

**AMERICAN PRAIRIE FOUNDATION dba
AMERICAN PRAIRIE RESERVE**

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014



AMATICS
CPA GROUP

**AMERICAN PRAIRIE FOUNDATION dba
AMERICAN PRAIRIE RESERVE
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
American Prairie Foundation dba American Prairie Reserve
Bozeman, MT

We have audited the accompanying consolidated financial statements of American Prairie Foundation (a nonprofit corporation) dba American Prairie Reserve (the Reserve) and affiliates, which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, and the related consolidated 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 consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' 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 Organization's preparation and fair presentation of the consolidated 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 Organization'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of American Prairie Reserve and affiliates as of December 31, 2015 and 2014, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Amatics CPA Group

Bozeman, Montana
May 23, 2016



AmaticsCPA.com

**AMERICAN PRAIRIE FOUNDATION dba
AMERICAN PRAIRIE RESERVE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	December 31	
	2015	2014
ASSETS		
CURRENT ASSETS		
Cash	\$ 3,946,328	\$ 4,770,787
Cash, temporarily restricted	239,535	183,913
Cash - Montana Prairie Holdings, LLC	121,909	70,912
Accounts receivable	206	-
Accounts receivable - Montana Prairie Holdings, LLC	247,150	231,905
Pledges receivable - current portion	1,806,250	1,440,261
Prepaid expenses	124,887	81,941
Inventory - Montana Prairie Holdings, LLC	58,555	34,002
Other current assets	<u>9,365</u>	<u>9,365</u>
	<u>6,554,185</u>	<u>6,823,086</u>
FIXED ASSETS		
Buildings	2,935,721	2,378,550
Kestrel Camp	1,519,257	1,519,257
Furniture and fixtures	83,856	82,056
Equipment	1,315,274	1,255,386
Construction in process	<u>1,112,794</u>	<u>833,924</u>
	6,966,902	6,069,173
Less: accumulated depreciation	<u>(1,753,988)</u>	<u>(1,536,898)</u>
	<u>5,212,914</u>	<u>4,532,275</u>
OTHER ASSETS		
Pledges receivable, net of discount and current portion	3,742,045	2,666,013
Board restricted cash	-	219,564
Animals, at cost	147,171	147,171
Intangible assets - Montana Prairie Holdings, LLC	1,243,896	1,722,091
Investments	3,828,380	5,048,242
Options and down payments	505,000	-
Conservation lands	<u>30,705,560</u>	<u>28,230,935</u>
	<u>40,172,052</u>	<u>38,034,016</u>
Total assets	<u><u>\$ 51,939,151</u></u>	<u><u>\$ 49,389,377</u></u>

See the accompanying notes to financial statements.

**AMERICAN PRAIRIE FOUNDATION dba
AMERICAN PRAIRIE RESERVE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)**

	December 31	
	2015	2014
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 259,461	\$ 377,828
Accounts payable - Montana Prairie Holdings, LLC	70,846	72,221
Accrued expenses	50,569	56,978
Accrued expenses - Montana Prairie Holdings, LLC	3,381	-
Accrued variable compensation and compensated absences	98,534	70,248
Flex spending liability	6,825	7,552
Accrued interest	60,082	77,234
Current portion of notes payable	<u>1,198,819</u>	<u>1,117,328</u>
	<u>1,748,517</u>	<u>1,779,389</u>
OTHER LIABILITIES		
Notes payable, net of current portion	5,805,879	5,535,955
Notes payable - Montana Prairie Holdings, LLC	<u>-</u>	<u>290,000</u>
	<u>5,805,879</u>	<u>5,825,955</u>
NET ASSETS		
Unrestricted net assets	22,939,816	21,888,298
Temporarily restricted net assets	4,312,557	2,289,639
Permanently restricted net assets	16,764,587	16,764,587
Non controlling interests in Montana Prairie Holdings, LLC	<u>367,795</u>	<u>841,509</u>
	<u>44,384,755</u>	<u>41,784,033</u>
Total liabilities and net assets	<u><u>\$ 51,939,151</u></u>	<u><u>\$ 49,389,377</u></u>

See the accompanying notes to financial statements.

**AMERICAN PRAIRIE FOUNDATION dba
AMERICAN PRAIRIE RESERVE
CONSOLIDATED STATEMENTS OF ACTIVITIES**

	Years Ended December 31	
	2015	2014
UNRESTRICTED SUPPORT AND REVENUES		
Donations - unrestricted	\$ 3,554,529	\$ 3,640,571
Grants	25,000	-
In-kind contributions	445,947	6,413
Visitation income	122,827	152,450
Miscellaneous income	170,743	(1,011)
Net assets released from restrictions	<u>2,230,978</u>	<u>2,414,902</u>
Total unrestricted support and revenues	<u>6,550,024</u>	<u>6,213,325</u>
EXPENSES		
Program services	3,696,929	3,107,716
Management and general	679,988	663,477
Fundraising	<u>1,463,974</u>	<u>1,201,159</u>
Total expenses	<u>5,840,891</u>	<u>4,972,352</u>
OTHER INCOME (EXPENSE)		
Investment income	9,970	54,371
Loss on disposal of property and equipment	(36,361)	(791)
Gain on disposal of investment in Wild Sky, LLC	-	31,950
Operations income	524,626	335,630
Wild Sky, LLC net loss (see Note 8)	-	(150,863)
Montana Prairie Holdings, LLC net income (loss) (see Note 9)	(149,015)	13,670
Less: income attributable to Montana Prairie Holdings, LLC non controlling interests	<u>(6,835)</u>	<u>-</u>
Total other income (expense)	<u>342,385</u>	<u>283,967</u>
Increase in unrestricted net assets	<u>1,051,518</u>	<u>1,524,940</u>
TEMPORARILY RESTRICTED NET ASSETS		
Donations - restricted	4,253,539	2,437,794
Investment income	357	26,595
Net assets released from restrictions	<u>(2,230,978)</u>	<u>(2,414,902)</u>
Increase (decrease) in temporarily restricted net assets	<u>2,022,918</u>	<u>49,487</u>
PERMANENTLY RESTRICTED NET ASSETS		
Donations - restricted	<u>-</u>	<u>530,000</u>
INCREASE IN NET ASSETS	<u>3,074,436</u>	<u>2,104,427</u>
Net assets, beginning of year	<u>40,942,524</u>	<u>38,838,097</u>
NET ASSETS, END OF YEAR	<u>\$ 44,016,960</u>	<u>\$ 40,942,524</u>

See the accompanying notes to financial statements.

**AMERICAN PRAIRIE FOUNDATION dba
AMERICAN PRAIRIE RESERVE
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES**

	Year Ended December 31, 2015			
	Program Services	Management and General	Fundraising	Totals
Communications/marketing	\$ 127,071	\$ 17,105	\$ 12,334	\$ 156,510
Communications/infrastructure	36,644	6,182	11,590	54,416
Contracted services	154,264	14,969	124,032	293,265
Depreciation	231,131	68,483	128,406	428,020
Events and outreach	398,081	50,240	203,490	651,811
Interest expense	326,815	85	-	326,900
Office expenses	136,110	45,338	78,613	260,061
Officer compensation	271,449	81,435	190,014	542,898
Other salaries	886,244	262,591	492,357	1,641,192
Payroll taxes and employee benefits	280,958	74,618	122,166	477,742
Professional fees	94,801	36,636	1,140	132,577
Project area	483,412	-	10,219	493,631
Rent	60,783	16,054	30,102	106,939
Travel	209,166	6,252	59,511	274,929
	<u>\$ 3,696,929</u>	<u>\$ 679,988</u>	<u>\$ 1,463,974</u>	<u>\$ 5,840,891</u>

	Year Ended December 31, 2014			
	Program Services	Management and General	Fundraising	Totals
Communications/marketing	\$ 88,550	\$ 18,793	\$ 15,676	\$ 123,019
Communications/infrastructure	40,541	7,142	10,502	58,185
Contracted services	116,183	30,589	13,877	160,649
Depreciation	201,117	59,590	111,732	372,439
Events and outreach	124,803	63,940	138,840	327,583
Interest expense	394,448	85	-	394,533
Office expenses	138,482	52,432	36,072	226,986
Officer compensation	242,089	103,752	345,840	691,681
Other salaries	690,674	202,439	297,706	1,190,819
Payroll taxes and employee benefits	228,370	66,936	98,435	393,741
Professional fees	94,021	20,982	7,085	122,088
Project area	489,903	-	10,038	499,941
Rent	60,445	17,262	25,386	103,093
Travel	198,090	19,535	89,970	307,595
	<u>\$ 3,107,716</u>	<u>\$ 663,477</u>	<u>\$ 1,201,159</u>	<u>\$ 4,972,352</u>

See the accompanying notes to financial statements.

**AMERICAN PRAIRIE FOUNDATION dba
AMERICAN PRAIRIE RESERVE
CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years Ended December 31	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 3,074,436	\$ 2,104,427
Adjustments to reconcile changes in net assets to cash provided (used) by operating activities:		
Depreciation	428,020	372,439
Donated securities	(2,311,318)	(564,251)
Loss on disposal of property and equipment	36,361	791
Unrealized (gain) loss on investments	115,100	(37,470)
Contributions restricted for capital acquisition	-	(530,000)
Reinvested earnings on investments	(108,904)	(42,159)
Income and draws attributable to MPH non controlling interests	4,481	-
Change in:		
(Increase) decrease in current assets:		
Accounts receivable	(15,451)	(229,404)
Pledges receivable	(1,442,021)	75,034
Other current assets	(67,499)	(64,938)
Increase (decrease) in current liabilities:		
Accounts payable	(119,742)	373,824
Accrued expenses	(3,028)	15,504
Accrued compensation and compensated absences	28,286	22,135
Flex spending liability	(727)	1,970
Accrued interest	<u>(17,152)</u>	<u>(21,837)</u>
Net cash provided (used) by operating activities	<u>(399,158)</u>	<u>1,476,065</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for animals	-	(50,356)
Payments for property and equipment	(1,029,662)	(656,873)
Payments for construction in progress	(278,870)	(818,924)
Payments for conservation lands	(915,463)	(4,179,938)
Purchase of intangible assets from Great Northern Cattle Company	-	(845,000)
Proceeds from sale of property and equipment	4,350	-
Proceeds from sale of investments	8,929,297	10,277,184
Option purchase	(505,000)	-
Purchase of investments	<u>(5,184,749)</u>	<u>(3,756,749)</u>
Net cash provided (used) by investing activities	<u>1,019,903</u>	<u>(30,656)</u>

(continued)

See the accompanying notes to financial statements.

**AMERICAN PRAIRIE FOUNDATION dba
AMERICAN PRAIRIE RESERVE
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**

	Years Ended December 31	
	2015	2014
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for capital acquisition	\$ -	\$ 530,000
Proceeds from notes payable	-	290,000
Transfer of MPH note payable to related party holder	(290,000)	-
Principal payments on notes payable	<u>(1,048,585)</u>	<u>(945,706)</u>
Net cash used by financing activities	<u>(1,338,585)</u>	<u>(125,706)</u>
NET INCREASE (DECREASE) IN CASH	(717,840)	1,319,703
Cash at beginning of year	<u>5,025,612</u>	<u>3,705,909</u>
CASH AT END OF YEAR	<u><u>\$ 4,307,772</u></u>	<u><u>\$ 5,025,612</u></u>
CASH IS COMPRISED OF:		
Cash	\$ 3,946,328	\$ 4,770,787
Cash, temporarily restricted	239,535	183,913
Cash - Montana Prairie Holdings, LLC	<u>121,909</u>	<u>70,912</u>
	<u><u>\$ 4,307,772</u></u>	<u><u>\$ 5,025,612</u></u>
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Conservation lands acquired through issuance of debt	\$ 1,400,000	\$ -
Increase in board restricted cash through proceeds from investments	\$ -	\$ 170,380
Investments purchased through use of board restricted cash	\$ 219,564	\$ -
CASH PAID FOR INTEREST	\$ 344,051	\$ 416,370

See the accompanying notes to financial statements.

**AMERICAN PRAIRIE FOUNDATION dba
AMERICAN PRAIRIE RESERVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization:

The American Prairie Foundation dba American Prairie Reserve (the Reserve) is a tax-exempt organization as provided by Section 501(c)(3) and Section 509 of the Internal Revenue Code. The Reserve's mission is to meet the need for a nonprofit land trust to acquire, hold and manage properties for the American Prairie Reserve. The Reserve's goal is to assemble a prairie-based wildlife reserve that will protect a unique natural habitat, provide lasting economic benefits and improve public access.

Basis of Accounting:

The financial statements are reported on the accrual basis in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Reserve and changes therein are classified and reported as follows:

- Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. The Board of Directors may designate unrestricted net assets for specific purposes or programs.
- Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Reserve and/or the passage of time.
- Permanently restricted net assets - Net assets subject to donor-imposed stipulations that permanently restrict the use of the assets to be maintained by the Reserve in perpetuity. Generally, the donors of these assets permit the Reserve to use income earned on related investments for general or specific purposes.

Use of Estimates:

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

Principles of Consolidation:

These consolidated financial statements include the accounts of American Prairie Reserve and its affiliates Wild Sky, LLC (a single-member LLC in which the Reserve held 100% ownership, see Note 8) and Montana Prairie Holdings, LLC (a Montana partnership in which the Reserve owned 71.43% and 50%, as of December 31, 2015 and 2014, respectively, see Note 9). Wild Sky, LLC dissolved in 2014 and its balances were transferred to Montana Prairie Holdings, LLC.

Cash and Cash Equivalents:

For purposes of the statements of cash flows, the Reserve considers cash and cash equivalents to be cash on hand, cash deposited with banks and financial institutions and all highly liquid investments available for current use with an original maturity of three months or less to be cash equivalents. For purposes of the cash flow statement, cash does not include board restricted cash.

**AMERICAN PRAIRIE FOUNDATION dba
AMERICAN PRAIRIE RESERVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pledges Receivable:

As required by Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, pledges receivable to be paid in more than one year from the date of the financial statements are discounted at the prime interest rate, 3.25% at December 31, 2015 and 2014. As a result of adopting the FASB's Fair Value Measurement guidance, including the Fair Value Option for Financial Assets and Financial Liabilities, the discount rate used in the present value technique to determine fair value of pledges receivable is revised at each measurement date to reflect current market conditions and the creditworthiness of donors. Subsequent changes in the fair value of pledges receivable are reported in the statement of activities as contribution revenue. At this time, management believes all pledges receivable are collectible, therefore, no allowance has been recorded as of December 31, 2015 and 2014.

Property and Equipment:

Purchased property and equipment are stated at historical cost for purchased items and fair value for contributed items. The Reserve's minimum capitalization threshold is \$1,000. The assets are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Equipment	5 - 7 years
Furniture and fixtures	5 - 7 years
Buildings	7 - 40 years

Expenditures for maintenance, repairs and minor replacements are charged to operations, and expenditures for major replacements and betterments are capitalized to property and equipment.

Options:

Options payments refer to payments to obtain the right to purchase property at a set price at a specified time in the future or under specified conditions. These payments remain in the option account until the Reserve legally gains possession of the asset or the option expires.

Investments:

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statements of financial position. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the change in unrestricted net assets unless the income or loss is restricted by donor or law.

Conservation Lands and Easements:

The Reserve records all land and land interests at cost, if purchased, or at fair value at the date of acquisition, if all or part of the land was received as a donation. Fair value is generally determined by appraisal. Conservation lands represent real property with significant ecological value. Some of the conservation lands may be purchased subject to conservation easements, or the Reserve may grant conservation easements on some of its lands. These properties are managed in an effort to protect the natural biological diversity of the property in perpetuity.

**AMERICAN PRAIRIE FOUNDATION dba
AMERICAN PRAIRIE RESERVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions:

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When temporary restrictions expire, temporarily restricted net assets are reported in the statement of activities as net assets released from restriction. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Reserve records the support as unrestricted. The Reserve considers all contributions for the purchase of land as permanently restricted consistent with its mission. Unrestricted contributions used for land acquisition are considered to be Board designated and have been presented accordingly.

In-Kind Contributions:

The Reserve records various types of in-kind support including professional services and property and equipment. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributed services have been primarily reduced commissions related to the acquisition of land.

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Reserve reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Reserve reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Income Taxes:

The Reserve is a nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, and therefore has made no provision for federal income taxes in the accompanying financial statements. The Reserve has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(a)(vi). The Reserve's information returns (Form 990) are open to examination by the IRS, generally, for three years after they were filed or the due date of the return, whichever is later.

Advertising:

Advertising costs are expensed as incurred.

Financial Statement Presentation:

Certain numbers have been reclassified in the 2014 financial statements for comparability with the 2015 financial statements.

**AMERICAN PRAIRIE FOUNDATION dba
AMERICAN PRAIRIE RESERVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014**

2. PLEDGES RECEIVABLE

Pledges receivable as of December 31, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Amounts due in:		
Less than one year	\$ 1,806,250	\$ 1,440,261
One to five years	3,950,952	2,650,000
Greater than five years	<u>199,767</u>	<u>399,767</u>
	5,956,969	4,490,028
Less: discount to present value	<u>(408,674)</u>	<u>(383,754)</u>
Pledges receivable, net of discount	5,548,295	4,106,274
Less: current portion	<u>(1,806,250)</u>	<u>(1,440,261)</u>
Pledges receivable, net of discount and current portion	<u>\$ 3,742,045</u>	<u>\$ 2,666,013</u>

In 2013, the Reserve received a matching pledge donation from John and Adrienne Mars. They pledged a \$10 million matching donation over the next five years, with the objective of providing incentive for \$20 million in matching funds. The gift will be made in \$2 million payments over five years, beginning in 2014, provided that the Reserve raises the necessary donations and/or pledges in each of the years to fulfill the requirements of the matching pledge. Because this pledge depends on the Reserve's ability to raise matching donations, it is considered a conditional promise to give and is not recorded as pledges receivable and contribution revenue until those conditions have been met.

3. FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurements, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

The three levels of the fair value hierarchy under ASC 820 are described as follows:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Reserve has the ability to access.
- Level 2 Inputs to the valuation methodology include:
 - quoted prices for similar assets or liabilities in active markets;
 - quoted prices for identical or similar assets or liabilities in inactive markets;
 - inputs other than quoted prices that are observable for the asset or liability;
 - inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

**AMERICAN PRAIRIE FOUNDATION dba
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NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014**

3. FAIR VALUE MEASUREMENTS (Continued)

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

Marketable securities - the fair value of marketable securities are based on quoted market prices for those securities.

Certificates of deposit - the fair value of certificates of deposit are based on cost of the investment plus accumulated earnings.

Pledges receivable - the fair value of pledges receivable is the net present value of expected future cash flows at a 3.25% discount rate.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Reserve believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The follow tables set forth by level, within the fair value hierarchy, the Reserve's assets at fair value as of December 31, 2015 and 2014:

	2015	2014
Mutual funds - Level 1	\$ 1,011,789	\$ 791,416
Certificates of deposit - Level 2	\$ 2,816,591	\$ 4,256,826
Net present value of pledges receivable - Level 3	\$ 5,548,295	\$ 4,106,274

The reconciliation of the changes in the pledges receivable measured at fair value on a recurring basis using significant unobservable inputs (Level 3) is as follows:

	2015	2014
Pledges receivable, beginning of year	\$ 4,106,274	\$ 4,181,308
Additional pledges	4,000,000	2,150,000
Payments received	(2,533,059)	(2,202,931)
Change in discount	<u>(24,920)</u>	<u>(22,103)</u>
Pledges receivable, end of year	<u>\$ 5,548,295</u>	<u>\$ 4,106,274</u>

**AMERICAN PRAIRIE FOUNDATION dba
AMERICAN PRAIRIE RESERVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014**

4. INVESTMENTS

Investments are comprised of the following as of December 31, 2015:

	<u>Cost</u>	<u>Fair Value</u>	<u>Gross Unrealized Gains (Losses)</u>
Certificates of deposit - Level 1	\$ 2,818,205	\$ 2,816,591	\$ (1,614)
Mutual funds - Level 2			
Large blend	472,984	462,331	(10,653)
Mid-cap blend	138,144	125,853	(12,291)
Small blend	52,995	48,274	(4,721)
International large blend	126,004	116,715	(9,289)
Bond index fund	<u>263,172</u>	<u>258,616</u>	<u>(4,556)</u>
	<u>\$ 3,871,504</u>	<u>\$ 3,828,380</u>	<u>\$ (43,124)</u>

Investments are comprised of the following as of December 31, 2014:

	<u>Cost</u>	<u>Fair Value</u>	<u>Gross Unrealized Gains (Losses)</u>
Certificates of deposit - Level 1	\$ 4,260,882	\$ 4,256,826	\$ (4,056)
Mutual funds - Level 2			
Large growth	116,498	129,049	12,551
Large blend	227,809	269,065	41,256
Mid-cap value	171,343	186,082	14,739
Small growth	77,850	84,894	7,044
International growth	53,515	55,465	1,950
Bond multisector	<u>68,182</u>	<u>66,861</u>	<u>(1,321)</u>
	<u>\$ 4,976,079</u>	<u>\$ 5,048,242</u>	<u>\$ 72,163</u>

As of December 31, 2015 and 2014, investments of \$394,688 are permanently restricted.

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4. INVESTMENTS (Continued)

Investment income is comprised of the following for the year ended December 31, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest and dividends	\$ 38,157	\$ 8,803	\$ 46,960
Unrealized gains (losses)	(63,198)	(51,902)	(115,100)
Realized gains (losses)	<u>35,011</u>	<u>43,456</u>	<u>78,467</u>
	<u>\$ 9,970</u>	<u>\$ 357</u>	<u>\$ 10,327</u>

Investment income is comprised of the following for the year ended December 31, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest and dividends	\$ 59,023	\$ 6,030	\$ 65,053
Unrealized gains (losses)	30,036	7,434	37,470
Realized gains (losses)	<u>(34,688)</u>	<u>13,131</u>	<u>(21,557)</u>
	<u>\$ 54,371</u>	<u>\$ 26,595</u>	<u>\$ 80,966</u>

5. LINE OF CREDIT

The Reserve has a line of credit with First Security Bank of Bozeman, which is collateralized by real estate owned by the Reserve. The maximum amount available under this line of credit is \$1,000,000, and it matures July 22, 2016. The line of credit bears interest at Wall Street Prime plus 1.75%. The outstanding balance at December 31, 2015 and 2014 was \$0, and the interest rate was 5.00% at December 31, 2015.

6. CREDIT RISK

The Reserve maintains some of its cash in bank deposit accounts which, at times, may exceed federally insured limits. Account balances and certificates of deposit held in financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per bank, per depositor. The Reserve also maintains cash in money market fund accounts which sometimes exceed the protected limit set by the Securities Investor Protection Corporation (SIPC). The Reserve has not experienced any losses in such accounts. The Reserve believes it is not exposed to any significant credit risk on cash and cash equivalents. As of December 31, 2015 and 2014, funds exceeded federally insured limits by \$413,520 and \$1,780,101, respectively. As of December 31, 2015 and 2014, funds exceeded SIPC limits by \$3,093,713 and \$2,905,735, respectively.

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7. NOTES PAYABLE

The following is a schedule of notes payable as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Note payable to a financial institution; dated July 2012; revised September 2013 and December 2014; due December 2026; interest calculated at Wall Street Prime plus 1.75%; annual payments of \$318,145; secured by mortgages on multiple properties.	\$ 2,642,026	\$ 2,819,211
Note payable to a partnership; dated August 2012; due August 2019; interest at 5.25%; one payment of \$500,000 due August 2013; annual payments of \$1,034,806 thereafter; secured by first mortgage on property.	2,858,196	3,698,815
Note payable to an individual at 6.50% imputed interest; due May 2018; annual payments of \$39,600; unsecured.	104,476	135,257
Note payable to an individual at 2.19% interest; due September 2030; annual payments of \$73,539; secured by first mortgage on property.	<u>1,400,000</u>	<u>-</u>
	7,004,698	6,653,283
Less: current portion	<u>(1,198,819)</u>	<u>(1,117,328)</u>
	<u>\$ 5,805,879</u>	<u>\$ 5,535,955</u>

Notes payable mature as follows:

2016	\$ 1,142,267	
2017	1,202,412	
2018	1,264,248	
2019	331,006	
2020	272,223	
Thereafter	<u>2,792,542</u>	
		<u>\$ 7,004,698</u>

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8. WILD SKY, LLC

Wild Sky, LLC was formed in 2013, with American Prairie Reserve as the sole member. The LLC sold beef and paid ranchers invited to participate a premium for their beef raised in compliance with the Reserve's wildlife-friendly ranching protocols. In 2014, Wild Sky, LLC was dissolved and its balances transferred into Montana Prairie Holdings, LLC. Montana Prairie Holdings, LLC continues to operate the Wild Sky brand of beef sales and American Prairie Reserve continues the rancher program. Wild Sky, LLC's 2014 activity is included in the Reserve's consolidated financial statements, in accordance with generally accepted accounting principles. Significant balances and transactions between the two entities were eliminated.

Wild Sky, LLC's income statement for the year ended December 31, 2014 follows:

Sales		\$	223,267
Cost of sales			<u>242,138</u>
Gross loss			<u>(18,871)</u>
Operating expenses			
Bank charges	\$	686	
Commissions		20,608	
Extra freight		4,623	
Insurance		3,340	
Marketing		24,931	
Office expenses		1,307	
Payroll expenses		5,664	
Professional fees		3,603	
Rent		2,600	
Samples		17,760	
Travel, meals and entertainment		41,769	
Website		<u>5,101</u>	
			<u>131,992</u>
Net loss		\$	<u>(150,863)</u>

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9. MONTANA PRAIRIE HOLDINGS, LLC

Montana Prairie Holdings, LLC (a Montana partnership) was formed in 2014. Montana Prairie Holdings, LLC sells beef and pays ranchers invited to participate a premium for their beef raised in compliance with the Reserve's wildlife-friendly ranching protocols. As of December 31, 2015 and 2014, American Prairie Reserve owned 71.43% and 50% of Montana Prairie Holdings, LLC, respectively, and has the power to appoint three of the five members of the board of managers. Montana Prairie Holdings, LLC's activity and balances are included in the Reserve's consolidated financial statements, in accordance with generally accepted accounting principles. Significant balances and transactions between the two entities have been eliminated.

Montana Prairie Holdings, LLC's income statements for the years ended December 31, 2015 and 2014 follow:

	<u>2015</u>	<u>2014</u>
Sales and licensing revenue	\$ 3,319,559	\$ 446,371
Cost of sales	<u>3,118,247</u>	<u>405,738</u>
Gross profit	<u>201,312</u>	<u>40,633</u>
Operating expenses		
Bank and credit card charges	3,399	335
Broker commissions	37,221	3,264
Contract labor	1,120	3,165
Fees and licenses	308	-
Guaranteed payments	42,000	-
Insurance	4,710	-
Interest	25,301	2,415
Marketing expenses	7,656	337
Meals and entertainment	13,742	997
Office expenses	3,316	1,547
Office rent	1,500	600
Payroll expenses	111,707	3,313
Postage and delivery	402	149
Professional fees	5,931	-
Samples	25,112	4,203
Supplies	51	-
Telephone and internet	9,487	603
Trade shows	61	-
Travel	56,453	6,035
Website	<u>850</u>	<u>-</u>
	<u>350,327</u>	<u>26,963</u>
Net income (loss)	<u><u>\$ (149,015)</u></u>	<u><u>\$ 13,670</u></u>

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10. BOARD DESIGNATED NET ASSETS

Unrestricted net assets the Board of Directors has designated to be held in perpetuity as of December 31, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Board designated funds to be held in perpetuity:		
Endowment	\$ 501,046	\$ 500,594
Land and building acquisitions	21,903,433	19,092,769
Less: debt associated with acquisitions	<u>(7,004,698)</u>	<u>(6,653,284)</u>
	15,399,781	12,940,079
Unrestricted, not designated	<u>7,540,035</u>	<u>8,948,219</u>
Total unrestricted net assets	<u>\$ 22,939,816</u>	<u>\$ 21,888,298</u>

11. TEMPORARILY RESTRICTED NET ASSETS

Net assets temporarily restricted by the donor as of December 31, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Pledges receivable	\$ 3,956,967	\$ 1,990,028
Endowment fund earnings	116,055	115,698
Enrico Science Center	-	18,355
Wild Sky	-	117,750
Land of Legacy	218,539	-
Education and economic activities	<u>20,996</u>	<u>47,808</u>
	<u>\$ 4,312,557</u>	<u>\$ 2,289,639</u>

12. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the purpose restrictions specified by the donor for the years ended December 31, 2015 and 2014 as follows:

	<u>2015</u>	<u>2014</u>
Bison program	\$ -	\$ 50,000
Camp improvements	-	50,000
Dinosaur project	15,629	-
History project	3,233	-
Enrico Science Center	18,355	83,924
Wild Sky	117,750	25,765
Education and economic activities	42,952	2,282
Pledges receivable collections	<u>2,033,059</u>	<u>2,202,931</u>
	<u>\$ 2,230,978</u>	<u>\$ 2,414,902</u>

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13. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of donor-restricted assets and assets received for the purchase of land. As of December 31, 2015 and 2014, permanently restricted net assets are summarized as follows:

	<u>2015</u>	<u>2014</u>
Conservation lands	\$ 14,369,899	\$ 13,869,899
Conservation land acquisition pledges receivable	2,000,000	2,500,000
Investments held in perpetuity, donor-restricted endowments	<u>394,688</u>	<u>394,688</u>
	<u>\$ 16,764,587</u>	<u>\$ 16,764,587</u>

The Reserve accounts for endowments in accordance with accounting principles generally accepted in the United States of America (GAAP). This provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization.

The Reserve's endowment consists of both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Reserve's Board of Directors has interpreted the Montana Uniform Prudent Management of Institutional Funds Act ("MUPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Reserve classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment. Earnings on the endowment are not restricted by the donor. These earnings are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Reserve in a manner consistent with the standard of prudence prescribed by MUPMIFA. The Endowment Investment Committee is responsible for recommending and reviewing investment policies and objectives, monitoring performance of the portfolio, and overseeing certain administrative duties, including providing regular reports to the Board of Directors. The Committee determines how much of the earnings from the endowment may be used to cover land management costs and reviews, at least annually, an accounting of the assets, income and expenditures of the endowment. The investment policy has been established to provide reasonable and sustainable flow of funds to maximize the capital in support of the Reserve's conservation and education activities.

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

- (a) The duration and preservation of the fund;
- (b) The purposes of the Reserve and the donor-restricted endowment fund;
- (c) General economic conditions;
- (d) The possible effect of inflation and deflation;
- (e) The expected total return from income and the appreciation of investments;
- (f) Other resources of the Reserve; and
- (g) The investment policies of the Reserve.

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13. PERMANENTLY RESTRICTED NET ASSETS (Continued)

The composition of endowment net assets by fund as of December 31, 2015 and 2014 is as follows:

2015				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 116,055	\$ 394,688	\$ 510,743
Board-designated endowment funds	501,046	-	-	501,046
	<u>\$ 501,046</u>	<u>\$ 116,055</u>	<u>\$ 394,688</u>	<u>\$ 1,011,789</u>

2014				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 115,698	\$ 394,688	\$ 510,386
Board-designated endowment funds	500,594	-	-	500,594
	<u>\$ 500,594</u>	<u>\$ 115,698</u>	<u>\$ 394,688</u>	<u>\$ 1,010,980</u>

Changes in net asset composition by type of funds for the years ended December 31, 2015 and 2014 are as follows:

2015				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of year	\$ 500,594	\$ 115,698	\$ 394,688	\$ 1,010,980
Interest and dividends	11,165	8,803	-	19,968
Net losses (realized and unrealized)	(10,713)	(8,446)	-	(19,159)
Endowment net assets at December 31, 2015	<u>\$ 501,046</u>	<u>\$ 116,055</u>	<u>\$ 394,688</u>	<u>\$ 1,011,789</u>

2014				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of year	\$ 468,993	\$ 89,103	\$ 394,688	\$ 952,784
Interest and dividends	7,166	6,030	-	13,196
Net losses (realized and unrealized)	24,435	20,565	-	45,000
Endowment net assets at December 31, 2014	<u>\$ 500,594</u>	<u>\$ 115,698</u>	<u>\$ 394,688</u>	<u>\$ 1,010,980</u>

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14. DONATED GOODS AND SERVICES

The Reserve received and recognized the following donated goods and services at fair market value for the years ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Communications/marketing	\$ 180	\$ -
Conservation lands	-	5,000
Construction in progress	350	-
Events and outreach	4,881	1,250
Note receivable - related party (eliminated in consolidated financial statements)	439,500	-
Office expenses	7	163
Project area	<u>1,029</u>	<u>-</u>
	<u>\$ 445,947</u>	<u>\$ 6,413</u>

15. RETIREMENT ARRANGEMENT WITH EMPLOYEES

The Reserve offers employees the opportunity for participation in a contributory retirement plan. Under the plan, employees are allowed to contribute a maximum annual amount of \$17,500 for 2015 and 2014. For those employees over age 50, the plan allows an additional contribution of up to \$5,500. Management may determine the Reserve's match percentage annually. For the years ended December 31, 2015 and 2014, no match was made.

16. CONCENTRATIONS

Contributors

The Reserve is supported by contributors from the public and granting agencies. For the year ended December 31, 2015, five major contributors provided 81% of the Reserve's combined revenues. The net present value of pledges outstanding from these contributors as of December 31, 2015 totaled \$5,542,045. For the year ended December 31, 2014, four major contributors provided 61% of the Reserve's combined revenues. The net present value of pledges outstanding from these contributors as of December 31, 2014 totaled \$3,174,210.

Major Lender

As of December 31, 2015 and 2014, the majority of the Reserve's financing activities were through one financial institution.

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17. OPERATING LEASES

Lessee

The Reserve leases office space under operating leases.

The Reserve leases its main office space in Bozeman, Montana. On October 1, 2011, the Reserve began leasing its current facility. The lease is for a five year period, with an option to renew for an additional five years. This option was exercised in November 2014 and the lease agreement has been renewed through September 30, 2021. Rent expense for the Bozeman office was \$100,339 and \$101,543 for the years ended December 31, 2015 and 2014, respectively.

The Reserve entered into a two year lease on a Missoula office in May 2013. The Reserve no longer occupies this office space and had entered into a sub-lease arrangement, under which the Reserve was responsible for \$100 per month through the term of the lease. The Reserve was released from this lease agreement in October 2014. Rent expense for this space was \$1,000 for the year ended December 31, 2014.

The Reserve entered into a lease agreement on an apartment in Malta in December 2014. The original lease terms ends in November 2015, at which point the lease automatically extends on a month-to-month basis until terminated by either party. Rent paid for the Malta apartment was \$6,600 and \$550 for the years ended December 31, 2015 and 2014, respectively.

Future minimum rental payments under these leases are as follows:

2016	\$	104,675	
2017		112,023	
2018		115,228	
2019		118,891	
2020		122,554	
Thereafter		<u>93,976</u>	
			<u>\$ 667,347</u>

Lessor

The Reserve leases portions of purchased land back to the sellers for agricultural use. The Reserve currently has eight leases which expire between 2015 and 2021. Lease payments under these leases range from \$5,463 to \$95,000 annually. Lease income under these leases was \$423,170 and \$300,863 for the years ended December 31, 2015 and 2014, respectively.

Estimated future minimum rentals over the remaining lease terms are:

2016	\$	300,863	
2017		100,463	
2018		95,000	
2019		95,000	
2020		95,000	
Thereafter		<u>380,000</u>	
			<u>\$ 1,066,326</u>

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18. RELATED PARTY TRANSACTIONS

During the years ended December 31, 2015 and 2014, the following amounts were contributed and/or pledged to the Reserve by related parties. All of these contributions were recorded as donation revenue.

	<u>2015</u>	<u>2014</u>
Board members	\$ 4,777,700	\$ 2,453,142
Employees	<u>6,750</u>	<u>6,375</u>
	<u>\$ 4,784,450</u>	<u>\$ 2,459,517</u>

As of December 31, 2015 and 2014, the present value of the outstanding pledges from related parties was \$5,542,045 and \$3,525,162, respectively.

The Friends of the American Serengeti Germany (FoAS) is an independent, tax-privileged organization in Germany formed to provide supporting funds for the Reserve. The FoAS was formed January 24, 2011, and is governed by its own, separate Board of Directors, of which the Reserve currently holds two of the seven positions. Before funds can be transferred from FoAS to the Reserve, the FoAS Board of Directors will ensure that the Reserve will use the funds in accordance with the German Charity Law and provisions of the Cooperation Agreement between FoAS and the Reserve. The Reserve paid \$53,644 in legal fees to assist with the formation of FoAS. FoAS transferred \$0 and \$102,279 to the Reserve for the years ended December 31, 2015 and 2014, respectively. As of December 31, 2015 and 2014, there were no balances due between FoAS and the Reserve.

19. SUBSEQUENT EVENTS

In accordance with FASB ASC 855, management has evaluated subsequent events through May 23, 2016, the date on which the financial statements were available to be issued.