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 Museum in a manner consistent with the standard of prudence prescribed by MUPMIFA.

In accordance with MUPMIFA, the Museum 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) The investment policy of the Museum

YELLOWSTONE ART MUSEUM
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017 and 2016

NOTE 12. ENDOWMENT FUNDS (CONTINUED)

The following represents the net asset classes of the Museum's endowment funds as of June 30, 2017 and 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>June 30, 2017</u>				
Donor restricted	<u>\$ -</u>	<u>\$ 536,853</u>	<u>\$ 2,945,712</u>	<u>\$ 3,482,565</u>
<u>June 30, 2016</u>				
Donor restricted	<u>\$ -</u>	<u>\$ 278,493</u>	<u>\$ 2,886,569</u>	<u>\$ 3,165,062</u>

The following table presents the changes in the endowment for the years ended June 30, 2017 and 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2016	\$ -	\$ 278,493	\$ 2,886,569	\$ 3,165,062
Investment return:				
Investment income	-	39,709	-	39,709
Net appreciation of investments	-	343,952	-	343,952
Net appropriation for expenditure	-	(125,301)	-	(125,301)
Contributions and collapsed annuities	<u>-</u>	<u>-</u>	<u>59,143</u>	<u>59,143</u>
Endowment net assets at June 30, 2017	<u>\$ -</u>	<u>\$ 536,853</u>	<u>\$ 2,945,712</u>	<u>\$ 3,482,565</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2015	\$ -	\$ 353,516	\$ 2,824,681	\$ 3,178,197
Investment return:				
Investment income	-	33,238	-	33,238
Net depreciation of investments	-	(86,692)	-	(86,692)
Net appropriation for expenditure	-	(21,569)	-	(21,569)
Contributions and collapsed annuities	<u>-</u>	<u>-</u>	<u>61,888</u>	<u>61,888</u>
Endowment net assets at June 30, 2016	<u>\$ -</u>	<u>\$ 278,493</u>	<u>\$ 2,886,569</u>	<u>\$ 3,165,062</u>

YELLOWSTONE ART MUSEUM
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017 and 2016

NOTE 12. ENDOWMENT FUNDS (CONTINUED)

Spending Policy

The Museum's endowment spending policy requires that not more than 5% of the endowment's total assets, based on a rolling average of the previous 13 quarters, may be distributed, and will be determined by the budgetary demands of the Museum. The investment objective is to achieve a total return consistent with the maximization of the distribution policy. The policy included a ROR performance benchmark following the Total Return Concept whereby investment methods contemplate growth of principal to be utilized to augment dividend and interest yield during periods when net income is beneath targeted levels. The investment alternatives allowed by the policy include equities, investment-grade fixed income securities, and cash equivalents. The Museum's policy requires that the investment committee work with investment managers to analyze the behavior of the funds' assets within different economic environments to ensure a moderate risk strategy.

NOTE 13. RELATED PARTIES

The Museum received non-trivial support from its Board of Trustees for the year ended June 30, 2017. Total contributions to general operations from the Board of Trustees totaled approximately \$152,000 for the year ended June 30, 2017. Additionally, restricted contributions to be put towards the Museums' capital campaign totaled approximately \$10,400 for the year ended June 30, 2017.



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