



MARMOT LIBRARY NETWORK, INC.

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2015

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INDEPENDENT AUDITOR'S REPORT

May 26, 2016

The Board of Directors
Marmot Library District, Inc.

We have audited the accompanying financial statements of Marmot Library Network, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Marmot Library Network, Inc, as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Chadwick, Steinkirchner, Davis & Co., P.C.

MARMOT LIBRARY NETWORK, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2015

ASSETS

Current Assets

Cash and cash equivalents	\$	105,525
Investments		542,422
Accounts receivable		6,437

Total Current Assets 654,384

Capital Assets, net

47,721

Total Assets \$ 702,105

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$	7,201
Accrued liabilities		26,271
Unearned revenue		116,428

Total Current Liabilities 149,900

Total Liabilities 149,900

Net Assets

Unrestricted		552,205
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Total Net Assets 552,205

Total Liabilities and Net Assets \$ 702,105

The accompanying notes are an integral part of this statement.

MARMOT LIBRARY NETWORK, INC.

STATEMENT OF ACTIVITIES

For the year ended December 31, 2015

Operating Revenue	
Membership and access fees	\$ 891,702
Less: rebates and discounts	59,429
Net membership and access fees	<u>832,273</u>
Member sales	332,999
Member maintenance services	853,025
Total Operating Revenue	<u>2,018,297</u>
Operating Expenses	
Cost of sales and service	255,006
Other program costs	1,854,713
General and administrative	206,079
Total Operating Expenses	<u>2,315,798</u>
Change in Unrestricted Net Assets before Non-operating Revenue	(297,501)
Non-operating Revenue	
E-rate revenue	124,524
Miscellaneous income	2,190
Investment service charges	(3,887)
Investment income	12,702
Unrealized gain (loss) on investments	(21,107)
Realized gain (loss) on investments	5,435
Total Non-operating Revenue	<u>119,857</u>
Change in Unrestricted Net Assets	(177,644)
Unrestricted net assets, beginning of year, previously reported	824,710
Prior period adjustment, Note I	(94,861)
Unrestricted net assets, beginning of year, restated	<u>729,849</u>
Unrestricted net assets, ending	<u><u>\$ 552,205</u></u>

The accompanying notes are an integral part of this statement.

MARMOT LIBRARY NETWORK, INC.

STATEMENT OF CASH FLOWS

For the year ended December 31, 2015

Cash flows from operating activities

Cash received from customers (members)	\$ 2,156,480
Investment income received	14,250
Cash paid to employees	(1,125,284)
Cash paid to suppliers	(1,152,702)
Net cash provided (used) by operating activities	<u>(107,256)</u>

Cash flows from investing activities

Proceeds from sale of investments	144,924
Purchase of investments	(60,300)
Net cash provided (used) by investing activities	<u>84,624</u>

Net increase (decrease) in cash and cash equivalents (22,632)

Cash and cash equivalents, beginning of year	<u>128,157</u>
Cash and cash equivalents, end of year	<u>\$ 105,525</u>

Reconciliation of change in net assets to net cash provided (used) by operating activities:

Change in net assets	\$ (177,644)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Depreciation	31,417
Unrealized loss on investments	21,107
(Increase) decrease in receivables	3,584
(Increase) decrease in prepaid expenses	11,908
Increase (decrease) in accounts payable	(6,768)
Increase (decrease) in unearned revenue	7,885
Increase (decrease) in accrued liabilities	1,255
Net cash provided (used) by operating activities	<u>\$ (107,256)</u>

The accompanying notes are an integral part of this statement.

MARMOT LIBRARY NETWORK, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE A - DESCRIPTIONS OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

Marmot Library Network, Inc. (the Organization) is a not-for-profit organization incorporated on August 27, 1990, under the laws of the State of Colorado. The Organization serves to utilize the shared expertise and leveraged purchasing of member libraries and media centers throughout western Colorado to provide services that reduce the cost of operating an integrated library computer system and to apply the system to improve library services through resource sharing. A substantial amount of the funding for these services is provided by membership and access fees and member sales and service.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted Net Assets - Unrestricted net assets are not subject to donor-imposed stipulations. Revenue is reported as increases in unrestricted net assets unless the use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. As of December 31, 2015, all of the Organization's net assets are unrestricted.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met, by actions of the Organization and/or the passage of time. Temporarily restricted net assets are reclassified to unrestricted net assets as their time and/or purpose requirements are met.

Permanently Restricted Net Assets - Net assets subject to donor-imposed restrictions that will be maintained permanently by the Organization.

Use of Estimates

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

MARMOT LIBRARY NETWORK, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE A - DESCRIPTIONS OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents consist of cash and other highly liquid assets, such as money market funds.

Investments

Investments consist of mutual funds and are considered to be level one measurements according to the *Fair Value* topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Accounts Receivable

Accounts receivable are carried at original invoice amounts less an estimate made for doubtful receivables based on review of all outstanding amounts. Receivables are written off when deemed uncollectible.

Capital Assets

Capital assets in the accompanying financial statements are presented at cost net of accumulated depreciation, if purchased, or estimated at fair market value, if donated. The Organization capitalizes assets with a cost greater than \$5,000 and an estimated life of one year or more. Depreciation is provided over the estimated useful lives of the respective assets on a straight-line basis. Routine repairs and maintenance are expensed as incurred.

Compensated Absences

The Organization's policies permit most employees to accumulate paid time off. Expense and the related liability are recognized as benefits as earned. Compensated absence liabilities are computed using regular pay rates in effect at the statement of financial position date.

Unearned Revenue

Unearned revenue results from the Organization recognizing membership and access fees and member sales and service as revenue in the period in which the related membership period occurs. Membership and access fee payments received prior to December 31, 2015 for the next year are deferred until the related service is performed.

MARMOT LIBRARY NETWORK, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE A - DESCRIPTIONS OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Income Taxes

The Organization is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is, therefore, exempt from Federal and Colorado income taxes on related income. The Organization's informational returns are no longer subject to examination by the Internal Revenue Service except for the last three years filed.

NOTE B - CONCENTRATION OF CREDIT RISK

The Organization maintains cash balances at a financial institution. The cash accounts at the financial institution are insured by the Federal Deposit Insurance Corporation for up to \$250,000. As of December 31, 2015, the Organization had no uninsured cash balances in the financial institution.

NOTE C - INVESTMENTS

Fair value measurements for assets recorded at fair value on a recurring basis at December 31, 2015 were as follows:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds				
Fixed income	\$ 260,426	\$ -	\$ -	\$ 260,426
Equity funds	217,501	-	-	217,501
Other	64,495	-	-	64,495
Total Mutual Funds	<u>\$ 542,422</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 542,422</u>

NOTE D - CAPITAL ASSETS

The components of capital assets at December 31, 2015, were as follows:

Equipment and furniture	\$ 264,287
Leasehold improvements	34,730
Software	760,073
	<u>1,059,090</u>
Less accumulated depreciation	<u>(1,011,369)</u>
Total Capital Assets, net	<u>\$ 47,721</u>

Depreciation expense for the year ended December 31, 2015 was \$31,417.

MARMOT LIBRARY NETWORK, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE E - LEASING AGREEMENTS

The organization leases office space under arrangements classified as an operating lease. Monthly payments on the lease were \$5,488 per month for the year ended December 31, 2015. The lease expired December 31, 2015, and the five-year renewal option was exercised. The lease now expires on December 31, 2020. Lease expense for the year ended December 31, 2015 was \$65,861.

Future minimum lease payments under the lease for the years ending December 31 are as follows:

	<u>Annual Rent</u>	<u>Monthly Rent</u>
2016	\$ 67,837	\$ 5,653
2017	69,872	5,823
2018	71,968	5,997
2019	74,127	6,177
2020	76,351	6,363
	<u>\$ 360,155</u>	

NOTE F - RETIREMENT PLAN

The Organization has established a defined contribution retirement plan (the Plan) with TIAA-CREFF, under Section 403(b) of the Internal Revenue Code, whereby the Organization will match employee contributions made to the Plan up to 7% of each eligible full-time participant's gross salary. For the year ended December 31, 2015, the Organization contributed \$52,759 to the Plan.

NOTE G - SUBSEQUENT EVENTS

E-Rate discount funds revenue for fiscal year 2016 is in question, and no E-Rate revenue has been received in fiscal year 2016 to date due to an issue with a contractor. If the issue is not resolved in the Organization's favor, the loss of revenue in fiscal year 2016 will have a negative impact on 2016 earnings and cash flow. E-Rate revenue was \$124,524 in fiscal year 2015.

Management has evaluated subsequent events through May 26, 2016 (date of availability of financial statements for issuance) for necessary disclosures and/or financial statement adjustments. Disclosures and/or adjustments identified by management, as applicable, are included in the financial statements.

MARMOT LIBRARY NETWORK, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE H - CONCENTRATIONS

Five customers make up \$934,419 or 55% of operating revenue (less member sales) for the year ended December 31, 2015. Individually these five customers meet the threshold for reporting revenue concentrations and related percentages as follows \$283,498 (17%), \$238,453 (14%), \$179,148 (11%), \$136,707 (8%), and \$96,613 (6%).

NOTE I – PRIOR PERIOD ADJUSTMENT

Prior period adjustments were recorded to adjust prepaid expenses, net capital assets, other assets, accrued liabilities, and unearned revenue to the calculated amounts as of December 31, 2014. The effect of the adjustments was to increase prepaid expenses by \$8,743, increase net capital assets by \$15,416, decrease other assets by \$4,576, increase accrued liabilities by \$5,901, and increase unearned revenue by \$108,543 as of December 31, 2014. To record the amounts, beginning net assets as of January 1, 2015 has been decreased by \$94,861.