



The Blackfoot Challenge, Inc.

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

December 31, 2019 and 2018

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

Report on the Financial Statements

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, 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Blackfoot Challenge, Inc. as of December 31, 2019 and 2018 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.

Peterson CPA Group, P.C.

Missoula, Montana
September 22, 2020

FINANCIAL STATEMENTS

THE BLACKFOOT CHALLENGE, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2019 and 2018

	2019	2018
ASSETS		
Cash and cash equivalents	\$ 155,003	\$ 181,228
Accounts receivable	111,174	82,773
Investments	400,954	369,459
Endowment	1,216,255	1,055,302
BCCA land	1,891,284	1,891,284
Total Assets	\$ 3,774,670	\$ 3,580,046
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 10,139	\$ 12,433
Accrued liabilities	60,972	68,670
Total Liabilities	71,111	81,103
 NET ASSETS		
Without donor restrictions	3,410,478	3,168,196
With donor restrictions	293,081	330,747
Total Net Assets	3,703,559	3,498,943
Total Liabilities and Net Assets	\$ 3,774,670	\$ 3,580,046

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

THE BLACKFOOT CHALLENGE, INC.

STATEMENT OF ACTIVITIES
Year Ended December 31, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE AND SUPPORT			
Donations	\$ 221,904	\$ -	\$ 221,904
Grants	-	993,205	993,205
Events and outreach	1,428	-	1,428
Interest and dividends	39,490	-	39,490
Realized gain	42,081	-	42,081
Unrealized gain	181,778	-	181,778
Less: investment fees	<u>(9,931)</u>	<u>-</u>	<u>(9,931)</u>
Total Revenue and Support	476,750	993,205	1,469,955
Net assets released from restrictions	<u>1,030,871</u>	<u>(1,030,871)</u>	<u>-</u>
Total	<u>1,507,621</u>	<u>(37,666)</u>	<u>1,469,955</u>
EXPENSES			
Program	986,313	-	986,313
Management and general	213,965	-	213,965
Fundraising	<u>65,061</u>	<u>-</u>	<u>65,061</u>
Total Expenses	<u>1,265,339</u>	<u>-</u>	<u>1,265,339</u>
Change in Net Assets	242,282	(37,666)	204,616
NET ASSETS			
Beginning of year	<u>3,168,196</u>	<u>330,747</u>	<u>3,498,943</u>
End of year	<u>\$ 3,410,478</u>	<u>\$ 293,081</u>	<u>\$ 3,703,559</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, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE AND SUPPORT			
Donations	\$ 178,288	\$ -	\$ 178,288
Grants	-	928,977	928,977
Events and outreach	2,265	-	2,265
Interest and dividends	34,048	-	34,048
Realized gain	27,988	-	27,988
Unrealized loss	(111,205)	-	(111,205)
Less: investment fees	<u>(10,097)</u>	<u>-</u>	<u>(10,097)</u>
Subtotal	121,287	928,977	1,050,264
Net assets released from restrictions	<u>1,008,682</u>	<u>(1,008,682)</u>	<u>-</u>
TOTAL REVENUE AND SUPPORT	<u>\$ 1,129,969</u>	<u>\$ (79,705)</u>	<u>\$ 1,050,264</u>
EXPENSES			
Program	\$ 1,010,860	\$ -	\$ 1,010,860
Management and general	215,936	-	215,936
Fundraising	<u>69,164</u>	<u>-</u>	<u>69,164</u>
TOTAL EXPENSES	<u>\$ 1,295,960</u>	<u>\$ -</u>	<u>\$ 1,295,960</u>
CHANGE IN NET ASSETS	(165,991)	(79,705)	(245,696)
NET ASSETS			
Beginning of year	<u>3,334,187</u>	<u>410,452</u>	<u>3,744,639</u>
End of year	<u>\$ 3,168,196</u>	<u>\$ 330,747</u>	<u>\$ 3,498,943</u>

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, 2019

	Program	Management & General	Fundraising	Total
Salaries and wages	\$ 320,028	\$ 118,179	\$ 42,099	\$ 480,306
Payroll taxes and other	30,380	11,219	3,996	45,595
Employee benefits	67,477	24,918	8,876	101,271
Professional services	340,649	16,707	1,765	359,121
Project costs	99,521	83	178	99,782
Advertising	1,411	867	-	2,278
Bank and service fees	9,962	72	372	10,406
Dues and subscriptions	700	2,009	750	3,459
Equipment costs	3,833	1,556	-	5,389
Insurance	4,662	4,471	-	9,133
Meeting expenses	3,330	2,736	29	6,095
Miscellaneous	9,028	3,334	1,188	13,550
Office expense	808	298	106	1,212
Postage	263	1,271	913	2,447
Printing	1,749	3,027	1,333	6,109
Property taxes	6,216	-	-	6,216
Rent and occupancy	3,971	1,466	523	5,960
Sub awards	60,300	-	-	60,300
Supplies	2,349	320	92	2,761
Technology	1,295	4,544	-	5,839
Telephone and internet	195	4,902	135	5,232
Training	433	1,042	-	1,475
Travel	27,684	10,944	2,706	41,334
Total expenses by function	996,244	213,965	65,061	1,275,270
Less expenses included within revenue and support in the statement of activities				
Investment fees	(9,931)	-	-	(9,931)
Functional expenses reported on the statement of activities	<u>\$ 986,313</u>	<u>\$ 213,965</u>	<u>\$ 65,061</u>	<u>\$ 1,265,339</u>
	77.9%	16.9%	5.1%	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, 2018

	Program	Management & General	Fundraising	Total
Salaries and wages	\$ 307,466	\$ 120,161	\$ 28,637	\$ 456,264
Payroll taxes and other	32,018	11,446	3,134	46,598
Employee benefits	57,263	35,520	12,127	104,910
Professional services	338,534	14,184	12,529	365,247
Project costs	65,313	519	4,018	69,850
Advertising	1,285	1,258	20	2,563
Bank and service fees	10,241	367	-	10,608
Dues and registration	100	769	2,268	3,137
Equipment costs	-	4,564	-	4,564
Insurance	4,070	4,481	-	8,551
Meeting expenses	7,685	547	199	8,431
Miscellaneous	20,108	844	524	21,476
Office expense	58	736	-	794
Postage	975	753	514	2,242
Printing	3,018	1,160	2,334	6,512
Property taxes	6,364	-	-	6,364
Rent and occupancy	2,400	2,804	-	5,204
Sub Awards	120,000	-	-	120,000
Supplies	1,907	414	-	2,321
Technology	727	5,627	-	6,354
Telephone and internet	1,857	1,793	219	3,869
Training	1,351	97	-	1,448
Travel	38,217	7,892	2,641	48,750
Total expenses by function	<u>\$ 1,020,957</u>	<u>\$ 215,936</u>	<u>\$ 69,164</u>	<u>\$ 1,306,057</u>
Less expenses included within revenue and support in the statement of activities				
Investment fees	<u>(10,097)</u>	<u>-</u>	<u>-</u>	<u>(10,097)</u>
Functional expenses reported on the statement of activities	<u>\$ 1,010,860</u>	<u>\$ 215,936</u>	<u>\$ 69,164</u>	<u>\$ 1,295,960</u>
	78.0%	16.7%	5.3%	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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 204,616	\$ (245,696)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Realized and unrealized (gain) loss	(224,111)	80,399
Changes in operating assets and liabilities		
Accounts receivables	(28,401)	46,961
Accounts payable	(2,294)	10,505
Accrued liabilities	(7,698)	826
Total adjustments	<u>(262,504)</u>	<u>138,691</u>
Net Cash Flows from Operating Activities	<u>(57,888)</u>	<u>(107,005)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments and endowment funds	103,710	966,973
Purchase of investments and endowment funds	<u>(72,047)</u>	<u>(945,694)</u>
Net Cash Flows from Investing Activities	<u>31,663</u>	<u>21,279</u>
Net Change in Cash and Cash Equivalents	(26,225)	(85,726)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>181,228</u>	<u>266,954</u>
End of year	<u>\$ 155,003</u>	<u>\$ 181,228</u>
RECONCILIATION WITH THE FINANCIAL STATEMENTS		
Cash and cash equivalents on the statement of financial position	<u>\$ 155,003</u>	<u>\$ 181,228</u>

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, 2019 and 2018

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. Adoption of New Accounting Standard and Change in Accounting Principle

The FASB issued Accounting Standards Update (ASU) 2016-01: *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* in January 2016. This ASU, as subsequently amended by ASUs 2018-03, 2018-19, and 2019-04, addresses certain respects of recognition, measurement, presentation, and disclosure of financial instruments. Blackfoot implemented this ASU, as amended, on January 1, 2019 following guidance prescribed in the ASUs and has adjusted the presentation of the financial statements accordingly. No changes in prior period amounts resulted from implementing this ASU.

The FASB issued ASU 2016-18: *Statement of Cash Flows (Topic 230): Restricted Cash* in November 2016. This ASU requires the statement of cash flows explain the change during the period in total cash, cash equivalents, and restricted cash. Blackfoot implemented provisions of this ASU on January 1, 2019 following guidance in this ASU and has adjusted the presentation of the financial statements accordingly. No change to prior period totals resulted from implementing this ASU.

THE BLACKFOOT CHALLENGE, INC.

NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2019 and 2018

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Adoption of New Accounting Standard and Change in Accounting Principle, continued

The FASB issued ASU 2018-08: *Not-for-Profit Entities* (Topic 958), in June 2018. This ASU clarified the scope and the accounting guidance for contributions received and made assisting in the determination of whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and determining whether a contribution is conditional.

Blackfoot adopted Topic 958 on January 1, 2019 following guidance prescribed in the ASU and determined grants and contributions followed guidance of Topic 958. No change in prior year amounts resulted from implementing this ASU.

The FASB issued Accounting Standards Update (ASU) 2014-09: *Revenue from Contracts with Customers*, Topic 606, in May 2014 along with subsequent amendments and updates providing comprehensive guidance on the recognition of revenue from customers arising from the transfer of goods or services, guidance on accounting for certain contracts, and requires significant new disclosures. Blackfoot adopted Topic 606 on January 1, 2019 using a modified retrospective approach applied to all contracts that were not completed as of December 31, 2018. The cumulative effective of applying Topic 606 to the prior periods was not material to Blackfoot's financial statements. Accordingly, Blackfoot did not retroactively adjust its presentations for periods prior to adoption.

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.

THE BLACKFOOT CHALLENGE, INC.

NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2019 and 2018

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. 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. There were no amounts at December 31, 2019 that exceeded FDIC insured limits. At December 31, 2018, there were \$23,977 in 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.

D. 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, 2019 or 2018. 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 2019 or 2018. 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.

E. 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 with 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.

THE BLACKFOOT CHALLENGE, INC.

NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2019 and 2018

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. 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.

G. 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.

H. 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.

I. 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 2019 or 2018.

THE BLACKFOOT CHALLENGE, INC.

NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2019 and 2018

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. 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.

K. 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.

L. Revenue Recognition

Prior to the adoption of Topic 958 and Topic 606, revenue was recognized when earned following guidance of FASB ASC 605. Contributions were recognized as revenue when received or unconditionally promised.

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. No significant economic factors are noted impacting revenue recognition.

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.

THE BLACKFOOT CHALLENGE, INC.

NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2019 and 2018

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. 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 2019 and 2018 totaled \$2,279 and \$2,563, 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 2018 financial statement presentation to correspond to the 2019 format. Total net assets and the change in net assets for 2018 are unchanged due to these reclassifications.

THE BLACKFOOT CHALLENGE, INC.

NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2019 and 2018

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 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 adopt Topic 842 for annual reporting periods beginning after December 15, 2021. Early implementation is permitted and Blackfoot is currently evaluating the impact of Topic 842 on its financial statements.

Q. Subsequent Events

Management has evaluated subsequent events through September 22, 2020, the date which the financial statements were available for issue. See also Note 14.

THE BLACKFOOT CHALLENGE, INC.

NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2019 and 2018

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>2019</u>
Cash and cash equivalents	\$ 155,003
Accounts receivable	111,174
Investments	<u>400,954</u>
	<u>\$ 667,131</u>

Blackfoot's resources without donor or other restrictions in 2019 is similar to those in 2018.

	<u>2018</u>
Cash and cash equivalents	\$ 181,228
Accounts receivable	82,773
Investments	<u>369,459</u>
	<u>\$ 633,460</u>

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 4. 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, 2019 and 2018

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 \$9,931 and \$10,097 in fees to investment managers in 2019 and 2018, respectively

THE BLACKFOOT CHALLENGE, INC.

NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2019 and 2018

NOTE 4. INVESTMENTS (continued)

Cost, fair value, and net unrealized gain or loss of investments at December 31, 2019 are as follows:

	Cost	Fair Value	Unrealized Gain (Loss)
Cash and Cash Equivalents	\$ 18,284	\$ 18,284	\$ -
<u>Level 1</u>			
Mutual Funds			
Equities - U.S.	134,692	178,526	43,834
Equities - Foreign	35,896	39,986	4,090
Fixed Income	141,361	142,569	1,208
Real Estate	15,600	17,660	2,060
Commodities	4,200	3,929	(271)
Total Mutual Funds	331,749	382,670	50,921
Total Investments	\$ 350,033	\$ 400,954	\$ 50,921

Cost, fair value, and net unrealized gain or loss of investments at December 31, 2018 are as follows:

	Cost	Fair Value	Unrealized Gain (Loss)
Cash and Cash Equivalents	\$ 16,612	\$ 16,612	\$ -
<u>Level 1</u>			
Mutual Funds			
Equities - U.S.	144,826	155,371	10,545
Equities - Foreign	38,502	35,641	(2,861)
Fixed Income	143,181	141,449	(1,732)
Real Estate	15,601	14,242	(1,359)
Commodities	7,200	6,144	(1,056)
Total Mutual Funds	349,310	352,847	3,537
Total Investments	\$ 365,922	\$ 369,459	\$ 3,537

THE BLACKFOOT CHALLENGE, INC.

NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2019 and 2018

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, 2019, 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>1,216,255</u>	<u>-</u>	<u>1,216,255</u>
Total	<u>\$ 1,216,255</u>	<u>\$ -</u>	<u>\$1,216,255</u>

At December 31, 2018, 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>1,055,302</u>	<u>-</u>	<u>1,055,302</u>
Total	<u>\$ 1,055,302</u>	<u>\$ -</u>	<u>\$1,055,302</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, 2019 and 2018

NOTE 5. ENDOWMENT (continued)

Interpretation of Relevant Law (continued)

The remaining portion of the donor-restricted permanent endowment fund that is not classified in with donor restrictions net assets 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 without donor restrictions net assets.

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 2019 or 2018.

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, 2019 and 2018

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, 2019 are as follows:

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Total</u>
Endowment net assets, January 1, 2019	\$ 1,055,302	\$ -	\$1,055,302
Investment return			
Investment income	27,909	-	27,909
Net appreciation	<u>169,169</u>	<u>-</u>	<u>169,169</u>
Total investment return	197,078	-	197,078
Appropriations, fees, and other expenses	<u>(36,125)</u>	<u>-</u>	<u>(36,125)</u>
Endowment net assets, December 31, 2019	<u>\$ 1,216,255</u>	<u>\$ -</u>	<u>\$1,216,255</u>

THE BLACKFOOT CHALLENGE, INC.

NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2019 and 2018

NOTE 5. ENDOWMENT (continued)

Changes in the endowment net assets composition by fund type for the year ended December 31, 2018 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, January 1, 2018	\$ 1,130,487	\$ -	\$1,130,487
Investment return			
Investment income	23,502	-	23,502
Net depreciation	(58,391)	-	(58,391)
Total investment return	(34,889)	-	(34,889)
Appropriations, fees, and other expenses	(40,296)	-	(40,296)
Endowment net assets, December 31, 2018	\$ 1,055,302	\$ -	\$1,055,302

Cost, fair value, and net unrealized gain or loss of endowment funds at December 31, 2019 and 2018 are as follows:

	2019			2018		
	Cost	Fair Value	Unrealized Gain (Loss)	Cost	Fair Value	Unrealized Gain (Loss)
Cash	\$ 48,667	\$ 48,667	\$ -	\$ 41,383	\$ 41,383	\$ -
<u>Level 1</u>						
Mutual Funds						
Equities - U.S.	339,331	530,958	191,627	344,932	446,486	101,554
Equities - Foreign	121,931	138,361	16,430	111,166	104,951	(6,215)
Fixed Income	427,744	431,078	3,334	403,090	398,024	(5,066)
Real Estate	45,235	56,626	11,391	48,439	47,992	(447)
Commodities	11,350	10,565	(785)	19,350	16,466	(2,884)
Total Mutual Funds	945,591	1,167,588	221,997	926,977	1,013,919	86,942
Total	\$994,258	\$1,216,255	\$221,997	\$968,360	\$1,055,302	\$ 86,942

THE BLACKFOOT CHALLENGE, INC.

NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2019 and 2018

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 of \$1,891,284 for the years ended December 31, 2019 and 2018.

THE BLACKFOOT CHALLENGE, INC.

NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2019 and 2018

NOTE 7. NET ASSET CLASSIFICATION

Net assets at December 31, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Net Assets Without Donor Restriction	\$ 2,047,806	\$ 1,983,059
<u>Board Designated</u>		
Operating Fund	145,442	129,835
Stewardship Quasi - Endowment Fund	725,067	639,598
BCCA Quasi - Endowment Fund	<u>491,188</u>	<u>415,704</u>
	<u>1,361,697</u>	<u>1,185,137</u>
Total	<u>\$ 3,409,503</u>	<u>\$ 3,168,196</u>
Net Assets with Donor or Grantor Restriction		
<u>Subject to expenditure for specified purpose and time restriction:</u>		
Program Reserve	\$ 37,569	\$ 37,569
Program Funds	68,786	53,554
BCP Operating Fund	<u>186,726</u>	<u>239,624</u>
Total	<u>\$ 293,081</u>	<u>\$ 330,747</u>

NOTE 8. 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 \$5,960 and \$5,204 for the years ended December 31, 2019 and 2018, respectively.

THE BLACKFOOT CHALLENGE, INC.

NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2019 and 2018

NOTE 9. 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.

Two entities collectively represented approximately 70% of total accounts receivable at December 31, 2019 and two entities different collectively represented approximately 68% of total accounts receivable at December 31, 2018.

NOTE 10. FUNDRAISING EXPENSES

Fundraising expenses in 2019 totaled \$120,841 representing approximately 9.6% of total expenses and fundraising expenses in 2018 totaled \$69,164 representing approximately 5.30% of total expenses.

NOTE 11. 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 \$13,422 and \$11,242 in 2019 and 2018, respectively.

NOTE 12. 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. A former employee filed a matter in Montana Third District Court, Powell County, Montana in 2018. The complaint alleged breach of employment contract. Blackfoot filed a response in 2019 denying the plaintiff's allegations.

This matter was resolved in 2019 without a trial resulting in an immaterial impact to Blackfoot's financial position.

THE BLACKFOOT CHALLENGE, INC.

NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2019 and 2018

NOTE 13. IN-KIND CONTRIBUTIONS

Blackfoot had grant agreements requiring certain in-kind contributions for the years ended December 31, 2019 and 2018. A summary of in-kind support received for federal awards for the year ended December 31, 2019 follows:

	In-Kind Received	In-Kind 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	-	8,750
Bureau of Land Mngmt L19AC00056	48,962	31,090
USDA FS 18-CA-11132543-050	1,765	40,000
USDA FS 14-PA-11011200-024	9,305	9,305
USDA FS 15-CS-11011600-043	27,307	35,365
USDA FS16-CS-11015600-040	21,543	34,750
USDA FS16-CS-11015600-041	13,110	13,110
USDA FS 16-PA-11011600-062	9,244	20,950
USDA FS 19-PA-11011500-007	-	4,259
National Fish & Wildlife Foundation	241,994	241,994
DEQ 217006	243,550	243,550
DNRC WSF-15-002	234,366	90,000
DNRC WSF-16-001	207,945	90,000
DNRC WSF-18-004	82,727	90,000
DNRC WSF-19-002	2,470	90,000
DNRC LGA 19-004	1,000	1,000
DNRC WMG 19-0057	7,800	7,800
DNRC IDG 20-0270	5,940	5,610
MCWD DNRC - AIS RITA 8874	7,300	7,300
MCWD_DNRC RITA 18-8864	2,500	2,500
MCWD_DNRC RITA 18-8865	7,541	7,541
SWCDM_319	690	690
Livestock Loss Prevention (Wolf)	5,126	9,950
Livestock Loss Prevention	11,326	11,326
	\$ 1,227,136	\$ 1,124,239

In-kind requirements vary depending on the grant, which often are multiple year awards and in-kind may be received at varying times in each year. Blackfoot believes it is in compliance with its grants as of December 31, 2019.

THE BLACKFOOT CHALLENGE, INC.

NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2019 and 2018

NOTE 13. IN-KIND CONTRIBUTIONS (continued)

A summary of in-kind support received for federal awards for the year ended December 31, 2018 follows:

	In-Kind Received	In-Kind Required
USFWS CA F13AC00983	\$ 13,500	\$ 13,500
Bureau of Land Mngmt L14AC00070	125,118	17,750
Bureau of Land Mngmt L15AC00056	16,376	8,900
Bureau of Land Mngmt L17AC00168	-	5,000
Bureau of Land Mngmt L17AC00248	-	8,750
USDA FS 14-PA-11011200-024	6,155	9,305
USDA FS 14-PA-11011200-025	13,492	13,492
USDA FS 15-CS-11011600-019	11,878	11,878
USDA FS 15-CS-11011600-043	27,307	35,365
USDA FS16-CS-11015600-040	17,959	28,216
USDA FS16-CS-11015600-041	12,049	13,110
USDA FS 16-PA-11011600-062	9,004	20,950
National Fish & Wildlife Foundation	241,994	241,994
DEQ 217006	157,050	243,550
DNRC WSF-15-002	220,053	90,000
DNRC WSF-16-001	153,195	90,000
DNRC HZF-16-001	61,800	20,361
DNRC LGA 18-003	1,000	1,000
DNRC WMG 17-0030	21,000	21,000
DNRC WMG 18-0034	20,000	20,000
MCWD DNRC - AIS RITA 8846	11,339	11,339
MCWD_DNRC RITA 18-8864	-	2,500
MCWD_DNRC RITA 18-8865	-	7,541
Livestock Loss Prevention	23,524	18,700
	<u>\$ 1,163,791</u>	<u>\$ 954,200</u>

In-kind requirements vary depending on the grant, which often are multiple year awards and in-kind may be received at varying times in each year. Blackfoot believes it was in compliance with its grants as of December 31, 2018.

THE BLACKFOOT CHALLENGE, INC.

NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2019 and 2018

NOTE 14. SUBSEQUENT EVENTS AND 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. 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.

Blackfoot's operations have been negatively impacted by the effects of the world-wide coronavirus pandemic subsequent to year-end. Blackfoot is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the full impact to Blackfoot's financial position is unknown and cannot reasonably be estimated.

Subsequent to year-end, Blackfoot applied for and was approved for a \$138,400 loan under the Paycheck Protection Program created as part of the relief efforts related to the coronavirus pandemic and administered by the Small Business Administration. The loan accrues interest at 1%, but payments are not required to begin for six months after the funding of the loan. Blackfoot is eligible for loan forgiveness of up to 100% of the loan, including accrued interest, upon meeting certain requirements. The loan is unsecured and fully guaranteed by the Federal Government.