

**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, 2015 and 2014**



**YELLOWSTONE ART MUSEUM**

**FINANCIAL REPORT**

**JUNE 30, 2015 and 2014**

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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 non-profit corporation), which comprise the statements of financial position as of June 30, 2015 and 2014, 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, 2015 and 2014, 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

January 26, 2016

FINANCIAL STATEMENTS

**YELLOWSTONE ART MUSEUM**  
**STATEMENT OF FINANCIAL POSITION**  
June 30, 2015

<u>ASSETS</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 542,588	\$ 153,507	\$ -	\$ 696,095
Certificate of deposit	111,618	-	-	111,618
Receivables:				
Accounts receivable	50,262	-	-	50,262
Pledges, current portion	53,778	-	-	53,778
Prepaid expenses	38,962	-	-	38,962
Inventory held for resale	4,304	-	-	4,304
Total current assets	<u>801,512</u>	<u>153,507</u>	<u>-</u>	<u>955,019</u>
<b>PROPERTY AND EQUIPMENT</b>				
Land and improvements	726,300	-	-	726,300
Building improvements	8,447,363	-	-	8,447,363
Furniture, fixtures, and equipment	481,209	-	-	481,209
	9,654,872	-	-	9,654,872
Less: accumulated depreciation	<u>(3,481,883)</u>	<u>-</u>	<u>-</u>	<u>(3,481,883)</u>
Net property and equipment	<u>6,172,989</u>	<u>-</u>	<u>-</u>	<u>6,172,989</u>
<b>OTHER ASSETS</b>				
Net pledges receivable,				
less current portion	480,592	-	-	480,592
Endowment fund investments	-	353,516	2,824,681	3,178,197
Total other assets	<u>480,592</u>	<u>353,516</u>	<u>2,824,681</u>	<u>3,658,789</u>
Total assets	<u>\$ 7,455,093</u>	<u>\$ 507,023</u>	<u>\$ 2,824,681</u>	<u>\$10,786,797</u>

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



YELLOWSTONE ART MUSEUM  
STATEMENT OF FINANCIAL POSITION  
(CONTINUED)  
June 30, 2015

<u>LIABILITIES AND NET ASSETS</u>	<u>Unrestricted</u>	<u>Restricted</u>	<u>Restricted</u>	<u>Total</u>
<b>CURRENT LIABILITIES</b>				
Accounts payable	\$ 40,782	\$ -	\$ -	\$ 40,782
Accrued payroll	36,420	-	-	36,420
Deferred revenue	179,962	-	-	179,962
Obligations under split-interest agreements, current portion	9,112	-	-	9,112
Other payables	1,573	-	-	1,573
Current maturities of long-term debt	<u>15,000</u>	<u>-</u>	<u>-</u>	<u>15,000</u>
Total current liabilities	<u>282,849</u>	<u>-</u>	<u>-</u>	<u>282,849</u>
<b>NON-CURRENT LIABILITIES</b>				
Obligations under split-interest agreements	237,715	-	-	237,715
Long-term debt, less current maturities	<u>28,101</u>	<u>-</u>	<u>-</u>	<u>28,101</u>
Total non-current liabilities	<u>265,816</u>	<u>-</u>	<u>-</u>	<u>265,816</u>
Total liabilities	<u>548,665</u>	<u>-</u>	<u>-</u>	<u>548,665</u>
<b>NET ASSETS</b>				
Unrestricted	6,906,428	-	-	6,906,428
Temporarily restricted	-	507,023	-	507,023
Permanently restricted	<u>-</u>	<u>-</u>	<u>2,824,681</u>	<u>2,824,681</u>
Total net assets	<u>6,906,428</u>	<u>507,023</u>	<u>2,824,681</u>	<u>10,238,132</u>
Total liabilities and net assets	<u>\$ 7,455,093</u>	<u>\$ 507,023</u>	<u>\$ 2,824,681</u>	<u>\$10,786,797</u>

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

**YELLOWSTONE ART MUSEUM**  
**STATEMENT OF FINANCIAL POSITION**  
June 30, 2014

<u>ASSETS</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 597,339	\$ 109,609	\$ -	\$ 706,948
Certificate of deposit	111,340	-	-	111,340
Receivables:				
Accounts receivable	41,749	-	-	41,749
Pledges, current portion	485,246	-	-	485,246
Prepaid expenses	35,999	-	-	35,999
Inventory held for resale	<u>4,304</u>	<u>-</u>	<u>-</u>	<u>4,304</u>
Total current assets	<u>1,275,977</u>	<u>109,609</u>	<u>-</u>	<u>1,385,586</u>
<b>PROPERTY AND EQUIPMENT</b>				
Land and improvements	726,300	-	-	726,300
Building improvements	8,535,283	-	-	8,535,283
Furniture, fixtures, and equipment	<u>645,105</u>	<u>-</u>	<u>-</u>	<u>645,105</u>
	9,906,688	-	-	9,906,688
Less: accumulated depreciation	<u>(3,549,078)</u>	<u>-</u>	<u>-</u>	<u>(3,549,078)</u>
Net property and equipment	<u>6,357,610</u>	<u>-</u>	<u>-</u>	<u>6,357,610</u>
<b>OTHER ASSETS</b>				
Net pledges receivable,				
less current portion	81,370	-	-	81,370
Mineral property	19,736	-	-	19,736
Endowment fund investments	<u>-</u>	<u>405,781</u>	<u>2,686,505</u>	<u>3,092,286</u>
Total other assets	<u>101,106</u>	<u>405,781</u>	<u>2,686,505</u>	<u>3,193,392</u>
Total assets	<u>\$ 7,734,693</u>	<u>\$ 515,390</u>	<u>\$ 2,686,505</u>	<u>\$ 10,936,588</u>

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

YELLOWSTONE ART MUSEUM  
STATEMENT OF FINANCIAL POSITION  
(CONTINUED)  
June 30, 2014

<u>LIABILITIES AND NET ASSETS</u>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>CURRENT LIABILITIES</b>				
Accounts payable	\$ 31,035	\$ -	\$ -	\$ 31,035
Accrued payroll	39,302	-	-	39,302
Deferred revenue	237,022	-	-	237,022
Obligations under split-interest agreements, current portion	9,112	-	-	9,112
Current maturities of long-term debt	<u>20,000</u>	<u>-</u>	<u>-</u>	<u>20,000</u>
Total current liabilities	<u>336,471</u>	<u>-</u>	<u>-</u>	<u>336,471</u>
<b>NON-CURRENT LIABILITIES</b>				
Obligations under split-interest agreements	237,964	-	-	237,964
Long-term debt, less current maturities	<u>43,101</u>	<u>-</u>	<u>-</u>	<u>43,101</u>
Total non-current liabilities	<u>281,065</u>	<u>-</u>	<u>-</u>	<u>281,065</u>
Total liabilities	<u>617,536</u>	<u>-</u>	<u>-</u>	<u>617,536</u>
<b>NET ASSETS</b>				
Unrestricted	7,117,157	-	-	7,117,157
Temporarily restricted	-	515,390	-	515,390
Permanently restricted	<u>-</u>	<u>-</u>	<u>2,686,505</u>	<u>2,686,505</u>
Total net assets	<u>7,117,157</u>	<u>515,390</u>	<u>2,686,505</u>	<u>10,319,052</u>
Total liabilities and net assets	<u>\$ 7,734,693</u>	<u>\$ 515,390</u>	<u>\$ 2,686,505</u>	<u>\$10,936,588</u>

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

YELLOWSTONE ART MUSEUM  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>				
Admissions	\$ 63,329	\$ -	\$ -	\$ 63,329
Contributions	25,590	7,754	-	33,344
County appropriations	152,181	-	-	152,181
Other government support	49,530	-	-	49,530
Grants and donations	138,181	362,187	-	500,368
Investment income	91,487	60,264	-	151,751
Membership dues	103,022	-	-	103,022
In-kind donations	128,928	-	-	128,928
Consignment gallery, net of discounts	21,522	-	-	21,522
Other income	104,082	-	-	104,082
Special events	388,017	-	-	388,017
Rental income	39,593	-	-	39,593
Gifts to annuities	-	-	86,499	86,499
Gifts to endowment	-	-	51,677	51,677
Net assets released from restrictions	<u>438,572</u>	<u>(438,572)</u>	<u>-</u>	<u>-</u>
Total revenues, gains, and other support	<u>1,744,034</u>	<u>(8,367)</u>	<u>138,176</u>	<u>1,873,843</u>
<b>EXPENSES</b>				
Program services:				
Education	165,495	-	-	165,495
Curatorial	1,168,065	-	-	1,168,065
Support services:				
Development	121,715	-	-	121,715
General	447,713	-	-	447,713
Expansion campaign	<u>51,775</u>	<u>-</u>	<u>-</u>	<u>51,775</u>
Total expenses	<u>1,954,763</u>	<u>-</u>	<u>-</u>	<u>1,954,763</u>
Change in net assets	(210,729)	(8,367)	138,176	(80,920)
Net assets, beginning of year	<u>7,117,157</u>	<u>515,390</u>	<u>2,686,505</u>	<u>10,319,052</u>
Net assets, end of year	<u>\$ 6,906,428</u>	<u>\$ 507,023</u>	<u>\$ 2,824,681</u>	<u>\$10,238,132</u>

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

**YELLOWSTONE ART MUSEUM**  
**STATEMENT OF ACTIVITIES**  
Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>				
Admissions	\$ 43,203	\$ -	\$ -	\$ 43,203
Contributions	-	8,050	-	8,050
County appropriations	148,647	-	-	148,647
Other government support	67,824	-	-	67,824
Grants and donations	62,403	408,943	-	471,346
Investment income	138,388	320,693	-	459,081
Membership dues	76,097	-	-	76,097
In-kind donations	73,697	-	-	73,697
Consignment gallery, net of discounts	8,933	-	-	8,933
Other income	73,822	-	-	73,822
Special events	327,500	-	-	327,500
Rental income	41,427	-	-	41,427
Gifts to annuities	-	-	140,045	140,045
Gifts to endowment	-	-	185,347	185,347
Net assets released from restrictions	<u>1,626,958</u>	<u>(1,626,958)</u>	<u>-</u>	<u>-</u>
Total revenues, gains, and other support	<u>2,688,899</u>	<u>(889,272)</u>	<u>325,392</u>	<u>2,125,019</u>
<b>EXPENSES</b>				
Program services:				
Education	224,187	-	-	224,187
Curatorial	1,042,191	-	-	1,042,191
Support services:				
Development	157,027	-	-	157,027
General	332,730	-	-	332,730
Expansion campaign	45,101	-	-	45,101
Total expenses	<u>1,801,236</u>	<u>-</u>	<u>-</u>	<u>1,801,236</u>
Change in net assets	887,663	(889,272)	325,392	323,783
Net assets, beginning of year	<u>6,229,494</u>	<u>1,404,662</u>	<u>2,361,113</u>	<u>9,995,269</u>
Net assets, end of year	<u>\$ 7,117,157</u>	<u>\$ 515,390</u>	<u>\$ 2,686,505</u>	<u>\$10,319,052</u>

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

YELLOWSTONE ART MUSEUM  
STATEMENT OF FUNCTIONAL EXPENSES  
Year Ended June 30, 2015

	Program Services		
	Education	Curatorial	Total Program Services
Advertising	\$ 535	\$ 42,215	\$ 42,750
Bank charges	125	6,726	6,851
Catering and reception	1,393	38,896	40,289
Commissions	-	93,663	93,663
Consignment	-	7,072	7,072
Depreciation	33,376	126,945	160,321
Equipment	1,087	4,950	6,037
Exhibits	348	70,921	71,269
Human resources	265	2,580	2,845
In-kind	831	111,119	111,950
Insurance	4,188	26,788	30,976
Other	1,532	34,875	36,407
Postage and freight	829	16,954	17,783
Printing	1,475	103,113	104,588
Professional fees	4,749	55,781	60,530
Rental	-	8,164	8,164
Repair and maintenance	4,721	18,061	22,782
Salaries and benefits	91,633	339,375	431,008
Scholarships/sponsorships	1,653	1,086	2,739
Supplies	4,234	15,371	19,605
Utilities	8,617	40,859	49,476
Vehicle	3,904	2,551	6,455
Total expenses	\$ 165,495	\$ 1,168,065	\$ 1,333,560

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

**YELLOWSTONE ART MUSEUM**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**(CONTINUED)**  
Year Ended June 30, 2015

	Support Services			Total Support Services	Total Expenses
	Development	General	Expansion Campaign		
Advertising	\$ 1,394	\$ 288	\$ -	\$ 1,682	\$ 44,432
Bank charges	30	5,095	28,532	33,657	40,508
Catering and reception	8,474	428	78	8,980	49,269
Commissions	1,348	4,900	-	6,248	99,911
Consignment	-	3,223	-	3,223	10,295
Depreciation	19,903	92,432	-	112,335	272,656
Equipment	1,023	4,233	3,280	8,536	14,573
Exhibits	25	219	-	244	71,513
Human resources	859	2,241	-	3,100	5,945
In-kind	1,775	14,672	531	16,978	128,928
Insurance	2,496	10,556	-	13,052	44,028
Other	1,368	21,016	4,124	26,508	62,915
Postage and freight	663	1,118	182	1,963	19,746
Printing	2,653	832	1,185	4,670	109,258
Professional fees	-	16,032	-	16,032	76,562
Rental	302	-	-	302	8,466
Repair and maintenance	2,816	24,854	875	28,545	51,327
Salaries and benefits	70,920	215,451	12,828	299,199	730,207
Scholarships/sponsorships	-	-	-	-	2,739
Supplies	389	3,335	155	3,879	23,484
Utilities	5,138	26,654	-	31,792	81,268
Vehicle	139	134	5	278	6,733
Total expenses	\$ 121,715	\$ 447,713	\$ 51,775	\$ 621,203	\$ 1,954,763

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

**YELLOWSTONE ART MUSEUM**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
Year Ended June 30, 2014

	Program Services		
	Education	Curatorial	Total Program Services
Advertising	\$ 1,910	\$ 50,138	\$ 52,048
Bank charges	166	5,548	5,714
Catering and reception	882	24,012	24,894
Commissions	250	90,705	90,955
Consignment	-	1,573	1,573
Depreciation	39,587	155,792	195,379
Equipment	1,491	8,673	10,164
Exhibits	253	56,093	56,346
Human resources	1,461	1,340	2,801
In-kind	972	62,829	63,801
Insurance	4,006	25,166	29,172
Other	2,646	13,068	15,714
Postage and freight	1,383	9,430	10,813
Printing	2,327	41,576	43,903
Professional fees	6,557	52,610	59,167
Rental	-	5,861	5,861
Repair and maintenance	4,664	18,850	23,514
Salaries and benefits	122,813	356,443	479,256
Scholarships/sponsorships	8,030	-	8,030
Supplies	9,767	14,956	24,723
Utilities	10,112	46,634	56,746
Vehicle	4,910	894	5,804
Total expenses	\$ 224,187	\$ 1,042,191	\$ 1,266,378

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



**YELLOWSTONE ART MUSEUM**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**(CONTINUED)**  
Year Ended June 30, 2014

	Support Services				Total Expenses
	Development	General	Expansion Campaign	Total Support Services	
Advertising	\$ 8,290	\$ -	\$ -	\$ 8,290	\$ 60,338
Bank charges	58	2,921	23,660	26,639	32,353
Catering and reception	5,461	1,244	7,349	14,054	38,948
Commissions	796	2,771	-	3,567	94,522
Consignment	-	7,221	-	7,221	8,794
Depreciation	23,604	105,273	-	128,877	324,256
Equipment	1,281	5,905	-	7,186	17,350
Exhibits	-	-	23	23	56,369
Human resources	1,686	2,390	-	4,076	6,877
In-kind	754	6,251	2,891	9,896	73,697
Insurance	2,389	10,711	-	13,100	42,272
Other	1,401	7,721	35	9,157	24,871
Postage and freight	1,397	1,436	571	3,404	14,217
Printing	3,088	442	525	4,055	47,958
Professional fees	103	21,737	-	21,840	81,007
Rental	320	-	-	320	6,181
Repair and maintenance	2,781	12,970	701	16,452	39,966
Salaries and benefits	95,429	111,514	9,130	216,073	695,329
Scholarships/sponsorships	-	-	-	-	8,030
Supplies	1,861	4,996	216	7,073	31,796
Utilities	6,108	26,730	-	32,838	89,584
Vehicle	220	497	-	717	6,521
Total expenses	<u>\$ 157,027</u>	<u>\$ 332,730</u>	<u>\$ 45,101</u>	<u>\$ 534,858</u>	<u>\$ 1,801,236</u>

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

**YELLOWSTONE ART MUSEUM**  
**STATEMENTS OF CASH FLOWS**  
Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (80,920)	\$ 323,783
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	272,656	324,256
Realized gains on investments, net	(112,989)	(425,915)
Contributions of mineral rights	19,736	(19,736)
Change in value of split interest agreements	(249)	1,661
Loss on sale of property and equipment	736	-
Net unrealized loss on investments	77,261	56,577
Contributions restricted for long-term purposes	(138,176)	(325,392)
Change in operating assets and liabilities:		
Accounts receivable	(8,513)	19,887
CD	(278)	-
Pledges receivable	32,246	45,347
Inventories	-	4,026
Prepaid expenses	(2,963)	8,349
Accounts payable	9,747	(3,080)
Other payables	1,573	-
Accrued expenses	(2,882)	(4,864)
Deferred revenue	<u>(57,060)</u>	<u>83,943</u>
Net cash flows from operating activities	<u>9,925</u>	<u>88,842</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Property and equipment purchases	(88,771)	(32,568)
Purchase of investments	(211,581)	(375,825)
Proceeds from sale of long-term investments	<u>161,398</u>	<u>342,567</u>
Net cash flows from investing activities	<u>(138,954)</u>	<u>(65,826)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Contributions restricted for long-term purposes:		
Gift value of annuities	86,499	140,045
Contributions to endowment	51,677	185,347
Payment on long-term debt	<u>(20,000)</u>	<u>(20,000)</u>
Net cash flows from financing activities	<u>118,176</u>	<u>305,392</u>
Net change in cash and cash equivalents	(10,853)	328,408
Cash and cash equivalents, beginning of year	<u>706,948</u>	<u>378,540</u>
Cash and cash equivalents, end of year	<u>\$ 696,095</u>	<u>\$ 706,948</u>

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

YELLOWSTONE ART MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015 and 2014

**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. The Museum is no longer subject to examinations by federal tax authorities for years before 2012.

**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, 2015 and 2014, the balance of these deposits was in excess of federally insured limits by approximately \$239,154 and \$106,980, respectively.

YELLOWSTONE ART MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)  
June 30, 2015 and 2014

**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 2.2% and 1.2% as of June 30, 2015 and 2014, 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, 2015.

**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, 2015 and 2014

**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. There has been no change in the methodologies used at June 30, 2015.

- 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.

YELLOWSTONE ART MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)  
June 30, 2015 and 2014

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fair Value Measurements (Continued)**

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.

**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 asset 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, 2015 and 2014

**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 \$44,432 and \$60,338 for the years ended June 30, 2015 and 2014, respectively.

**Subsequent Events**

Management has evaluated subsequent events through January 26, 2016, the date which the financial statements were available for issue.

YELLOWSTONE ART MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)  
June 30, 2015 and 2014

**NOTE 2. ENDOWMENT FUND INVESTMENTS**

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

	<u>2015</u>	<u>2014</u>
Bank loan	\$ 24,272	\$ 104,943
Commodities broad basket	58,419	14,978
Diversified emerging markets	87,105	97,098
Fixed income/bonds	1,468,386	1,449,124
Foreign large blend	111,492	109,457
Foreign large growth	99,400	41,698
Foreign large value	-	43,808
Foreign small/mid blend	26,336	26,759
Global real estate	73,090	46,489
High yield bond	72,737	52,058
Intermediate-term bond	51,413	52,510
Large blend	465,860	454,222
Large growth	-	36,224
Large value	66,969	-
Long/short equity	44,157	42,420
Market neutral	38,037	37,438
Mid-cap blend	31,819	-
Mid-cap growth	76,159	107,450
Mid-cap value	74,844	77,285
Money funds	29,444	8,320
Nontraditional bond	-	50,825
Real estate	22,510	-
Small blend	122,207	42,363
Small growth	-	30,334
Short-term bond	-	38,898
World bond	133,541	127,585
Total endowment fund	<u>\$ 3,178,197</u>	<u>\$ 3,092,286</u>



YELLOWSTONE ART MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)  
June 30, 2015 and 2014

**NOTE 2. ENDOWMENT FUND INVESTMENTS (CONTINUED)**

**Investment Income**

Investment income and losses on assets limited as to use and investments consist of the following for the years ended June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Interest income	\$ 116,023	\$ 89,743
Unrealized losses	(77,261)	(56,577)
Realized gains	<u>112,989</u>	<u>425,915</u>
	<u>\$ 151,751</u>	<u>\$ 459,081</u>

**NOTE 3. PLEDGES RECEIVABLE**

Pledges receivable consist of the following for the years ended June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Total pledges receivable	\$ 536,610	\$ 570,569
Less discount for pledges due in excess of one year	<u>(2,240)</u>	<u>(3,953)</u>
Net pledges receivable	534,370	566,616
Less portion that is due in less than one year	<u>(53,778)</u>	<u>(485,246)</u>
	<u>\$ 480,592</u>	<u>\$ 81,370</u>

As of June 30, 2015, pledge receivables due in one to five years are as follows:

<u>Year Ending June 30,</u>	
2016	\$ 53,778
2017	37,372
2018	9,487
2019	3,494
2020	-
Thereafter	<u>430,239</u>
	<u>\$ 534,370</u>

The pledge 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.

YELLOWSTONE ART MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)  
June 30, 2015 and 2014

**NOTE 4. PROPERTY AND EQUIPMENT**

A summary of property and equipment follows:

	<u>2015</u>	<u>2014</u>
Land	\$ 726,300	\$ 726,300
Buildings and building improvements	8,447,363	8,535,283
Furniture and equipment	437,424	481,663
Computer	<u>43,785</u>	<u>163,442</u>
	9,654,872	9,906,688
Less accumulated depreciation	<u>(3,481,883)</u>	<u>(3,549,078)</u>
Net property and equipment	<u>\$ 6,172,989</u>	<u>\$ 6,357,610</u>

**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, 2015 and 2014, consisted of the following:

	<u>2015</u>	<u>2014</u>
Promotions/special events	\$ 165,322	\$ 216,874
Rentals	4,150	2,613
Membership	65	255
Education	<u>10,425</u>	<u>17,280</u>
	<u>\$ 179,962</u>	<u>\$ 237,022</u>

**NOTE 6. NOTES PAYABLE**

Notes payable at June 30, 2015 and 2014, consisted of the following:

	<u>2015</u>	<u>2014</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 expires December 2017, when the outstanding principal and interest is due in full.	\$ 43,101	\$ 63,101
Less current maturities	<u>(15,000)</u>	<u>(20,000)</u>
	<u>\$ 28,101</u>	<u>\$ 43,101</u>

YELLOWSTONE ART MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)  
June 30, 2015 and 2014

**NOTE 6. NOTES PAYABLE (CONTINUED)**

As of June 30, 2015, long-term debt maturities are as follows:

<u>Year Ending June 30,</u>	
2016	\$ 15,000
2017	<u>28,101</u>
	<u>\$ 43,101</u>

**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>2015</u>	<u>2014</u>
Type of Contract		
Charitable gift annuities	\$ 197,465	\$ 206,572
Deferred charitable gift annuities	<u>49,362</u>	<u>40,504</u>
	246,827	247,076
Less current scheduled principal payments	<u>(9,112)</u>	<u>(9,112)</u>
	<u>\$ 237,715</u>	<u>\$ 237,964</u>

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

<u>Year Ending June 30,</u>	
2016	\$ 9,112
2017	9,112
2018	9,112
2019	9,112
2020	9,112
Thereafter	<u>201,267</u>
	<u>\$ 246,827</u>

YELLOWSTONE ART MUSEUM  
 NOTES TO FINANCIAL STATEMENTS  
 (CONTINUED)  
 June 30, 2015 and 2014

**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 \$10,956 and \$9,682 for the years ended June 30, 2015 and 2014, respectively.

**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, 2015 and 2014, were:

	<u>2015</u>	<u>2014</u>
On-going campaign projects	\$ 153,507	\$ 109,609
Endowment earnings unappropriated	<u>353,516</u>	<u>405,781</u>
	<u>\$ 507,023</u>	<u>\$ 515,390</u>

Permanently restricted net assets at June 30, 2015 and 2014, were:

	<u>2015</u>	<u>2014</u>
Charitable gift annuities	\$ 653,438	\$ 515,524
General endowment	<u>2,171,243</u>	<u>2,170,981</u>
	<u>\$ 2,824,681</u>	<u>\$ 2,686,505</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.

YELLOWSTONE ART MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)  
June 30, 2015 and 2014

**NOTE 11. BENEFICIAL INTERESTS (CONTINUED)**

The balances in the MCF endowment at June 30, 2015 and 2014, were \$1,043,013 and \$1,044,615, respectively. The June 30, 2015 and 2014, balance in the Sandra Banks endowment was \$53,151 and \$53,430, respectively. The Museum received distributions in 2015 and 2014 of \$45,421 and \$38,760, respectively.

**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, 2015 and 2014

**NOTE 12. ENDOWMENT FUNDS (CONTINUED)**

The following represents the net asset classes of the Museum's endowment funds as of June 30, 2015 and 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>June 30, 2015</u>				
Donor restricted	<u>\$ -</u>	<u>\$ 353,516</u>	<u>\$ 2,824,681</u>	<u>\$ 3,178,197</u>
<u>June 30, 2014</u>				
Donor restricted	<u>\$ -</u>	<u>\$ 405,781</u>	<u>\$ 2,686,505</u>	<u>\$ 3,092,286</u>

The following table presents the changes in the endowment for the years ended June 30, 2015 and 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2014	\$ -	\$ 405,781	\$ 2,686,505	\$ 3,092,286
Investment return:				
Investment income	-	137,985	-	137,985
Unrealized loss	-	(77,261)	-	(77,261)
Net appropriation for expenditure	-	(112,989)	-	(112,989)
Contributions and collapsed annuities	<u>-</u>	<u>-</u>	<u>138,176</u>	<u>138,176</u>
Endowment net assets at June 30, 2015	<u>\$ -</u>	<u>\$ 353,516</u>	<u>\$ 2,824,681</u>	<u>\$ 3,178,197</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2013	\$ 1,036,998	\$ 314,685	\$ 1,181,340	\$ 2,533,023
Prior period adjustment	<u>(1,036,998)</u>	<u>(142,775)</u>	<u>1,179,773</u>	<u>-</u>
Endowment net assets, restated	-	171,910	2,361,113	2,533,023
Investment return:				
Investment income	-	377,270	-	377,270
Unrealized loss	-	(56,577)	-	(56,577)
Net appropriation for expenditure	-	(86,822)	-	(86,822)
Contributions and collapsed annuities	<u>-</u>	<u>-</u>	<u>325,392</u>	<u>325,392</u>
Endowment net assets at June 30, 2014	<u>\$ -</u>	<u>\$ 405,781</u>	<u>\$ 2,686,505</u>	<u>\$ 3,092,286</u>

YELLOWSTONE ART MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)  
June 30, 2015 and 2014

**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.



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