

BOZEMAN AREA COMMUNITY FOUNDATION

REVIEWED FINANCIAL STATEMENTS

March 31, 2019 and 2018



AMATICS
CPA GROUP

**BOZEMAN AREA COMMUNITY FOUNDATION
CONTENTS**

REVIEWED FINANCIAL STATEMENTS	<u>Page</u>
Independent accountants' review report	3
Statements of financial position	4
Statements of activities	5-6
Statements of functional expenses	7 - 8
Statements of cash flows	9
Notes to financial statements	10 - 19



INDEPENDENT ACCOUNTANTS' REVIEW REPORT

Board of Directors
Bozeman Area Community Foundation
Bozeman, MT

We have reviewed the accompanying financial statements of Bozeman Area Community Foundation (a nonprofit organization), which comprise the statements of financial position as of March 31, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of entity management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

Accountants' Responsibility

Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountants' Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Amatics CPA Group

Bozeman, Montana
December 3, 2019



BOZEMAN AREA COMMUNITY FOUNDATION
STATEMENT OF FINANCIAL POSITION
March 31, 2019 and 2018

		March 31	
		2019	2018
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$	124,094	\$ 80,673
Annuity reserve		462,687	367,659
Pledge receivable		<u>500</u>	<u>-</u>
Total current assets		<u>587,281</u>	<u>448,332</u>
OTHER ASSETS			
Endowment investment		963,301	920,898
Agency investment funds		<u>87,858</u>	<u>90,219</u>
Total other assets		<u>1,051,159</u>	<u>1,011,117</u>
Total assets	\$	<u><u>1,638,440</u></u>	<u><u>\$ 1,459,449</u></u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	\$	4,728	\$ -
Payroll liabilities		1,716	4,249
Deferred revenue		<u>14,713</u>	<u>13,270</u>
Total current liabilities		<u>21,157</u>	<u>17,519</u>
LONG-TERM LIABILITIES			
Agency funds		87,714	93,757
Annuities payable		<u>152,398</u>	<u>104,229</u>
Total long-term liabilities		<u>240,112</u>	<u>197,986</u>
NET ASSETS			
Without donor restrictions		111,398	35,129
With donor restrictions		<u>1,265,773</u>	<u>1,208,815</u>
Total net assets		<u>1,377,171</u>	<u>1,243,944</u>
Total liabilities and net assets	\$	<u><u>1,638,440</u></u>	<u><u>\$ 1,459,449</u></u>

See the accompanying independent accountants' review report and the notes to financial statements.

BOZEMAN AREA COMMUNITY FOUNDATION
STATEMENT OF ACTIVITIES
Year Ended March 31, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES, GAINS, AND OTHER SUPPORT			
Grants and contributions	\$ 316,611	\$ 263,678	\$ 580,289
Investment return, net	(603)	33,853	33,250
In-kind support	82,996	-	82,996
Change in value of split-interest agreements	-	(55,468)	(55,468)
Program income	<u>19,292</u>	<u>-</u>	<u>19,292</u>
Total revenues and gains	418,296	242,063	660,359
NET ASSET RECLASSIFICATIONS			
Released from restriction	<u>185,105</u>	<u>(185,105)</u>	<u>-</u>
Total revenues, gains, and other support	<u>603,401</u>	<u>56,958</u>	<u>660,359</u>
EXPENSES			
Program services	464,064	-	464,064
Management and general	45,597	-	45,597
Fundraising and development	<u>17,471</u>	<u>-</u>	<u>17,471</u>
Total expenses	<u>527,132</u>	<u>-</u>	<u>527,132</u>
CHANGE IN NET ASSETS	76,269	56,958	133,227
Net assets at beginning of year	<u>35,129</u>	<u>1,208,815</u>	<u>1,243,944</u>
NET ASSETS AT END OF YEAR	<u>\$ 111,398</u>	<u>\$ 1,265,773</u>	<u>\$ 1,377,171</u>

See the accompanying independent accountants' review report and the notes to financial statements.

BOZEMAN AREA COMMUNITY FOUNDATION
STATEMENT OF ACTIVITIES
Year Ended March 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT			
Grants and contributions	\$ 84,275	\$ 303,053	\$ 387,328
Investment return, net	43,525	22,538	66,063
In-kind support	28,730	-	28,730
Change in value of split-interest agreements	-	(12,179)	(12,179)
Program income	<u>18,694</u>	<u>-</u>	<u>18,694</u>
Total revenues and gains	175,224	313,412	488,636
NET ASSET RECLASSIFICATIONS			
Released from restriction	<u>180,883</u>	<u>(180,883)</u>	<u>-</u>
Total revenues, gains, and other support	<u>356,107</u>	<u>132,529</u>	<u>488,636</u>
EXPENSES			
Program services	270,495	-	270,495
Management and general	49,355	-	49,355
Fundraising and development	<u>40,715</u>	<u>-</u>	<u>40,715</u>
Total expenses	<u>360,565</u>	<u>-</u>	<u>360,565</u>
CHANGE IN NET ASSETS	<u>(4,458)</u>	<u>132,529</u>	<u>128,071</u>
Net assets at beginning of year, as previously reported	23,117	1,092,756	1,115,873
Restatement applicable to prior year underwater endowment	<u>16,470</u>	<u>(16,470)</u>	<u>-</u>
Net assets at beginning of year, as restated	39,587	1,076,286	1,115,873
NET ASSETS AT END OF YEAR	<u>\$ 35,129</u>	<u>\$ 1,208,815</u>	<u>\$ 1,243,944</u>

See the accompanying independent accountants' review report and the notes to financial statements.

BOZEMAN AREA COMMUNITY FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended March 31, 2019

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising and Development</u>	<u>Total</u>
Advertising and promotional	\$ 343	\$ 89	\$ 38	\$ 470
Bank charges	609	150	66	825
Computer software	18,792	4,891	2,059	25,742
Event expense	48,475	713	1,970	51,158
Grants	229,450	-	-	229,450
Insurance	1,127	293	123	1,543
Legal and professional	11,852	10,288	1,299	23,439
Miscellaneous	2,847	3,789	312	6,948
Occupancy	7,555	1,966	828	10,349
Office and supplies	1,891	491	207	2,589
Payroll and related expenses	85,890	22,359	9,413	117,662
Program	53,809	197	1,000	55,006
Travel and meetings	1,424	371	156	1,951
	<u>\$ 464,064</u>	<u>\$ 45,597</u>	<u>\$ 17,471</u>	<u>\$ 527,132</u>

See the accompanying independent accountants' review report and the notes to financial statements.

BOZEMAN AREA COMMUNITY FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended March 31, 2018

	Program Services	Management and General	Fundraising and Development	Total
Accreditation	\$ 5,227	\$ 1,494	\$ 747	\$ 7,468
Advertising and promotional	1,038	-	-	1,038
Bank charges	1,064	-	-	1,064
Computer software	4,484	1,281	641	6,406
Event expense	24,148	5,740	2,870	32,758
Grants	168,291	-	-	168,291
Insurance	1,246	356	178	1,780
Legal and professional	15,697	4,485	2,242	22,424
Miscellaneous	8,551	1,658	829	11,038
Occupancy	3,934	1,124	562	5,620
Office and supplies	2,668	762	381	3,811
Payroll and related expenses	32,072	32,076	32,076	96,224
Program	750	-	-	750
Travel and meetings	1,325	379	189	1,893
	<u>\$ 270,495</u>	<u>\$ 49,355</u>	<u>\$ 40,715</u>	<u>\$ 360,565</u>

See the accompanying independent accountants' review report and the notes to financial statements.

BOZEMAN AREA COMMUNITY FOUNDATION
STATEMENTS OF CASH FLOWS

	Years Ended March 31	
	2019	2018
CASH FLOW FROM OPERATING ACTIVITIES		
Receipts from donors and grantors	\$ 488,869	\$ 387,328
Other cash receipts	6,031	78,100
Payments for salaries and related costs	(120,195)	(93,732)
Payments for grants	(229,450)	(168,290)
Payments to vendors	<u>(96,896)</u>	<u>(63,896)</u>
Net cash provided by operating activities	48,359	139,510
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES		
Net proceeds from (purchase of) investments	2,362	(95,144)
CASH FLOWS USED BY FINANCING ACTIVITIES		
Payments to annuitants	<u>(7,300)</u>	<u>(7,300)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	43,421	37,066
Cash and cash equivalents at beginning of year	<u>80,673</u>	<u>43,607</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 124,094</u></u>	<u><u>\$ 80,673</u></u>

See the accompanying independent accountants' review report and the notes to financial statements.

BOZEMAN AREA COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2019 and 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Bozeman Area Community Foundation (the Foundation) is a Montana nonprofit public charity organization created in 1998. The Bozeman Area Community Foundation improves quality of life for our community by promoting charitable giving, connecting donors with causes they care about and providing leadership on important community issues.

The Foundation is exempt from federal income tax as an organization described in Section 501(c)(3) of the Internal Revenue Code. In addition, the Foundation has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a)(1) of the Code.

The Foundation administers grants to local charities through an annual grant cycle and by managing endowment funds for nonprofits. In 2009, the Foundation adopted a vision for the organization and community. The Foundation began to offer more programming for our local nonprofits, hosting monthly Nonprofit Café gatherings, distributing a weekly e-newsletter, and offering training opportunities.

In 2011, with the support of the Mountain Sky Guest Ranch Fund, the Foundation conducted a Nonprofit Needs Assessment survey to gain insight about the sector it serves and its challenges and opportunities. In late 2011 and early 2012, the Foundation expanded its board membership and established committees to oversee the focus areas: including Finance, Grants, Advancement, Best Practices, Programming & Outreach, Donor Stewardship & Fundraising, and Executive committees. In 2013, BACF hired their first staff person, a Foundation Manager. In 2017, BACF hired their second staff member, a Program Manager. Since 1999, the Foundation has grown its assets to nearly \$1.6 million and helped raise more than \$4.0 million in funding to 190+ local nonprofit organizations. The Foundation strives to serve its community through grant-making, supporting local non-profits, nurturing a culture of giving, and undertaking leadership projects.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. The basis of accounting recognizes revenues and related receivables when they are earned and expenses and related liabilities when incurred. In accordance with the standards in FASB ASC, funds that are created by organizations for their own benefit (agency funds) are classified as liabilities, even though the fund holders have explicitly granted the Foundation variance power. Grants disbursed from agency funds reduce these liabilities.

Use of Estimates

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

BOZEMAN AREA COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2019 and 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions and Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- *Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.
- *Net Assets With Donor Restrictions* – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Cash and Cash Equivalents

The Foundation considers all unrestricted cash and other highly liquid investments with a maturity of less than three months to be cash equivalents. Cash and cash equivalents held as a portion of the Foundation's endowment portfolio are classified as investments and are not considered to be cash equivalents.

Investments

Investments in marketable securities with readily determinable fair values are reported at their fair value in the statement of financial position with the annual change in fair value being recorded as unrealized gains and losses in the change in net assets.

Investment income and gains restricted by donors are reported as increases in net assets without donor restrictions if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

Revenue and Other Support

Contributions, which may include non-cash assets, unconditional promises to give and beneficial interests in irrevocable trusts or other legally-binding agreements, are recognized as revenue at fair value in the period pledged or received. Contributions receivable are reviewed for collectibility and reserves for uncollectible amounts are established when needed. Contributions of services that create or enhance nonfinancial assets or that require specialized skills, and are provided by individuals possessing those skills, are recorded at their fair values in the period received. Contributions with donor-imposed restrictions that are met in the current period are recorded as contributions without donor restrictions.

BOZEMAN AREA COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2019 and 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In Kind Support

The Foundation records various types of in kind support, including professional services and supplies. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

The Foundation recognized \$82,996 and \$28,730 of in kind support for the Give Big Gallatin Valley program for the years ended March 31, 2019 and 2018.

Split-interest Agreements

The Foundation serves as trustee for irrevocable charitable remainder trusts. Assets held in the trusts are included in investments. The obligation to make payments to the trust beneficiaries is reported as obligations under annuities payable. When trusts are established, the assets transferred to the Foundation are recognized at their fair value, and a liability is established for the present value of the estimated future payments to be made to beneficiaries. The difference between those two amounts is recognized as a restricted contribution. Annually, the obligation is adjusted for changes in the value of assets and actuarial changes in the estimates of future benefits. The annual adjustment is reported in the statement of activities as the change in value of split-interest agreements.

Agency Funds

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 accounts for those funds 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 event the Foundation is dissolved, agency endowments would be returned to the benefiting nonprofit.

The Foundation manages gift annuities for which it is not the remainder beneficiary. Upon maturity or termination, the value of the annuity will be transferred to the benefiting charity to be held as a liability within permanent endowment. These assets are recorded in investments and as funds held as agency endowments.

Administrative Fees

An investment management fee is charged annually to the donor advised and endowment funds. Fees range from 1.00% to 4.50%, depending on the type of fund and the balance of the fund.

Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include office expenses, information technology, and compensation and benefits. All shared costs are allocated based on the estimates of time and efforts of full-time equivalent employees expressed as a percentage of total payroll expenses.

Advertising and Promotion

Advertising and promotion costs are expensed as incurred.

BOZEMAN AREA COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2019 and 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Foundation is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code, and therefore has made no provision for federal income taxes in the accompanying financial statements. The Foundation's information returns (Form 990) are open to examination by the IRS, generally, for three years after they were filed or the due date of the return, whichever is later.

Concentrations of Risk

Cash and cash equivalents

Bozeman Area Community Foundation maintains its cash balances at banks located in Bozeman, Montana. These balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per bank, per depositor. The Foundation has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk on cash and cash equivalents. As of March 31, 2019 and 2018, cash and cash equivalents did not exceed federally insured limits.

Investments

The Foundation maintains the majority of its investments in money market accounts, mutual funds, bonds and equities with brokerage firms. Investments are exposed to various risks, such as interest, market, and credit risks. It is reasonably possible, given the risks associated with investments, that changes in the near term could materially affect the amounts reported in the financial statements. Investments held are insured up to \$500,000 through Securities Investor Protection Corporation (SIPC). To manage risk, the Foundation has formal investment policies.

Change in Accounting Principle (or Adoption of ASU 2016-14):

In fiscal year 2019, the Organization retroactively adopted the requirements in FASB Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements of Not-for-Profit Entities, which amends the requirements for financial statements and notes in ASC Topic 958, Not-for-Profit Entities. The main provisions of this update include net asset terminology and category changes, revised disclosures related to liquidity and availability of financial resources, functional expense allocation methodology descriptions, investment return presentation, and treatment of underwater endowments.

The new standard changes the classification of underwater endowments, resulting in a classification from net assets with donor restrictions to net assets without donor restrictions for the \$16,470 deficient on the endowment funds (see Note 4).

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

BOZEMAN AREA COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2019 and 2018

2. LIQUIDITY AND AVAILABILITY

The Foundation receives significant contributions with donor restrictions to be used in accordance with the associated purpose restrictions. The Foundation considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures.

In addition, the Foundation receives support without donor restrictions and endowment investment income available for appropriation. The Foundation also generates revenues from program activities, such as Give Big Gallatin Valley and Philanthropic Advisors. These amounts are without restrictions and are available to meet cash needs for general expenditures.

Financial assets available for general expenditure include only those without donor or other restrictions limiting their use within one year of the balance sheet date.

Financial assets available for general expenditure within one year at March 31, 2019, are as follows:

Financial assets at year end:		
Cash and cash equivalents	\$	124,094
Annuity reserve		462,687
Pledges receivable		500
Endowment investments		963,301
Agency investment funds		<u>87,858</u>
Total financial assets	\$	1,638,440
Less amounts not available to use within one year:		
Investments held in donor advised funds		(230,423)
Investments held for long-term purposes		<u>(1,283,424)</u>
Total financial assets not available to use within one year		<u>(1,513,847)</u>
Total financial assets available for general expenditure	\$	<u>124,593</u>

As part of the Foundation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

The Foundation's annual operating budget anticipates receiving funds throughout the year from the following sources in order to operate on a "break-even" basis: Program service fees, annual fundraising events, grant sources, and donor contributions.

Investments hold donor restricted endowment funds, agency investment funds, and annuity reserves. These investments are intended to be held for long-term purposes. Per the Foundation's endowment policy, the Foundation has the option to withdraw up to 6% of the average year-end endowment balance from the prior 36 months in order to meet general expenditures. Amounts not available include amounts set aside for long-term investing in the quasi-endowment that could be drawn upon if the governing board approves that action. In addition, the Foundation invests cash in excess of daily requirements in short-term investments.

BOZEMAN AREA COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2019 and 2018

3. INVESTMENTS AND FAIR MARKET VALUE MEASUREMENTS

The Foundation determines the fair value of its investments through the application of FASB ASC 820, which provides a framework for measuring fair value. FASB ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC 820 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs.

FASB ASC 820-10 also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The three levels are defined as follows:

Level 1 - observable inputs that are based upon quoted market prices for identical assets or liabilities within active markets.

Level 2 - observable inputs other than Level 1 that are based upon quoted market prices for similar assets or liabilities, based upon quoted prices within inactive markets, or inputs other than quoted market prices that are observable through market data for substantially the full term of the asset or liability.

Level 3 - inputs that are unobservable for the particular asset or liability due to little or no market activity and are significant to the fair value of the asset or liability. These inputs reflect assumptions that market participants would use when valuing the particular asset or liability.

The following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis: Investments in mutual funds, bonds and securities are valued based upon quoted market prices. Money market funds are valued at closing price reported on the active market on which the individual funds are traded.

Investments at March 31, 2019 and 2018, are as follows:

	Fair Value (Level 1)	
	2019	2018
Money market fund	\$ 262,446	\$ 331,440
Mutual funds	1,251,400	1,047,336
	<u>\$ 1,513,846</u>	<u>\$ 1,378,776</u>

Investment income for the years ended March 31, 2019 and 2018 includes the following:

	2019	2018
Interest and dividends	\$ 28,107	\$ 48,919
Capital gains (losses)	3,926	(33)
Unrealized gains	26,694	26,657
Investment expenses	<u>(25,477)</u>	<u>(9,480)</u>
Net investment income	<u>\$ 33,250</u>	<u>\$ 66,063</u>

BOZEMAN AREA COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2019 and 2018

4. ENDOWMENT

As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. During the years ended March 31, 2019 and 2018, there were fees of \$13,848 and \$28,050 paid for management of endowment funds.

Interpretation of Relevant Law

The Board of Directors has interpreted the Montana Uniform Prudent Management of Institutional Funds Act ("MUPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation retains in perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by MUPMIFA. In accordance with MUPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. General economic conditions;
2. The possible effect of inflation and deflation;
3. The expected tax consequences, if any, of investment decisions or strategies;
4. The role that each investment or course of action plays within the Foundation's overall investment portfolio;
5. The expected total return from income and the appreciation of investments;
6. Other resources of the Foundation;
7. The needs of the Foundation and a given institutional fund to make distributions and to preserve capital; and
8. An asset's special relationship or special value, if any, to the purpose of the Foundation.

Funds with Deficiencies

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). We have interpreted MUPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At March 31, 2019, funds with original gift values of \$119,796, fair values of \$104,918, and deficiencies of \$14,877 were reported in net assets with donor restrictions. At March 31, 2018, funds with original gift values of \$132,296, fair values of \$115,826, and deficiencies of \$16,470 were reported in net assets with donor restrictions.

Return Objectives and Risk Parameters

The Foundation's long-term investment objective is to preserve the real value of its permanent funds. This means that the Foundation seeks a total rate of return that supports its grantmaking, expenses, investment fees, and inflation. The Foundation will normally measure whether it has achieved that objective over a rolling five-year period.

BOZEMAN AREA COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2019 and 2018

4. ENDOWMENT (Continued)

The Board has determined that investment managers should avoid unnecessary risk in investing the Foundation's assets. To achieve that goal, investment managers will observe limits put in place in the Foundation's investment and spending policy.

Strategies Employed for Achieving Objectives

The long-term horizon of the Foundation's investment portfolio allows for a large allocation to equity-oriented strategies where the potential for long-term capital appreciation exists. Other assets, including but not limited to hedging, derivative, or diversification strategies, may also be used to reduce risk and overall portfolio volatility. The investment portfolio will be diversified across asset classes and managers including, but not limited to, domestic equity, international equity, emerging markets, alternative equity, private equity, and fixed income. In addition, the Investment Committee is encouraged to analyze and propose socially responsible asset class options and managers in addition to more traditional investment classes and managers.

Permanent funds will be invested in one or more of the Foundation's investment pools. Expendable funds generally will be invested in a portfolio of cash equivalent securities in order to preserve the fund's principal. However, the Foundation will consider recommendations from authorized fund representatives to invest expendable fund assets in one or more of the investment options available for permanent funds.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation's sets its annual spending policy for permanent funds by applying a percentage between 4% and 6%, determined annually by the Board of Directors, to a fund's average fair value of the prior 36 months, measured from the fiscal year-end immediately preceding the fiscal year being budgeted and in which the distribution is planned.

Endowment activity and net asset composition by type of fund for the years ended March 31, 2019 and 2018 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance, March 31, 2017	\$ (8,139)	\$ 659,111	\$ 650,972
Prior period adjustment	16,470	(16,470)	-
Contributions	20	128,297	128,317
Investment return, net	(1,695)	14,788	13,093
Distributions	<u>(474)</u>	<u>(35,825)</u>	<u>(36,299)</u>
Balance, March 31, 2018	6,182	749,901	756,083
Contributions	-	1,414	1,414
Investment return, net	161	10,959	11,120
Distributions	<u>-</u>	<u>(41,605)</u>	<u>(41,605)</u>
Balance, March 31, 2019	<u>\$ 6,343</u>	<u>\$ 720,669</u>	<u>\$ 727,012</u>

BOZEMAN AREA COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2019 and 2018

4. ENDOWMENT (Continued)

The following is a reconciliation of endowment balances to endowment funds reported on the statement of financial position as of March 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Endowment net assets, above	\$ 727,012	\$ 756,083
Non-endowed funds:		
Donor advised funds	230,423	176,800
Due from annuity	-	(3,602)
Due to/from operating	<u>5,866</u>	<u>(8,383)</u>
Endowment investment account	<u>\$ 963,301</u>	<u>\$ 920,898</u>

5. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods as of March 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose:		
Give Big Gallatin Valley	\$ 5,535	\$ 26,000
Subject to the passage of time:		
Donor advised funds	230,423	176,800
Endowments:		
Unappropriated endowment earnings	125,895	156,540
Restricted by donors	594,775	593,361
Irrevocable annuities payable	<u>309,145</u>	<u>256,114</u>
	<u>1,029,815</u>	<u>1,006,015</u>
	<u>\$ 1,265,773</u>	<u>\$ 1,208,815</u>

6. OPERATING LEASE

The Foundation leases office space under a year-to-year lease. Total lease payments paid during the years ended March 31, 2019 and 2018 were \$8,735 and \$3,725, respectively.

BOZEMAN AREA COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2019 and 2018

7. GIVE BIG REVENUE

The Foundation hosts Give Big Gallatin Valley ("GBGV"). GBGV is a 24-hour online and live celebration of giving created to connect generous community members with the causes they care about most. In May 2018, BACF helped raise over \$1,283,300 through 4,747 donors for 194 local nonprofits in Gallatin County. In May 2017, BACF helped raise over \$707,000 through 3,600 donors for 168 local nonprofits in Gallatin County. BACF acts as an intermediary between the donors and the recipient nonprofits, accordingly, contributions collected on behalf of the designated nonprofits and the associated grants disbursed are not reflected in the statement of activities.

8. RELATED PARTY TRANSACTIONS

For the years ended March 31, 2019 and 2018, board members personally contributed \$5,534 and \$21,460, respectively. Board members made grants from their donor advised funds totaling \$8,000 and \$0 for the years ended March 31, 2019 and 2018, respectively.

9. SUBSEQUENT EVENTS

Date of Management Evaluation

Management has evaluated subsequent events through December 3, 2019, the date on which the financial statements were available to be issued.