The Blackfoot Challenge, Inc.

INDEPENDENT AUDITOR'S REPORT and FINANCIAL STATEMENTS

December 31, 2022 and 2021

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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, 2022 and 2021 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, 2022 and 2021 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 oipinion. 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
June 21, 2023

FINANCIAL STATEMENTS

THE BLACKFOOT CHALLENGE, INC.
STATEMENTS OF FINANCIAL POSITION
At December 31, 2022 and 2021

	2022	2021
ASSETS		
Cash and cash equivalents	$ 1,299,095	$ 560,858
Accounts receivable	200,392	200,640
Investments	427,002	512,876
Endowment	1,328,978	1,602,227
BCCA land	1,891,284	1,891,284
Total Assets	$ 5,146,751	$ 4,767,885
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 38,366	$ 2,697
Accrued liabilities	107,452	104,328
Total Liabilities	145,818	107,025
NET ASSETS		
Without donor restrictions	3,193,724	2,494,528
Without donor restrictions - designated	1,483,290	1,787,763
With donor restrictions	323,919	378,569
Total Net Assets	5,000,933	4,660,860
Total Liabilities and Net Assets	$ 5,146,751	$ 4,767,885

THE BLACKFOOT CHALLENGE, INC.
STATEMENT OF ACTIVITIES
Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Donations	$ 592,887	$ -	$ 592,887
Grants	-	1,718,525	1,718,525
Interest and dividends	54,398	-	54,398
Unrealized loss	(390,616)	-	(390,616)
Less: investment fees	(11,728)	-	(11,728)
	244,941	1,718,525	1,963,466
Net assets released from restrictions	1,773,175	(1,773,175)	-
Total Revenue and Support	2,018,116	(54,650)	1,963,466
EXPENSES			
Program	1,263,086	-	1,263,086
Management and general	256,956	-	256,956
Fundraising	103,351	-	103,351
Total Expenses	1,623,393	-	1,623,393
Change in Net Assets	394,723	(54,650)	340,073
NET ASSETS			
Beginning of year	4,282,291	378,569	4,660,860
End of year	$ 4,677,014	$ 323,919	$ 5,000,933

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

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Donations	$ 541,795	$ -	$ 541,795
Grants	-	1,069,898	1,069,898
Interest and dividends	39,110	-	39,110
Unrealized gain (loss)	211,736	-	211,736
Less: investment fees	(12,926)	-	(12,926)
	779,715	1,069,898	1,849,613
Net assets released from restrictions	1,018,321	(1,018,321)	-
Total Revenue and Support	$ 1,798,036	$ 51,577	$ 1,849,613
EXPENSES			
Program	$ 1,058,441	$ -	$ 1,058,441
Management and general	187,821	-	187,821
Fundraising	83,006	-	83,006
TOTAL EXPENSES	$ 1,329,268	$ -	$ 1,329,268
CHANGE IN NET ASSETS	468,768	51,577	520,345
NET ASSETS			
At December 31, 2020 previously reported	3,769,183	326,992	4,096,175
Prior period adjustment	44,340	-	44,340
At December 31, 2020 Restated	3,813,523	326,992	4,140,515
At December 31, 2021	$ 4,282,291	$ 378,569	$ 4,660,860

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, 2022

	Program	Management & General	Fundraising	Total
Salaries and wages	$ 467,892	$ 100,887	$ 43,179	$ 611,958
Payroll taxes and other	32,656	7,041	3,014	42,711
Employee benefits	71,923	15,508	6,637	94,068
Professional services	464,362	100,126	42,853	607,341
Project costs	114,224	-	-	114,224
Advertising	760	164	70	994
Bank and service fees	11,728	1,790	-	13,518
Dues and subscriptions	3,132	675	289	4,096
Equipment costs	11,727	2,529	1,082	15,338
Insurance	7,153	2,202	-	9,355
Meeting expenses	6,434	1,387	594	8,415
Miscellaneous	8,226	8,481	828	17,535
Office expense	2,600	560	240	3,400
Postage	2,061	445	190	2,696
Printing	7,699	1,660	711	10,070
Property taxes	6,326	-	-	6,326
Rent and occupancy	9,417	2,030	869	12,316
Supplies	8,543	1,686	-	10,229
Technology	7,654	2,357	-	10,011
Telephone and internet	1,821	393	168	2,382
Training	-	895	-	895
Travel	28,476	6,140	2,627	37,243
Total expenses by function	1,274,814	256,956	103,351	1,635,121
Less expenses included within revenue and support in the statement of activities				
Investment fees	(11,728)	-	-	(11,728)
Functional expenses reported on the statement of activities	$1,263,086	$ 256,956	$ 103,351	$1,623,393
	77.8%	15.8%	6.4%	100.0%

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

	Program	Management & General	Fundraising	Total
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 registration	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
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.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 340,073	$ 520,345
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Unrealized (gain) loss on investments and endowment funds	390,616	(211,736)
Prior period adjustment	-	44,340
Forgiveness of refundable advance	-	(138,495)
Changes in operating assets and liabilities:		
Accounts receivables	248	55,394
Accounts payable	35,669	(833)
Accrued liabilities	3,124	(24,008)
Total adjustments	429,657	(275,338)
Net Cash Flows from Operating Activities	769,730	245,007
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments and endowment funds	12,097	12,906
Purchase of investments and endowment funds	(43,590)	(39,744)
Net Cash Flows from Investing Activities	(31,493)	(26,838)
Net Change in Cash and Cash Equivalents	738,237	218,169
CASH AND CASH EQUIVALENTS		
Beginning of year	560,858	342,689
End of year	$1,299,095	$ 560,858
RECONCILIATION WITH THE FINANCIAL STATEMENTS		
Cash and cash equivalents on the statement of financial position	$1,299,095	$ 560,858
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Forgiveness of the refundable advance (Financing Activity)	$ -	$ 138,495

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 Accounting Standard

Blackfoot adopted ASU No. 2016-02 *Leases (Topic 842*), inclusive of ASU 2021-05 Leases (Topic 842): Lessors – Certain Leases with Variable Lease Payments, effective January 1, 2022, using the modified retrospective method under ASU No. 2018-11, Leases (Topic 842): Targeted Improvements. The modified retrospective transition method allows entities to apply the transition requirements at the effective date rather than at the beginning of the earliest comparative period presented. Blackfoot's reporting for comparative periods was not recast and is presented in accordance with ASC 840. The adoption of the new standard did not result in the recording of any right-to-use assets or any lease liabilities on the statement of financial position since Blackfoot elected the short-term lease recognition exemption for all applicable classes of underlying assets. All of Blackfoot's leases have an initial term of less than 12 months.

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. At December 31, 2022, all bank balances were fully FDIC insured. At December 31, 2021, there were approximately $390,000 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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2022 or 2021. 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 2022 or 2021. 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 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.

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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 2022 or 2021. Management has evaluated Blackfoot's tax positions concluding there are no uncertain tax positions in 2022 or 2021.

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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 during part of 2021. There were no significant economic factors impacting revenue recognition in 2022.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Revenue Recognition, continued

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, 2022, 2021, and 2020 are as follows:

	2022	2021	2020
Receivables	$ 200,392	$ 200,640	$ 256,034

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.

N. Advertising

Blackfoot expenses the cost of advertising when first incurred. Advertising expenses for 2022 and 2021 totaled $994 and $4,718, respectively.

O. 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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

P. Reclassifications

Certain reclassifications have been made to the 2021 financial statement presentation to correspond to the 2022 format. Total net assets and the change in net assets for 2021 are unchanged due to these reclassifications.

Q. Subsequent Events

Management has evaluated subsequent events through June 21, 2023, the date which the financial statements were available for issue.

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:

	2022	2021
Cash and cash equivalents	$ 1,299,095	$ 560,858
Accounts receivable	200,392	200,640
Investments	427,002	512,876
	$ 1,926,489	$ 1,274,374

Blackfoot's management and board of directors monitor cash balances and cash flow monthly and have determined a goal of three to six months of expenses in cash is prudent. Blackfoot had approximately 9 months of expenses in cash at December 31, 2022 and approximately 5 months of expenses in cash at December 31, 2021.

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. 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 $11,728 and $12,926 in fees to investment managers in 2022 and 2021, respectively

NOTE 4. INVESTMENTS (continued)

Cost, fair value, and net unrealized gain or loss of investments measured on a recurring basis at December 31, 2022 are as follows:

	Cost	Fair Value	Cumulative Unrealized Gain (Loss)
Cash and Cash Equivalents	$ 18,581	$ 18,581	$ -
Level 1			
Mutual Funds			
Equities	182,261	224,850	42,589
Fixed Income	180,946	153,030	(27,916)
Real Estate	29,716	30,541	825
Total Mutual Funds	392,923	408,421	15,498
Total Investments	$ 411,504	$ 427,002	$ 15,498

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

	Cost	Fair Value	Cumulative Unrealized Gain (Loss)
Cash and Cash Equivalents	$ 21,364	$ 21,364	$ -
Level 1			
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	375,038	491,512	116,474
Total Investments	$ 396,402	$ 512,876	$ 116,474

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, 2022, the composition of endowment funds by net asset type was as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment fund	$ -	$ -	$ -
Quasi-endowment funds	1,328,978	-	1,328,978
Total	$ 1,328,978	$ -	$1,328,978

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

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment fund	$ -	$ -	$ -
Quasi-endowment funds	1,602,227	-	1,602,227
Total	$ 1,602,227	$ -	$1,602,227

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.

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 2022 or 2021.

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.

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, 2022 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, January 1, 2022	$ 1,602,227	$ -	$1,602,227
Investment return			
Investment income	33,137	-	33,137
Net depreciation	(297,225)	-	(297,225)
Total investment return	(264,088)	-	(264,088)
Appropriations, fees, and other expenses	(9,161)	-	(9,161)
Endowment net assets, December 31, 2022	$ 1,328,978	$ -	$1,328,978

NOTE 5. ENDOWMENT – (continued)

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

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

Cost, fair value, and net unrealized gain or loss of endowment funds measured on a recurring basis at December 31, 2022 and 2021 are as follows:

	2022			2021		
	Cost	Fair Value	Cumulative Unrealized Gain (Loss)	Cost	Fair Value	Cumulative Unrealized Gain (Loss)
Cash	$ 56,318	$ 56,318	$ -	$ 65,352	$ 65,352	$ -
Level 1						
Mutual Funds						
Equities	553,122	698,918	145,796	547,775	897,499	349,724
Fixed Income	562,919	477,166	(85,753)	535,908	535,084	(824)
Real Estate	92,959	96,576	3,617	71,357	104,292	32,935
Total Mutual Funds	1,209,000	1,272,660	63,660	1,155,040	1,536,875	381,835
Total	$1,265,318	$1,328,978	$ 63,660	$ 1,220,392	$1,602,227	$ 381,835

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, 2022 and 2021.

NOTE 7. NET ASSET CLASSIFICATION

Net assets at December 31, 2022 and 2021 consisted of the following:

	2022	2021
Net Assets Without Donor Restriction:	$ 3,193,724	$ 2,494,528
Board Designated		
Operating Fund	154,312	185,536
Stewardship Quasi - Endowment Fund	763,077	920,484
BCCA Quasi - Endowment Fund	565,901	681,743
	1,483,290	1,787,763
	$ 4,677,014	$ 4,282,291

NOTE 7. NET ASSET CLASSIFICATION – (continued)

Net Assets with Donor or Grantor Restriction:	2022	2021
Subject to expenditure for specified purpose and time restriction:		
Program Reserve	$ 95,569	$ 95,569
Program Funds	216,420	216,420
BCP Operating Fund	11,930	66,580
	$ 323,919	$ 378,569

NOTE 8. REFUNDABLE ADVANCE

The Refundable Advance was comprised of a loan under the Paycheck Protection Program (PPP) administered by the Small Business Association (SBA) obtained in 2020. Blackfoot elected to account for this loan following guidance of FASB ASC 958-605. The advance was unsecured and fully guaranteed by the Federal government.

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

NOTE 9. LEASES

Blackfoot leases its space for offices under terms of two leases. Blackfoot classifies both lease agreements as operating leases and records the expense on the statements of functional expenses as "rent and occupancy". Blackfoot does not recognize right-of-use assets or lease liabilities for short-term leases (e.g. leases with an original term of 12 months or less) and recognizes lease expense on a straight-line basis over the term of the lease. Neither lease contains any material guarantees or restrictive covenants.

The lease for its Ovando, Montana office is a short-term lease that expired in December 2022 with rents of $400 per month in addition to utility costs. Rents paid under this lease agreement totaled $7,316 in 2022 and $5,387 in 2021. Blackfoot entered into a short-term lease for its Missoula, Montana office in 2022 with an entity that is related to a board member (related party transaction). This agreement was a short-term lease that expired December 31, 2022 and is currently a month-to-month arrangement. Rent paid under this agreement in 2022 totaled $5,000. Rent expense totaled $12,316 and $5,387 for the years ended December 31, 2022 and 2021, respectively.

Both leases are expected to be renewed in 2023 for similar terms. Rent expense for 2023 is expected to be approximately $12,500.

NOTE 10. CONCENTRATIONS
Blackfoot receives a significant level of funding from federal and state agencies. Any significant decrease in this level of funding could result in substantial negative impact on Blackfoot's operations.

One entity represented approximately 86% of total accounts receivable at December 31, 2022 and one entity represented approximately 69% of total accounts receivable at December 31, 2021.

NOTE 11. FUNDRAISING EXPENSES
Fundraising expenses in 2022 totaled $103,351 representing approximately 6.4% of total expenses and fundraising expenses in 2021 totaled $83,006 representing approximately 6.2% 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 $16,783 and $13,709 in 2022 and 2021, 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.

NOTE 14. NEW ACCOUNTING PRONOUNCEMENTS
The FASB issued Accounting Standardfs Update (ASU) No. 2016-13: *Financial Instruments – Credit Losses (Topic 326) – Measurement of Credit Losses on Financial Instruments* in June 2016. This ASU impacts how receivables are reported, how the allowance account is determined, and requires additional, new disclosures. This ASU is effective for fiscal years beginning after December 15, 2022. Blackfoot adopted this ASU on January 1, 2023 with no significant impact on its financial statements.

NOTE 15. IN-KIND CONTRIBUTIONS

Blackfoot had grant agreements requiring certain in-kind contributions or matching funds for the years ended December 31, 2022 and 2021. A summary of in-kind support and/or matching funds received for federal awards for the year ended December 31, 2022 follows:

	In-Kind/Match Received	In-Kind/Match Required
BLM L17AC00168	$ -	$ 5,000
BLM L17AC00248	-	8,750
BLM L19AC00056-02	27,515	46,226
DNRC HZF-19-005	36,610	27,440
DNRC HZF-20-002	36,000	12,500
DNRC WMG-22-0088A	-	10,000
DNRC WSF 23-005	-	38,750
DNRC WSF-19-002	98,411	90,000
DNRC WSF-21-002	76,800	65,625
NFWF 1201.22.073389	37,500	138,230
SOIL & WATER CONSERVATION DISTRICTS OF MT	9,175	7,500
TNC BC BVFLN FY23	15,591	4,500
USDA NR200325XXXXC009	-	16,667
USDA NR200325XXXXG004	96,959	95,500
USDA NRCS 68-0325-18-006	356,344	356,344
USFS 19-PA-1101500-007	4,259	16,000
USFS 21-CS-11011600-044	17,000	8,171
USFS 21-PA-11011500-023	15,200	705
	$ 827,364	$ 947,908

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, 2022.

NOTE 15. IN-KIND CONTRIBUTIONS – (continued)

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 was in compliance with its grants as of December 31, 2021.

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.

NOTE 16. ECONOMIC CONDITIONS – (continued)

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 2023; however, the impact currently is unknown and cannot reasonably be estimated.

June 21, 2023

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

We have audited the financial statements of The Blackfoot Challenge, Inc. for the year ended December 31, 2022, and we will issue our report thereon dated June 21, 2023. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 24, 2023. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by The Blackfoot Challenge, Inc. are described in Note 2 to the financial statements. As described in Note 2B, The Blackfoot Challenge, Inc. changed accounting policies related to leases by adopting FASB Accounting Standards Update No. 2016-02: *Leases*, in 2022. Accordingly, the accounting change has been applied following the guidance in FASB Accounting Standards Update No. 2016-02: *Leases*. We noted no transactions entered into by The Blackfoot Challenge, Inc. during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

> Management's estimate of the fair value reporting related to investments and endowment funds is based on information obtained from the financial institutions managing those funds. We evaluated the key factors and assumptions used to develop the fair value reporting in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

> The disclosure of economic conditions in Note 16 to the financial statements discussing the impact to financial markets and general economic conditions.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a disagreement on a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 21, 2023.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to The Blackfoot Challenge, Inc.'s financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Internal Control

In planning and performing our audit of the financial statements of The Blackfoot Challenge, Inc. as of and for the year ended December 31, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered The Blackfoot Challenge, Inc.'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purposes of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Blackfoot Challenge, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of The Blackfoot Challenge, Inc.'s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of The Blackfoot Challenge, Inc.'s financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

This information is intended solely for the use of the Board of Directors and management of The Blackfoot Challenge, Inc. and is not intended to be, and should not be, used by anyone other than these specified parties.

Respectfully,

Peterson CPA Group, P.C.

Missoula, Montana