



The Blackfoot Challenge, Inc.

**INDEPENDENT AUDITOR'S REPORT and
FINANCIAL STATEMENTS**

December 31, 2021 and 2020

The Blackfoot Challenge, Inc.

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Peterson CPA Group, P.C.

INDEPENDENT AUDITOR'S REPORT

The Board of Directors of
The Blackfoot Challenge, Inc.
Ovando, Montana

Opinion

We have audited the accompanying financial statements of The Blackfoot Challenge, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2021 and 2020 and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Blackfoot Challenge, Inc. as of December 31, 2021 and 2020 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Blackfoot Challenge, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Blackfoot Challenge, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Blackfoot Challenge, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Blackfoot Challenge, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Peterson CPA Group, P.C.

Missoula, Montana
October 28, 2022

FINANCIAL STATEMENTS

THE BLACKFOOT CHALLENGE, INC.
STATEMENTS OF FINANCIAL POSITION
At December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	\$ 560,858	\$ 342,689
Accounts receivable	200,640	256,034
Investments	512,876	453,379
Endowment	1,602,227	1,423,150
BCCA land	<u>1,891,284</u>	<u>1,891,284</u>
Total Assets	<u>\$ 4,767,885</u>	<u>\$ 4,366,536</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 2,697	\$ 3,530
Refundable advance	-	138,495
Accrued liabilities	<u>104,328</u>	<u>128,336</u>
Total Liabilities	<u>107,025</u>	<u>270,361</u>
 NET ASSETS		
Without donor restrictions	2,450,188	2,182,077
Without donor restrictions - designated	1,787,763	1,587,106
With donor restrictions	<u>422,909</u>	<u>326,992</u>
Total Net Assets	<u>4,660,860</u>	<u>4,096,175</u>
Total Liabilities and Net Assets	<u>\$ 4,767,885</u>	<u>\$ 4,366,536</u>

The notes to the financial statements are an integral part of these statements

THE BLACKFOOT CHALLENGE, INC.
STATEMENT OF ACTIVITIES
Year Ended December 31, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE AND SUPPORT			
Donations	\$ 497,455	\$ -	\$ 497,455
Grants	-	1,114,238	1,114,238
Interest and dividends	39,110	-	39,110
Unrealized gain	211,736	-	211,736
Less: investment fees	<u>(12,926)</u>	<u>-</u>	<u>(12,926)</u>
	735,375	1,114,238	1,849,613
Net assets released from restrictions	<u>1,018,321</u>	<u>(1,018,321)</u>	<u>-</u>
Total Revenue and Support	<u>1,753,696</u>	<u>95,917</u>	<u>1,849,613</u>
EXPENSES			
Program	1,058,441	-	1,058,441
Management and general	187,821	-	187,821
Fundraising	<u>83,006</u>	<u>-</u>	<u>83,006</u>
Total Expenses	<u>1,329,268</u>	<u>-</u>	<u>1,329,268</u>
Change in Net Assets	424,428	95,917	520,345
NET ASSETS			
At December 31, 2020 previously reported	3,769,183	326,992	4,096,175
Prior period adjustment (Note 15)	<u>44,340</u>	<u>-</u>	<u>44,340</u>
At December 31, 2020 Restated	<u>3,813,523</u>	<u>326,992</u>	<u>4,140,515</u>
At December 31, 2021	<u>\$ 4,237,951</u>	<u>\$ 422,909</u>	<u>\$ 4,660,860</u>

The notes to the financial statements are an integral part of these statements

THE BLACKFOOT CHALLENGE, INC.
STATEMENT OF ACTIVITIES
Year Ended December 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Donations	\$ 422,576	\$ -	\$ 422,576
Grants	-	1,192,241	1,192,241
Interest and dividends	34,077	-	34,077
Unrealized gain (loss)	185,920	-	185,920
Less: investment fees	(10,589)	-	(10,589)
	631,984	1,192,241	1,824,225
Net assets released from restrictions	1,158,330	(1,158,330)	-
Total Revenue and Support	\$ 1,790,314	\$ 33,911	\$ 1,824,225
EXPENSES			
Program	\$ 1,101,196	\$ -	\$ 1,101,196
Management and general	227,436	-	227,436
Fundraising	102,977	-	102,977
TOTAL EXPENSES	\$ 1,431,609	\$ -	\$ 1,431,609
CHANGE IN NET ASSETS	358,705	33,911	392,616
NET ASSETS			
Beginning of year	3,410,478	293,081	3,703,559
End of year	\$ 3,769,183	\$ 326,992	\$ 4,096,175

The notes to the financial statements are an integral part of these statements

THE BLACKFOOT CHALLENGE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2021

	Management &			Total
	Program	General	Fundraising	
Salaries and wages	\$ 406,171	\$ 67,760	\$ 39,985	\$ 513,916
Payroll taxes and other	52,316	13,611	3,194	69,121
Employee benefits	53,246	11,779	4,981	70,006
Professional services	305,333	67,545	28,567	401,445
Project costs	146,090	-	-	146,090
Advertising	3,589	794	335	4,718
Bank and service fees	12,926	337	-	13,263
Dues and subscriptions	4,300	951	403	5,654
Equipment costs	17,640	3,902	1,651	23,193
Insurance	7,138	2,247	-	9,385
Meeting expenses	1,680	372	156	2,208
Miscellaneous	4,102	5,611	384	10,097
Office expense	1,230	272	116	1,618
Postage	1,797	397	168	2,362
Printing	5,243	1,160	490	6,893
Property taxes	6,467	-	-	6,467
Rent and occupancy	4,097	906	384	5,387
Sub awards	-	-	-	-
Supplies	9,187	1,859	-	11,046
Technology	5,391	1,697	-	7,088
Telephone and internet	2,192	485	205	2,882
Training	-	1,439	-	1,439
Travel	21,232	4,697	1,987	27,916
Total expenses by function	1,071,367	187,821	83,006	1,342,194
Less expenses included within revenue and support in the statement of activities				
Investment fees	(12,926)	-	-	(12,926)
Functional expenses reported on the statement of activities	\$1,058,441	\$ 187,821	\$ 83,006	\$1,329,268
	79.6%	14.1%	6.2%	100.0%

The notes to the financial statements are an integral part of these statements

THE BLACKFOOT CHALLENGE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2020

	Program	Management & General	Fundraising	Total
Salaries and wages	\$ 413,911	\$ 107,988	\$ 52,584	\$ 574,483
Payroll taxes and other	38,094	9,932	4,836	52,862
Employee benefits	60,720	15,756	7,672	84,148
Professional services	251,240	65,502	31,896	348,638
Project costs	169,085	-	-	169,085
Advertising	212	318	50	580
Bank and service fees	10,589	443	-	11,032
Dues and registration	4,843	1,263	615	6,721
Equipment costs	7,040	1,835	894	9,769
Insurance	4,662	4,600	-	9,262
Meeting expenses	1,602	418	203	2,223
Miscellaneous	791	5,377	101	6,269
Office expense	5,705	1,487	724	7,916
Postage	1,672	436	212	2,320
Printing	5,589	1,457	709	7,755
Property taxes	6,295	-	-	6,295
Rent and occupancy	3,347	873	425	4,645
Sub Awards	87,900	-	-	87,900
Supplies	7,775	888	-	8,663
Technology	10,915	2,262	-	13,177
Telephone and internet	3,150	821	400	4,371
Training	-	474	-	474
Travel	16,648	5,306	1,656	23,610
Total expenses by function	<u>\$1,111,785</u>	<u>\$ 227,436</u>	<u>\$ 102,977</u>	<u>\$1,442,198</u>
Less expenses included within revenue and support in the statement of activities				
Investment fees	<u>(10,589)</u>	<u>-</u>	<u>-</u>	<u>(10,589)</u>
Functional expenses reported on the statement of activities	<u>\$1,101,196</u>	<u>\$ 227,436</u>	<u>\$ 102,977</u>	<u>\$1,431,609</u>
	76.9%	15.9%	7.2%	100.0%

The notes to the financial statements are an integral part of these statements

THE BLACKFOOT CHALLENGE, INC.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 520,345	\$ 392,616
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Realized and unrealized gain	(211,736)	(186,659)
Prior period adjustment	44,340	-
Forgiveness of refundable advance	(138,495)	-
Changes in operating assets and liabilities:		
Accounts receivables	55,394	(144,860)
Accounts payable	(833)	(6,609)
Accrued liabilities	(24,008)	67,364
Total adjustments	(275,338)	(270,764)
Net Cash Flows from Operating Activities	245,007	121,852
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments and endowment funds	12,906	11,609
Purchase of investments and endowment funds	(39,744)	(84,270)
Net Cash Flows from Investing Activities	(26,838)	(72,661)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	-	138,495
Net Cash Flows from Financing Activities	-	138,495
Net Change in Cash and Cash Equivalents	218,169	187,686
CASH AND CASH EQUIVALENTS		
Beginning of year	342,689	155,003
End of year	\$ 560,858	\$ 342,689
RECONCILIATION WITH THE FINANCIAL STATEMENTS		
Cash and cash equivalents on the statement of financial position	\$ 560,858	\$ 342,689
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Forgiveness of the refundable advance (Financing Activity)	\$ 138,495	\$ -

The notes to the financial statements are an integral part of these statements

THE BLACKFOOT CHALLENGE, INC.
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2021 and 2020

NOTE 1. ORGANIZATION AND NATURE OF ACTIVITIES

The Blackfoot Challenge, Inc. is a landowner-based nonprofit organization that coordinates management of the Blackfoot River, its tributaries, and adjacent lands. The Blackfoot Challenge, Inc. was founded in 1993 as an organization exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code.

The Blackfoot Challenge, Inc. (Blackfoot) coordinates efforts that will conserve and enhance the natural resources and rural way of life in the Blackfoot River Valley for present and future generations. Blackfoot's funding is primarily from individual contributions and a combination of private and public sector grants.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

Blackfoot's financial statements 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 (FASB).

B. Cash and Cash Equivalents

For purposes of the statement of cash flows, Blackfoot considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. From time to time, certain bank accounts that are subject to coverage by the Federal Deposit Insurance Corporation (FDIC) exceed their insured limits. At December 31, 2021 there were approximately \$390,000 in bank balances that exceeded FDIC insured limits. At December 31, 2020, there were approximately \$215,000 bank balances exceeding FDIC insured limits. Blackfoot has not experienced any losses on uninsured bank amounts. Accordingly, Blackfoot does not believe it is exposed to any significant credit risk on its cash balances.

C. Accounts Receivable

Accounts receivable consists primarily of funds due from grants as reimbursement for expenses incurred. Receivables are stated at unpaid balances and interest is not charged. Receivables are considered past due if not paid timely in accordance with grant agreements. There were no significant receivables considered past due at December 31, 2021 or 2020. Management determined an allowance was not necessary based on the nature of the receivable, economic considerations, and history with the grantor. Management reviews accounts receivable subsidiary balances periodically and writes off any receivable determined to be uncollectible. There were no receivables written off in 2021 or 2020. Due to the inherent uncertainties in estimating an allowance for uncollectible receivables, it is at least reasonably possible that the estimate used will change in the near term.

THE BLACKFOOT CHALLENGE, INC.
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2021 and 2020

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Investments

Blackfoot carries its marketable equity and debt securities at fair value. Cash and money market accounts are valued at their carrying amounts, which approximates fair value. Increases or decreases in fair value are recognized in the current period and reported on the Statement of Activities as Unrealized Gain or Loss. Interest and dividends are reported as increases in net assets without donor restrictions on the Statement of Activities.

Blackfoot's investments in securities are exposed to various risks, such as interest rate, credit, and market risks. Due to the level of risks associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the investment balances and the amounts reported in the financial statements.

E. Endowment Funds

The board of directors created the Blackfoot Stewardship Endowment Fund in November 2008 and made an initial contribution of \$33,000 and created the Blackfoot Challenge Endowment Committee to administer the fund.

The board of directors created the Blackfoot Community Conservation Area (BCCA) Endowment Fund in May 2010 and made an initial contribution of \$300,000 to fund the account held at US Bank and designated the Blackfoot Challenge Endowment Committee to administer the fund.

Earnings from the endowments are used to benefit the BCCA. The BCCA is an innovated effort involving community forest ownership and cooperative ecosystem management across public and private lands in the heart of the 1.5 million acre Blackfoot watershed. The BCCA borders the Bob Marshall and Scapegoat Wilderness areas.

F. BCCA Land

Land was donated to Blackfoot in 2008 and was recorded at fair value at the time of the donation. The land is part of the BCAA and is managed and administered by a 15-member committee of the Blackfoot Challenge, the BCCA Council. The land is used for developing a working landscape that balances ecological diversity with local economic sustainability for the future benefit of the Blackfoot Watershed Community.

THE BLACKFOOT CHALLENGE, INC.
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2021 and 2020

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Compensated Absences

All regular full and part-time employees whose salaries are based on service for 12 months are allowed to accumulate paid time off (PTO). PTO begins accruing the first of the month following the date of hire. PTO accrual is based on a graduated schedule of length of employment ranging from 12 days per year to a maximum of 24 days per year. Employees may carry over a maximum of 20 PTO days into the new calendar year. In the event of termination, the PTO balance is paid at the current rate of pay.

H. Income Tax Status

Blackfoot is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, the increase in net assets is generally not subject to taxation. Blackfoot is required to file a Return of Organization Exempt from Income Tax Return (Form 990) annually. No provision for income tax has been recorded in the financial statements because management believes there was no unrelated business income in 2021 or 2020.

I. Net Assets

Net assets, revenue, support, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Net assets and changes are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and activities that are not subject to donor or grantor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating fund and two quasi-endowment funds.

Net Assets with Donor Restrictions – Net assets subject to donor-imposed or grantor-imposed restrictions. These restrictions include restrictions that expire by either the time restriction ending or the purpose restriction being accomplished. Once restrictions are met, the restrictions are accounted for as net assets released from restriction and reclassified as net assets without donor restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as net assets without donor restrictions.

J. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and the reported amounts of revenue and expenses. Actual amounts could differ from those estimates, and those differences could be material to the financial statements taken as a whole.

THE BLACKFOOT CHALLENGE, INC.
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2021 and 2020

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Revenue Recognition

Blackfoot recognizes revenue following guidance of FASB ASU 2018-08 (Topic 958) and FASB ASU 2014-09 (Topic 606).

Topic 606 applies to all contracts with customers, except for leases, insurance contracts, financial instruments, and certain nonmonetary exchanges and certain guarantees. A core principal of Topic 606 is that revenue should be recognized from customers for the transfer of goods or services equal to the amount expected to be received for those goods or services and how an entity should identify performance obligations. Topic 606 requires disclosures about the nature, amount, and timing of revenue and cash flows arising from customer contracts, including significant estimates and judgments.

Distinguishing between contributions and exchange transactions determines whether the accounting follows Topic 958 or Topic 606. An entity follows guidance from Topic 958 for contributions and applies guidance from Topic 606 for exchange transactions. Guidance from Topic 958 indicates that if the possibility a condition will not be met is remote, a conditional promise to give is considered unconditional and contribution revenue is immediately recognized and classified as net assets without donor restrictions or net assets with donor restrictions.

Blackfoot's three largest sources of revenue and support are grants, donations, and investment income. Grant and donation revenue are recognized following guidance in Topic 958. All other revenue is recognized at a point in time following guidance of Topic 606. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or the purpose restriction is accomplished) in the reporting period in which the revenue is recognized.

Blackfoot's activities and operations were negatively impacted by results of the world-wide coronavirus pandemic and the Montana Governor's lockdown orders impacting travel and other activities in 2020 that continued into 2021 as the lockdown orders and Covid-related restrictions were eventually lifted.

The timing of revenue recognition, billings, and cash receipts results in billed receivables on the statement of financial position. The balances of receivables for the years ended December 31, 2021, 2020, and 2019 are as follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Receivables	\$ 200,640	\$ 256,034	\$ 82,773

THE BLACKFOOT CHALLENGE, INC.
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2021 and 2020

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Expense Allocations

Program and supporting activity costs are summarized on a functional basis in the Statement of Activities. The Statement of Functional Expenses presents the natural classification of expenses by function.

Certain costs have been allocated among program and supporting services benefited. All expenses are allocated on an internally determined basis of estimated time and effort.

Blackfoot reports expenses by the following functions:

Program – includes all expenses related to carrying out Blackfoot’s mission focusing on conservation strategies, restoration activities, stewardship, outreach and education activities.

Management and General – includes expenses related to management and administrative activities.

Fundraising – includes expenses related to promotional and special events.

M. Advertising

Blackfoot expenses the cost of advertising when first incurred. Advertising expenses for 2021 and 2020 totaled \$4,718 and \$580, respectively.

N. Risk and Uncertainty

Blackfoot is exposed to various risks of losses related to torts, damage or loss of assets, errors or omissions, injuries to employees, economic conditions, and changes in financial markets. Blackfoot mitigates its risk through various insurance policies.

O. Reclassifications

Certain reclassifications have been made to the 2020 financial statement presentation to correspond to the 2021 format. Total net assets and the change in net assets for 2020 are unchanged due to these reclassifications.

THE BLACKFOOT CHALLENGE, INC.
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2021 and 2020

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

P. Recent Accounting Pronouncements

The FASB issued ASU 2016-02: *Leases* in February 2016. This ASU requires the recognition of lease assets and liabilities in the financial statements as a “right-of-use” asset and a lease liability. This ASU supersedes lease accounting requirements of the FASB and requires new, additional disclosures. Lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach.

The FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842) Effective Dates for Certain Entities* on June 3, 2020. This ASU defers the effective date of Topic 606 and Topic 842 for certain entities that had not yet issued their financial statements to support and assist stakeholders as they cope with the challenges and hardships related to the COVID-19 pandemic. Blackfoot elected to defer Topic 842 for annual reporting periods beginning after December 15, 2021.

Blackfoot implemented Topic 842 on January 1, 2022.

Q. Subsequent Events

Management has evaluated subsequent events through October 28, 2022, the date which the financial statements were available for issue.

THE BLACKFOOT CHALLENGE, INC.
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2021 and 2020

NOTE 3. LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditures without donor or other restrictions limiting their use within one year of the statement of financial position date comprise the following:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 560,858	\$ 342,689
Accounts receivable	200,640	256,034
Investments	<u>512,876</u>	<u>453,379</u>
	<u>\$ 1,274,374</u>	<u>\$ 1,052,102</u>

Blackfoot had approximately 158 days of average expenses in cash and cash equivalents in 2021 and approximately 87 days of average expenses in cash and cash equivalents in 2020.

Blackfoot has invested funds in excess of monthly expenses and cash flow requirements in various investment funds. These resources are available if needed to meet short-term cash flow needs.

Blackfoot's endowment is discussed further in Note 5. The board of directors has approved a spending policy. Blackfoot does not intend to spend from the quasi-endowments other than the amount appropriated annually by the board of directors. The actual amount appropriated varies year to year.

NOTE 4. INVESTMENTS

A framework for measuring fair value and defining fair value is provided by GAAP. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs.

THE BLACKFOOT CHALLENGE, INC.
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2021 and 2020

NOTE 4. INVESTMENTS (continued)

GAAP also establishes a fair value hierarchy, which prioritizes the valuation of inputs into three broad levels, as described below:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or market-corroborated quotes.

Level 3 – Significant unobservable prices or inputs where there is little or no market activity for the asset or liability at the measurement date.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Blackfoot's policy for determining the timing of significant transfers between Level 1, Level 2, or Level 3 is at the end of the reporting period.

Cash, money market accounts, and other cash equivalents are valued at their carrying amount, which approximates fair value. Marketable equity securities are stated at fair value based on quoted market prices in active markets.

Mutual funds are valued at the net asset value (NAV). The 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 by the fund outstanding at year end. The NAV is quoted in an active market. Blackfoot reports mutual funds under Level 1.

A significant portion of Blackfoot's investments are subject to the risk of value fluctuation that is inherent in the market. As such, the value of Blackfoot's assets may change frequently. To help manage this risk, Blackfoot's professional investment managers oversee the portfolio and monitor its performance. Blackfoot paid \$12,926 and \$10,589 in fees to investment managers in 2021 and 2020, respectively

THE BLACKFOOT CHALLENGE, INC.
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2021 and 2020

NOTE 4. INVESTMENTS (continued)

Cost, fair value, and net unrealized gain or loss of investments measured on a recurring basis at December 31, 2021 are as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Cash and Cash Equivalents	\$ 21,364	\$ 21,364	\$ -
<u>Level 1</u>			
Mutual Funds			
Equities	181,555	288,991	107,436
Fixed Income	170,921	170,395	(526)
Real Estate	22,562	32,126	9,564
Total Mutual Funds	<u>375,038</u>	<u>491,512</u>	<u>116,474</u>
Total Investments	<u>\$ 396,402</u>	<u>\$ 512,876</u>	<u>\$ 116,474</u>

Cost, fair value, and net unrealized gain or loss of investments measured on a recurring basis at December 31, 2020 are as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Cash and Cash Equivalents	\$ 17,765	\$ 17,765	\$ -
<u>Level 1</u>			
Mutual Funds			
Equities	169,983	246,316	76,333
Fixed Income	160,492	164,993	4,501
Real Estate	22,742	24,305	1,563
Total Mutual Funds	<u>353,217</u>	<u>435,614</u>	<u>82,397</u>
Total Investments	<u>\$ 370,982</u>	<u>\$ 453,379</u>	<u>\$ 82,397</u>

THE BLACKFOOT CHALLENGE, INC.
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2021 and 2020

NOTE 5. ENDOWMENT

Blackfoot's endowment consists of two funds established by its board of directors for the purpose of benefiting the BCCA. As required by GAAP, net assets associated with the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The endowment funds were funded by grants from The Nature Conservancy.

Blackfoot has established the Blackfoot Challenge Endowment Committee to administer the endowment funds. Blackfoot's policy is to adopt a spending policy that maintains the principal balances and spends earnings in accordance with the donor's request. Blackfoot classifies and reports these endowment funds on the statement of financial position as a quasi-endowment in accordance with FASB ASC 958-204-45.

At December 31, 2021, the composition of endowment funds by net asset type was as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment fund	\$ -	\$ -	\$ -
Quasi-endowment funds	<u>1,602,227</u>	<u>-</u>	<u>1,602,227</u>
Total	<u>\$ 1,602,227</u>	<u>\$ -</u>	<u>\$ 1,602,227</u>

At December 31, 2020, the composition of endowment funds by net asset type was as follows:

	<u>Restrictions</u>	<u>Restrictions</u>	<u>Total</u>
Donor-restricted endowment fund	\$ -	\$ -	\$ -
Quasi-endowment funds	<u>1,423,150</u>	<u>-</u>	<u>1,423,150</u>
Total	<u>\$ 1,423,150</u>	<u>\$ -</u>	<u>\$ 1,423,150</u>

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 absent explicit donor stipulations to the contrary. As a result of this interpretation, Blackfoot classifies as with donor restrictions net assets (a) the original value of gifts donated to the permanent endowment from donors, (b) the original value of subsequent gifts to the permanent endowment from donors, and (c) any accumulations made to the permanent endowment made in accordance with the director of the applicable donor gift instrument at the time the accumulation is added to the fund.

THE BLACKFOOT CHALLENGE, INC.
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2021 and 2020

NOTE 5. ENDOWMENT – (continued)

Interpretation of Relevant Law – (continued)

The remaining portion of the donor-restricted permanent endowment fund is not classified in with net assets with donor restrictions until those amounts are appropriated for expenditure by the Blackfoot Challenge Endowment Committee in a manner consistent with the standard of prudence prescribed by MUPMIFA. Blackfoot's endowment funds are classified as board-designated without donor restrictions net assets. Investment income is considered net assets without donor restrictions.

In accordance with MUPMIFA, Blackfoot considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purposes of the fund and the donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation or deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the fund and organization;
- The investment policies of the organization

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor, board of directors, or MUPMIFA requires Blackfoot to retain as a fund of perpetual duration (underwater endowments). In accordance with MUPMIFA and GAAP, deficiencies of this nature are required to be reported as net assets without donor restriction. There were no funds with deficiencies in 2021 or 2020.

Return Objectives and Risk Parameters

Blackfoot has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and activities supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that Blackfoot must hold in perpetuity or for a donor-specified period as well as board-designated endowment funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield of 5%. Blackfoot expects its endowment funds over time to provide a reasonable level of income to support the spending policy authorized by the Board of Directors and to grow equity assets. Actual returns in any given year may vary from this amount.

THE BLACKFOOT CHALLENGE, INC.
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2021 and 2020

NOTE 5. ENDOWMENT – (continued)

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, Blackfoot relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Blackfoot targets a diversified asset allocation including cash, cash equivalents, equity securities, and mutual funds to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Blackfoot’s spending policy allows for an annual distribution up to 5% of the three-year average market value of the funds as calculated on four quarters ending December 31, not to exceed the average net earnings, growth, and income of the three-year period. Blackfoot expects its spending policy to allow the endowment to grow and to maintain the purchasing power of the endowment assets.

Changes in the endowment net assets composition by fund type for the year ended December 31, 2021 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, January 1, 2021	\$ 1,423,150	\$ -	\$1,423,150
Investment return			
Investment income	29,808	-	29,808
Net appreciation	<u>159,056</u>	<u>-</u>	<u>159,056</u>
Total investment return	188,864	-	188,864
Appropriations, fees, and other expenses	<u>(9,787)</u>	<u>-</u>	<u>(9,787)</u>
Endowment net assets, December 31, 2021	<u>\$ 1,602,227</u>	<u>\$ -</u>	<u>\$1,602,227</u>

THE BLACKFOOT CHALLENGE, INC.
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2021 and 2020

NOTE 5. ENDOWMENT – (continued)

Changes in the endowment net assets composition by fund type for the year ended December 31, 2020 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, January 1, 2020	\$ 1,216,255	\$ -	\$1,216,255
Investment return			
Investment income	74,885	-	74,885
Net depreciation	<u>139,997</u>	<u>-</u>	<u>139,997</u>
Total investment return	214,882	-	214,882
Appropriations, fees, and other expenses	<u>(7,987)</u>	<u>-</u>	<u>(7,987)</u>
Endowment net assets, December 31, 2020	<u>\$ 1,423,150</u>	<u>\$ -</u>	<u>\$1,423,150</u>

Cost, fair value, and net unrealized gain or loss of endowment funds measured on a recurring basis at December 31, 2021 and 2020 are as follows:

	<u>2021</u>			<u>2020</u>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Cash	\$ 65,352	\$ 65,352	\$ -	\$ 51,243	\$ 51,243	\$ -
<u>Level 1</u>						
Mutual Funds						
Equities	547,775	897,499	349,724	498,343	780,323	281,980
Fixed Income	535,908	535,084	(824)	505,202	519,180	13,978
Real Estate	<u>71,357</u>	<u>104,292</u>	<u>32,935</u>	<u>63,423</u>	<u>72,404</u>	<u>8,981</u>
Total Mutual Funds	<u>1,155,040</u>	<u>1,536,875</u>	<u>381,835</u>	<u>1,066,968</u>	<u>1,371,907</u>	<u>304,939</u>
Total	<u>\$1,220,392</u>	<u>\$1,602,227</u>	<u>\$ 381,835</u>	<u>\$1,118,211</u>	<u>\$1,423,150</u>	<u>\$ 304,939</u>

THE BLACKFOOT CHALLENGE, INC.
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2021 and 2020

NOTE 6. BCCA LAND

The Blackfoot Community Conservation Area (BCCA) is an innovative effort involving community forest ownership and cooperative ecosystem management across public and private lands in the heart of the 1.5 million acre Blackfoot watershed. The BCCA is located at the southern end of the Crown of the Continent Ecosystem bordering the Bob Marshall and Scapegoat Wilderness areas. The BCCA encompasses an important transition zone between wilderness, national forest and productive valley bottoms with lush riparian and wetland areas and important wildlife habitat.

The BCCA Project involves two distinct phases. Phase I involves local ownership and management of approximately 5,600 acres of former Plum Creek Timber Company lands transferred from The Nature Conservancy to Blackfoot in 2008. Phase II involves joint management of these lands with the larger BCCA itself – the surrounding public and private lands comprising a 41,000-acre multiple-use demonstration area for the watershed. BCCA land is a crucial component of Blackfoot’s mission and program activities. A management plan for BCCA was updated in June 2017 guiding land management decisions. The plan is intended to be a dynamic document pooling technical planning resources and local community-based knowledge.

Significant management goals include: managing habitat promoting diverse wildlife populations; sustainable forestry management; managing fuel levels utilizing prescribed fire, thinning, or other management practices; implementing riparian and wetland restoration and conservation strategies; prevention of noxious and invasive weed infestations; providing responsible recreation uses; promoting natural resource education, research, and learning opportunities; and developing an economically self-sustaining resource supporting the management of BCCA.

BCCA land is presented in the statement of financial position at fair value on the date received at \$1,891,284 for the years ended December 31, 2021 and 2020.

THE BLACKFOOT CHALLENGE, INC.
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2021 and 2020

NOTE 7. NET ASSET CLASSIFICATION

Net assets at December 31, 2021 and 2020 consisted of the following:

	<u>2021</u>	<u>2020</u>
Net Assets Without Donor Restriction:	\$ 2,450,188	\$ 2,182,077
<u>Board Designated</u>		
Operating Fund	185,536	163,956
Stewardship Quasi - Endowment Fund	920,484	818,899
BCCA Quasi - Endowment Fund	681,743	604,251
	<u>1,787,763</u>	<u>1,587,106</u>
Total	<u>\$ 4,237,951</u>	<u>\$ 3,769,183</u>
 Net Assets with Donor or Grantor Restriction:		
<u>Subject to expenditure for specified purpose and time restriction:</u>		
Program Reserve	\$ 95,569	\$ 37,569
Program Funds	260,760	70,000
BCP Operating Fund	66,580	219,423
Total	<u>\$ 422,909</u>	<u>\$ 326,992</u>

NOTE 8. REFUNDABLE ADVANCE

The Refundable Advance is comprised of a loan under the Paycheck Protection Program (PPP) administered by the Small Business Association (SBA). Blackfoot elected to account for this loan following guidance of FASB ASC 958-605. The advance is unsecured and fully guaranteed by the Federal government. Blackfoot is eligible for forgiveness of up to 100% of the loan amount upon meeting certain requirements during 2020. Blackfoot will be required to repay any unforgiven amount with interest at 1.00% annually in monthly principal and interest payments commencing upon notification of partial forgiveness or non-forgiveness.

Blackfoot received notification of 100% forgiveness in April 2021. Forgiveness is reported as grant income on the statement of activities.

THE BLACKFOOT CHALLENGE, INC.
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2021 and 2020

NOTE 9. OPERATING LEASES

Blackfoot leases offices space under terms of a month-to-month lease. Terms of this lease require the lessee to pay the actual cost of heat for the office space. Rent expense totaled \$5,387 and \$4,645 for the years ended December 31, 2021 and 2020, respectively.

NOTE 10. CONCENTRATIONS

Blackfoot receives a significant level of funding from federal agencies. Any significant decrease in this level of funding could result in substantial negative impact on Blackfoot's operations.

One entity represented approximately 69% of total accounts receivable at December 31, 2021 and four different entities collectively represented approximately 82% of total accounts receivable at December 31, 2020.

NOTE 11. FUNDRAISING EXPENSES

Fundraising expenses in 2021 totaled \$83,006 representing approximately 6.2% of total expenses and fundraising expenses in 2020 totaled \$102,977 representing approximately 7.2% of total expenses.

NOTE 12. RETIREMENT PLAN

Blackfoot implemented a SIMPLE IRA plan for its employees who meet the eligibility requirements in December 2015. Blackfoot will match up to 3% of employee contributions. Blackfoot contributed \$13,709 and \$15,877 in 2021 and 2020, respectively.

NOTE 13. CONTINGENCIES

Blackfoot may be subject to various claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its operations and activities from time to time. Management does not believe there are any matters that would have a material adverse effect on its financial position.

THE BLACKFOOT CHALLENGE, INC.
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2021 and 2020

NOTE 14. IN-KIND CONTRIBUTIONS

Blackfoot had grant agreements requiring certain in-kind contributions or matching funds for the years ended December 31, 2021 and 2020. A summary of in-kind support and/or matching funds received for federal awards for the year ended December 31, 2021 follows:

	In-Kind/Match Received	In-Kind/Match Required
USDA NRCS 68-0325-18-006	\$ 128,491	\$ 356,436
USFS 21-PA-11011500-023	-	15,905
BLM L17AC00248	-	8,750
DNRC LGA-20-002	3,480	1,000
USDA 16-CS-11015600-040	28,783	83,099
USDA 16-CS-11011600-041	14,484	13,110
BLM L19AC00056	27,515	46,226
USFS 19-PA-1101500-007	-	20,259
USFS 16-PA-11011600-062	14,074	20,950
USDA NR200325XXXXG004	25,907	95,500
DNRC HZF-19-005	36,610	27,440
DNRC HZF-20-002	-	12,500
DNRC WSF-19-002	2,470	90,000
DNRC WSF-21-002	-	65,625
Soil & Water Conservation Districts of Montana		
USDA NRCS 68-032-18-005	-	7,500
	\$ 281,813	\$ 864,300

In-kind or matching requirements vary depending on the grant, which often are multiple year awards and in-kind or matching funds may be received at varying times in each year. Blackfoot believes it is in compliance with its grants as of December 31, 2021.

THE BLACKFOOT CHALLENGE, INC.
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2021 and 2020

NOTE 14. IN-KIND CONTRIBUTIONS – (continued)

A summary of in-kind support and/or matching funds received for federal awards for the year ended December 31, 2020 follows:

	In-Kind/Match Received	In-Kind/Match Required
USFWS CA F18AC00879	\$ 13,500	\$ 13,500
Bureau of Land Mngmt L15AC00056	16,376	8,900
Bureau of Land Mngmt L17AC00168	3,750	5,000
Bureau of Land Mngmt L17AC00248	7,000	8,750
Bureau of Land Mngmt L19AC00056	59,568	31,090
USDA FS 19-JV-11221637-132	1,665	4,000
USDA FS 18-CA-11132543-050	3,802	40,000
USDA FS 14-PA-11011200-024	9,305	9,305
USDA FS 15-CS-11011600-043	35,365	35,365
USDA FS16-CS-11015600-040	31,448	34,750
USDA FS16-CS-11015600-041	13,110	13,110
USDA FS 16-PA-11011600-062	11,224	20,950
USDA FS 19-PA-11011500-007	150	4,259
National Fish & Wildlife Foundation	241,994	241,994
DNRC WSF-18-004	175,715	90,000
DNRC WSF-19-002	3,808	90,000
DNRC HZF 19-005	25,200	27,440
DNRC LGA 19-004	1,000	1,000
DNRC LGA 20-002	1,000	1,000
Livestock Loss Prevention (Wolf)	9,950	9,950
Livestock Loss Prevention	11,326	11,326
	\$ 676,256	\$ 701,689

In-kind or matching requirements vary depending on the grant, which often are multiple year awards and in-kind or matching funds may be received at varying times in each year. Blackfoot believes it was in compliance with its grants as of December 31, 2020.

THE BLACKFOOT CHALLENGE, INC.
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2021 and 2020

NOTE 15. PRIOR PERIOD ADJUSTMENT

An error was identified by management in 2022 while closing the 2021 accounting records. One grant received in prior years was determined not to have been billed for reimbursement of various costs that Blackfoot had incurred in prior years. The effect of this error resulted in the following adjustments:

	December 31, 2020 Balance as <u>Originally Reported</u>	December 31, 2020 Balance as <u>Restated</u>	<u>Change</u>
Accounts receivable	\$ 256,034	\$ 300,374	\$ 44,340
Net Assets - without donor restrictions	\$ 3,769,183	\$ 3,813,523	\$ 44,340
Net Assets - Total	\$ 4,096,175	\$ 4,140,515	\$ 44,340
Change in Net Assets	\$ 392,616	\$ 436,956	\$ 44,340

NOTE 16. ECONOMIC CONDITIONS

Subsequent to year end, the United States and global financial markets experienced significant declines in value resulting from uncertainty caused by the world-wide coronavirus pandemic and other events. Blackfoot is closely monitoring its investment portfolio, including endowment funds, and its liquidity and is actively working to minimize the impact of these declines. Blackfoot's financial statements do not include adjustments to fair value that have resulted from these declines.

The coronavirus pandemic was declared a pandemic in March 2020 negatively impacting the national economy, the Montana economy, and financial markets. The impact of the coronavirus on Blackfoot's financial statements is unknown at this time and cannot reasonably be estimated.

Rising interest rates, inflation, and volatility in the financial markets, along with other factors, may have a negative impact on Blackfoot's financial condition in 2022; however, the impact currently is unknown and cannot reasonably be estimated.