

**AMERICAN PRAIRIE FOUNDATION dba
AMERICAN PRAIRIE RESERVE**

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015



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 its affiliate, which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, 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 its affiliate, as of December 31, 2016 and 2015, 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 24, 2017



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

| | December 31 | |
|---|-----------------------------|-----------------------------|
| | 2016 | 2015 |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 3,950,713 | \$ 3,946,328 |
| Cash, temporarily restricted | 398,839 | 239,535 |
| Cash - Montana Prairie Holdings, LLC | 306,262 | 121,909 |
| Accounts receivable | 196,402 | 206 |
| Accounts receivable - Montana Prairie Holdings, LLC | 171,512 | 247,150 |
| Pledges receivable - current portion | 3,401,194 | 1,806,250 |
| Prepaid expense and commission credit | (99,144) | 124,887 |
| Inventory - Montana Prairie Holdings, LLC | 48,240 | 58,555 |
| Other current assets | <u>9,365</u> | <u>9,365</u> |
| | <u>8,383,383</u> | <u>6,554,185</u> |
| FIXED ASSETS | | |
| Buildings | 3,996,133 | 2,935,721 |
| Kestrel Camp | 1,519,257 | 1,519,257 |
| Furniture and fixtures | 99,123 | 83,856 |
| Equipment | 2,504,595 | 1,315,274 |
| Enrico Science and Education Center | <u>1,112,794</u> | <u>1,112,794</u> |
| | 9,231,902 | 6,966,902 |
| Less: accumulated depreciation | <u>(2,305,024)</u> | <u>(1,753,988)</u> |
| | <u>6,926,878</u> | <u>5,212,914</u> |
| OTHER ASSETS | | |
| Pledges receivable, net of discount and current portion | 4,239,134 | 3,742,045 |
| Notes receivable | 33,000 | - |
| Notes receivable - Montana Prairie Holdings, LLC | 85,706 | - |
| Animals, at cost | 138,916 | 147,171 |
| Intangible assets - Montana Prairie Holdings, LLC | 1,018,728 | 1,243,896 |
| Investments | 2,423,447 | 3,828,380 |
| Options and down payments | - | 505,000 |
| Conservation lands | <u>48,013,482</u> | <u>30,705,560</u> |
| | <u>55,952,413</u> | <u>40,172,052</u> |
| Total assets | <u><u>\$ 71,262,674</u></u> | <u><u>\$ 51,939,151</u></u> |

See the accompanying notes to financial statements.

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

| | December 31 | |
|--|--------------------|---------------|
| | 2016 | 2015 |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 170,424 | \$ 259,461 |
| Accounts payable - Montana Prairie Holdings, LLC | 39,630 | 70,846 |
| Accrued expenses | 59,904 | 50,569 |
| Accrued expenses - Montana Prairie Holdings, LLC | 300 | 3,381 |
| Accrued variable compensation and compensated absences | 105,958 | 98,534 |
| Flex spending liability | 6,380 | 6,825 |
| Accrued interest | 80,852 | 60,082 |
| Current portion of notes payable | 1,705,003 | 1,198,819 |
| | 2,168,451 | 1,748,517 |
| OTHER LIABILITIES | | |
| Notes payable, net of current portion | 18,432,492 | 5,805,879 |
| Notes payable - Montana Prairie Holdings, LLC | 269,750 | - |
| | 18,702,242 | 5,805,879 |
| NET ASSETS | | |
| Unrestricted net assets | 23,830,761 | 22,939,816 |
| Temporarily restricted net assets | 7,615,142 | 4,312,557 |
| Permanently restricted net assets | 18,946,078 | 16,764,587 |
| Non controlling interests in Montana Prairie Holdings, LLC | - | 367,795 |
| | 50,391,981 | 44,384,755 |
| Total liabilities and net assets | \$ 71,262,674 | \$ 51,939,151 |

See the accompanying notes to financial statements.

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

| | Years Ended December 31 | |
|--|--------------------------------|----------------------|
| | 2016 | 2015 |
| UNRESTRICTED SUPPORT AND REVENUES | | |
| Donations - unrestricted | \$ 5,110,896 | \$ 3,554,529 |
| Grants | 20,000 | 25,000 |
| In-kind contributions | 77,555 | 445,947 |
| Visitation income | 135,132 | 122,827 |
| Miscellaneous income | 43,080 | 170,743 |
| Net assets released from restrictions | <u>1,715,048</u> | <u>2,230,978</u> |
| Total unrestricted support and revenues | <u>7,101,711</u> | <u>6,550,024</u> |
| EXPENSES | | |
| Program services | 4,220,527 | 3,696,929 |
| Management and general | 698,732 | 679,988 |
| Fundraising | <u>1,858,848</u> | <u>1,463,974</u> |
| Total expenses | <u>6,778,107</u> | <u>5,840,891</u> |
| OTHER INCOME (EXPENSE) | | |
| Investment income | 28,798 | 9,970 |
| Gain (loss) on disposal of property and equipment | 21,740 | (36,361) |
| Operations income | 425,523 | 524,626 |
| Montana Prairie Holdings, LLC net income (loss) (see Note 8) | 41,654 | (149,015) |
| Income attributable to Montana Prairie Holdings, LLC noncontrolling interests | <u>49,626</u> | <u>(6,835)</u> |
| Total other income (expense) | <u>567,341</u> | <u>342,385</u> |
| Increase in unrestricted net assets | <u>890,945</u> | <u>1,051,518</u> |
| TEMPORARILY RESTRICTED NET ASSETS | | |
| Donations - restricted | 4,978,345 | 4,253,539 |
| Investment income | 39,288 | 357 |
| Net assets released from restrictions | <u>(1,715,048)</u> | <u>(2,230,978)</u> |
| Increase in temporarily restricted net assets | <u>3,302,585</u> | <u>2,022,918</u> |
| PERMANENTLY RESTRICTED NET ASSETS | | |
| Donations - restricted | <u>2,181,491</u> | <u>-</u> |
| INCREASE IN NET ASSETS | 6,375,021 | 3,074,436 |
| Net assets, beginning of year | <u>44,016,960</u> | <u>40,942,524</u> |
| NET ASSETS, END OF YEAR | <u>\$ 50,391,981</u> | <u>\$ 44,016,960</u> |

See the accompanying notes to financial statements.

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

| | Year Ended December 31, 2016 | | | |
|-------------------------------------|-------------------------------------|-----------------------------------|---------------------|---------------------|
| | Program Services | Management and General | Fundraising | Totals |
| Communications/marketing | \$ 136,805 | \$ 14,505 | \$ 52,548 | \$ 203,858 |
| Communications/infrastructure | 37,171 | 4,554 | 8,854 | 50,579 |
| Contracted services | 260,626 | 10,694 | 318,514 | 589,834 |
| Depreciation | 490,537 | 9,547 | 80,710 | 580,794 |
| Events and outreach | 99,065 | - | 153,566 | 252,631 |
| Interest expense | 805,909 | - | - | 805,909 |
| Office expenses | 118,760 | 55,126 | 129,087 | 302,973 |
| Officer compensation | 161,100 | 80,550 | 295,350 | 537,000 |
| Other salaries | 909,458 | 323,333 | 514,899 | 1,747,690 |
| Payroll taxes and employee benefits | 282,346 | 80,824 | 143,946 | 507,116 |
| Professional fees | 90,721 | 21,812 | - | 112,533 |
| Project area | 619,323 | - | 14,001 | 633,324 |
| Rent | 59,641 | 20,313 | 39,499 | 119,453 |
| Travel | 149,065 | 77,474 | 107,874 | 334,413 |
| | <u>\$ 4,220,527</u> | <u>\$ 698,732</u> | <u>\$ 1,858,848</u> | <u>\$ 6,778,107</u> |

| | 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> |

See the accompanying notes to financial statements.

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

| | Years Ended December 31 | |
|--|--------------------------------|--------------|
| | 2016 | 2015 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Increase in net assets | \$ 6,375,021 | \$ 3,074,436 |
| Adjustments to reconcile changes in net assets to cash used by operating activities: | | |
| Depreciation | 580,794 | 428,020 |
| Donated securities | (5,450,700) | (2,311,318) |
| Donated note receivable | (36,000) | - |
| (Gain) loss on disposal of property and equipment | (21,740) | 36,361 |
| Unrealized (gain) loss on investments | (62,035) | 115,100 |
| Contributions restricted for capital acquisition | (2,181,491) | - |
| Reinvested investment earnings and gain/loss on sale | 26,199 | (108,904) |
| Income and draws attributable to MPH non controlling interests | (49,626) | 4,481 |
| Change in: | | |
| (Increase) decrease in current assets: | | |
| Accounts receivable | (120,558) | (15,451) |
| Pledges receivable | (2,092,033) | (1,442,021) |
| Other current assets | 234,346 | (67,499) |
| Increase (decrease) in current liabilities: | | |
| Accounts payable | (120,253) | (119,742) |
| Accrued expenses | 6,254 | (3,028) |
| Accrued compensation and compensated absences | 7,424 | 28,286 |
| Flex spending liability | (445) | (727) |
| Accrued interest | 20,770 | (17,152) |
| Net cash used by operating activities | (2,884,073) | (399,158) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Payments for property and equipment | (3,950,979) | (1,029,662) |
| Payments for construction in progress | - | (278,870) |
| Payments for conservation lands | (1,901,140) | (915,463) |
| Proceeds from sale of property and equipment | 1,806,650 | 4,350 |
| Advances of notes receivable | (92,500) | - |
| Payments received on notes receivable | 9,794 | - |
| Proceeds from sale of investments | 7,379,619 | 8,929,297 |
| Option purchase | - | (505,000) |
| Purchase of investments | (488,150) | (5,184,749) |
| Net cash provided by investing activities | 2,763,294 | 1,019,903 |

(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 | |
|--|--------------------------------|--------------|
| | 2016 | 2015 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Contributions restricted for capital acquisition | \$ 2,181,491 | \$ - |
| Proceeds from notes payable | 200,000 | - |
| Transfer of MPH note payable to related party holder | - | (290,000) |
| Principal payments on notes payable | (1,912,670) | (1,048,585) |
| Net cash provided (used) by financing activities | 468,821 | (1,338,585) |
| NET INCREASE (DECREASE) IN CASH | 348,042 | (717,840) |
| Cash at beginning of year | 4,307,772 | 5,025,612 |
| CASH AT END OF YEAR | \$ 4,655,814 | \$ 4,307,772 |
| CASH IS COMPRISED OF: | | |
| Cash | \$ 3,950,713 | \$ 3,946,328 |
| Cash, temporarily restricted | 398,839 | 239,535 |
| Cash - Montana Prairie Holdings, LLC | 306,262 | 121,909 |
| | \$ 4,655,814 | \$ 4,307,772 |
| NON-CASH INVESTING AND FINANCING ACTIVITIES | | |
| Conservation lands acquired through issuance of debt | \$ 14,901,782 | \$ 1,400,000 |
| Conservation lands acquired through application of options | \$ 505,000 | \$ - |
| Property and equipment acquired through issuance of debt | \$ 120,434 | \$ - |
| Investments purchased through use of board restricted cash | \$ - | \$ 219,564 |
| CASH PAID FOR INTEREST | \$ 785,140 | \$ 344,051 |

See the accompanying notes to financial statements.

**AMERICAN PRAIRIE FOUNDATION dba
AMERICAN PRAIRIE RESERVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015**

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 create the largest nature reserve in the continental United States, a refuge for people and wildlife preserved forever as part of America's heritage.

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 affiliate, Montana Prairie Holdings, LLC (a Montana limited liability company in which the Reserve owned 100% and 71.43%, as of December 31, 2016 and 2015, respectively, see Note 8).

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.

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.

**AMERICAN PRAIRIE FOUNDATION dba
AMERICAN PRAIRIE RESERVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Promises to Give:

Unconditional promises to give (i.e. pledges receivable) are recognized as revenues in the period received. Conditional promises to give are not recognized in the financial statements until the conditions are substantially met. Intentions to give do not have legally enforceable documentation and, as such, are considered conditional and are not recognized until payment is received by the Reserve.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in more than one year are recorded at fair value, which is measured as the present value of their future cash flows, discounted at the short term prime interest rate of 3.75% and 3.25% at December 31, 2016 and 2015, respectively. Amortization of the discounts is included in contribution revenue. In the absence of donor stipulations to the contrary, promises with payments due in future periods are restricted to use after the due date. Promises that remain uncollected more than one year after their due dates are written off unless the donors indicate that payment is merely postponed. As a result of adopting the FASB's fair value measurement guidance, including the fair value option for financial assets and liabilities, the discount rate used in the present value measurement is revised at each measurement date to reflect current market conditions and the creditworthiness of donors. Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. At this time, management believes all pledges receivable are collectible, therefore, no allowance has been recorded as of December 31, 2016 and 2015.

The Reserve receives conditional promises to give, which depend on the occurrence of a specified future and uncertain event to bind the promisor. In accordance with FASB ASC 958, conditional promises to give, are recognized when the conditions on which they depend are substantially met. The Reserve also receives intentions to give from donors, which are not legally enforceable and are used for planning purposes only. Intentions to give are not reported as contributions until the donor transfers funds to the Reserve.

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 and improvements | 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.

**AMERICAN PRAIRIE FOUNDATION dba
AMERICAN PRAIRIE RESERVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

**AMERICAN PRAIRIE FOUNDATION dba
AMERICAN PRAIRIE RESERVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015**

2. PLEDGES RECEIVABLE

Pledges receivable as of December 31, 2016 and 2015 are as follows:

| | <u>2016</u> | <u>2015</u> |
|---|---------------------|---------------------|
| Amounts due in: | | |
| Less than one year | \$ 3,401,194 | \$ 1,806,250 |
| One to five years | 4,659,766 | 3,950,952 |
| Greater than five years | - | 199,767 |
| | <u>8,060,960</u> | <u>5,956,969</u> |
| Less: discount to present value | <u>(420,632)</u> | <u>(408,674)</u> |
| Pledges receivable, net of discount | 7,640,328 | 5,548,295 |
| Less: current portion | <u>(3,401,194)</u> | <u>(1,806,250)</u> |
| Pledges receivable, net of discount and current portion | <u>\$ 4,239,134</u> | <u>\$ 3,742,045</u> |

The Reserve also has \$17,375,000 in conditional promises to give and intentions to give that will be recognized as revenue when the conditions are substantially met. These amounts are expected to be received as follows: \$5,965,000 in 2017, \$4,765,000 in 2018, \$1,765,000 in 2019, \$1,765,000 in 2020, \$1,515,000 in 2021, \$1,300,000 in 2022, and \$300,000 in 2023.

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.

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

**AMERICAN PRAIRIE FOUNDATION dba
AMERICAN PRAIRIE RESERVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015**

3. FAIR VALUE MEASUREMENTS (Continued)

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, 2016 and 2015:

| | <u>2016</u> | <u>2015</u> |
|---|--------------|--------------|
| Mutual funds - Level 1 | \$ 1,100,950 | \$ 1,011,789 |
| Certificates of deposit - Level 2 | \$ 1,322,497 | \$ 2,816,591 |
| Net present value of pledges receivable - Level 3 | \$ 7,640,328 | \$ 5,548,295 |

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:

| | <u>2016</u> | <u>2015</u> |
|---------------------------------------|---------------------|---------------------|
| Pledges receivable, beginning of year | \$ 5,548,295 | \$ 4,106,274 |
| Additional pledges | 4,275,000 | 4,000,000 |
| Payments received | (2,171,009) | (2,533,059) |
| Change in discount | <u>(11,958)</u> | <u>(24,920)</u> |
| Pledges receivable, end of year | <u>\$ 7,640,328</u> | <u>\$ 5,548,295</u> |

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4. INVESTMENTS

Investments are comprised of the following as of December 31, 2016:

| | <u>Cost</u> | <u>Fair Value</u> | <u>Gross Unrealized Gains (Losses)</u> |
|-----------------------------------|---------------------|---------------------|--|
| Certificates of deposit - Level 2 | \$ 1,322,570 | \$ 1,322,497 | \$ (73) |
| Mutual funds - Level 1 | | | |
| Large blend | 495,022 | 523,400 | 28,378 |
| Mid-cap blend | 145,967 | 148,951 | 2,984 |
| Small blend | 59,027 | 64,934 | 5,907 |
| International large blend | 129,497 | 118,238 | (11,259) |
| Emerging markets | 10,200 | 12,404 | 2,204 |
| Bond index fund | 242,252 | 233,023 | (9,229) |
| | <u>\$ 2,404,535</u> | <u>\$ 2,423,447</u> | <u>\$ 18,912</u> |

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 2 | \$ 2,818,205 | \$ 2,816,591 | \$ (1,614) |
| Mutual funds - Level 1 | | | |
| 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 | 263,172 | 258,616 | (4,556) |
| | <u>\$ 3,871,504</u> | <u>\$ 3,828,380</u> | <u>\$ (43,124)</u> |

As of December 31, 2016 and 2015, 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, 2016:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|---------------------------------------|---------------------|-----------------------------------|------------------|
| Interest, dividends and capital gains | \$ 38,876 | \$ 9,246 | \$ 48,122 |
| Unrealized gains (losses) | 35,347 | 26,688 | 62,035 |
| Realized gains (losses) | <u>(45,425)</u> | <u>3,354</u> | <u>(42,071)</u> |
| | <u>\$ 28,798</u> | <u>\$ 39,288</u> | <u>\$ 68,086</u> |

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> |

5. LINE OF CREDIT

The Reserve had a line of credit with First Security Bank of Bozeman, which was collateralized by real estate owned by the Reserve. This line of credit expired in 2016 and a new line of credit was opened in March 2017. The maximum amount available under this new line of credit is \$1,500,000 with an interest rate of Wall Street Prime plus 1.5%.

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, 2016 and 2015, funds exceeded federally insured limits by \$176,280 and \$413,520, respectively. As of December 31, 2016 and 2015, funds exceeded SIPC limits by \$3,495,610 and \$3,093,713, respectively.

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7. NOTES PAYABLE

The following is a schedule of notes payable as of December 31, 2016 and 2015:

| | <u>2016</u> | <u>2015</u> |
|---|----------------------|---------------------|
| Note payable to a financial institution; dated July 2012; revised 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. | \$ 2,458,172 | \$ 2,642,026 |
| 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. | 1,973,446 | 2,858,196 |
| Note payable to a financial institution; dated May 2016; due December 2035; interest calculated at Wall Street Prime plus 1.50%; annual payments of \$1,173,853; secured by first mortgage on property. | 14,183,142 | - |
| Note payable to an individual at 6.31% imputed interest; due May 2018; annual payments of \$39,600; unsecured. | 71,693 | 104,476 |
| Note payable to an individual at 2.19% interest; due September 2030; annual payments of \$73,539; secured by first mortgage on property. | 1,357,545 | 1,400,000 |
| Equipment note payable; dated March 2016; variable interest; interest rate at December 31 2016 was 3.24%; due April 2019; monthly payments of \$2,540; secured by equipment. | 68,517 | - |
| Vehicle note payable; dated March 2016; no interest; due March 2019; monthly payments of \$925; secured by vehicle. | <u>24,980</u> | <u>-</u> |
| | 20,137,495 | 7,004,698 |
| Less: current portion | <u>(1,705,003)</u> | <u>(1,198,819)</u> |
| | <u>\$ 18,432,492</u> | <u>\$ 5,805,879</u> |

Notes payable mature as follows:

| | |
|------------|-------------------|
| 2017 | \$ 1,705,003 |
| 2018 | 1,791,942 |
| 2019 | 888,550 |
| 2020 | 808,424 |
| 2021 | 849,860 |
| Thereafter | <u>14,093,716</u> |

\$ 20,137,495

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8. MONTANA PRAIRIE HOLDINGS, LLC

Montana Prairie Holdings, LLC (a Montana limited liability company) 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, 2016 and 2015, American Prairie Reserve owned 100% and 71.43% 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, 2016 and 2015 follow:

| | <u>2016</u> | <u>2015</u> |
|------------------------------|------------------|---------------------|
| Sales and licensing revenue | \$ 3,228,502 | \$ 3,319,559 |
| Cost of sales | <u>2,832,546</u> | <u>3,118,247</u> |
| Gross profit | <u>395,956</u> | <u>201,312</u> |
| Operating expenses | | |
| Bank and credit card charges | 567 | 3,399 |
| Broker commissions | 48,153 | 37,221 |
| Contract labor | - | 1,120 |
| Donations | 5,652 | - |
| Extra freight | 650 | - |
| Fees and licenses | 726 | 308 |
| Guaranteed payments | - | 42,000 |
| Insurance | 10,803 | 4,710 |
| Interest | 4,053 | 25,301 |
| Marketing expenses | 36,148 | 7,656 |
| Meals and entertainment | 11,600 | 13,742 |
| Office expenses | 4,318 | 3,316 |
| Office rent | - | 1,500 |
| Payroll expenses | 190,742 | 111,707 |
| Postage and delivery | 397 | 402 |
| Professional fees | 7,962 | 5,931 |
| Samples | 10,159 | 25,112 |
| Supplies | - | 51 |
| Telephone and internet | 4,289 | 9,487 |
| Trade shows | - | 61 |
| Travel | 16,463 | 56,453 |
| Website | <u>1,620</u> | <u>850</u> |
| | <u>354,302</u> | <u>350,327</u> |
| Net income (loss) | <u>\$ 41,654</u> | <u>\$ (149,015)</u> |

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9. BOARD DESIGNATED NET ASSETS

Unrestricted net assets the Board of Directors has designated to be held in perpetuity as of December 31, 2016 and 2015 are as follows:

| | <u>2016</u> | <u>2015</u> |
|--|----------------------|----------------------|
| Board designated funds to be held in perpetuity: | | |
| Endowment | \$ 550,919 | \$ 501,046 |
| Land and building acquisitions | 37,090,276 | 21,903,433 |
| Less: debt associated with acquisitions | <u>(20,043,998)</u> | <u>(7,004,698)</u> |
| | 17,597,197 | 15,399,781 |
| Unrestricted, not designated | <u>6,233,564</u> | <u>7,540,035</u> |
| Total unrestricted net assets | <u>\$ 23,830,761</u> | <u>\$ 22,939,816</u> |

10. TEMPORARILY RESTRICTED NET ASSETS

Net assets temporarily restricted by the donor as of December 31, 2016 and 2015 are as follows:

| | <u>2016</u> | <u>2015</u> |
|-----------------------------------|---------------------|---------------------|
| Pledges receivable | \$ 7,060,960 | \$ 3,956,967 |
| Endowment fund earnings | 155,342 | 116,055 |
| Hut-to-Hut | 200,000 | - |
| National Prize | 152,060 | - |
| Land of Legacy | - | 218,539 |
| Education and economic activities | <u>46,780</u> | <u>20,996</u> |
| | <u>\$ 7,615,142</u> | <u>\$ 4,312,557</u> |

11. 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, 2016 and 2015 as follows:

| | <u>2016</u> | <u>2015</u> |
|-----------------------------------|---------------------|---------------------|
| Land of Legacy | \$ 381,292 | \$ - |
| National Prize | 147,940 | - |
| Enrico Science Center | - | 18,355 |
| Wild Sky | - | 117,750 |
| Education and economic activities | 14,809 | 61,814 |
| Pledges receivable collections | <u>1,171,007</u> | <u>2,033,059</u> |
| | <u>\$ 1,715,048</u> | <u>\$ 2,230,978</u> |

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12. 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, 2016 and 2015, permanently restricted net assets are summarized as follows:

| | 2016 | 2015 |
|---|----------------------|----------------------|
| Conservation lands | \$ 17,551,390 | \$ 14,369,899 |
| Conservation land acquisition pledges receivable | 1,000,000 | 2,000,000 |
| Investments held in perpetuity, donor-restricted endowments | 394,688 | 394,688 |
| | \$ 18,946,078 | \$ 16,764,587 |

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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12. PERMANENTLY RESTRICTED NET ASSETS (Continued)

The composition of endowment net assets by fund as of December 31, 2016 and 2015 is as follows:

| | 2016 | | | |
|----------------------------------|---------------------|-----------------------------------|-----------------------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Donor-restricted endowment funds | \$ - | \$ 155,343 | \$ 394,688 | \$ 550,031 |
| Board-designated endowment funds | <u>550,919</u> | <u>-</u> | <u>-</u> | <u>550,919</u> |
| | <u>\$ 550,919</u> | <u>\$ 155,343</u> | <u>\$ 394,688</u> | <u>\$ 1,100,950</u> |

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

Changes in net asset composition by type of funds for the years ended December 31, 2016 and 2015 are as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Endowment assets, December 31, 2014 | \$ 500,594 | \$ 115,698 | \$ 394,688 | \$ 1,010,980 |
| Interest and dividends | 11,165 | 8,803 | - | 19,968 |
| Net losses (realized and unrealized) | <u>(10,713)</u> | <u>(8,446)</u> | <u>-</u> | <u>(19,159)</u> |
| Endowment net assets at December 31, 2015 | 501,046 | 116,055 | 394,688 | 1,011,789 |
| Interest and dividends | 11,735 | 9,246 | - | 20,981 |
| Net losses (realized and unrealized) | <u>38,138</u> | <u>30,042</u> | <u>-</u> | <u>68,180</u> |
| Endowment net assets at December 31, 2016 | <u>\$ 550,919</u> | <u>\$ 155,343</u> | <u>\$ 394,688</u> | <u>\$ 1,100,950</u> |

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13. DONATED GOODS AND SERVICES

The Reserve received and recognized the following in-kind donated goods and services at fair market value for the years ended December 31, 2016 and 2015:

| | <u>2016</u> | <u>2015</u> |
|--------------------------|------------------|-------------------|
| Communications/marketing | \$ - | \$ 180 |
| Construction in progress | - | 350 |
| Events and outreach | 3,243 | 4,881 |
| Furniture and fixture | 15,267 | - |
| Legal and professional | 20,143 | - |
| Notes receivable | 36,000 | 439,500 |
| Office expenses | 101 | 7 |
| Project area | <u>2,801</u> | <u>1,029</u> |
| | <u>\$ 77,555</u> | <u>\$ 445,947</u> |

14. 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 2016 and 2015. 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, 2016 and 2015, no match was made.

15. CONCENTRATIONS

Contributors

The Reserve is supported by contributors from the public and granting agencies. For the year ended December 31, 2016, four major contributors provided 74% of the Reserve's combined revenues. The net present value of pledges outstanding from these contributors as of December 31, 2016 totaled \$4,596,250. 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.

Major Lender

As of December 31, 2016 and 2015, the majority of the Reserve's financing activities were through one financial institution.

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16. 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 \$112,703 and \$100,339 for the years ended December 31, 2016 and 2015, respectively.

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 \$6,600 for the years ended December 31, 2016 and 2015, respectively.

Future minimum rental payments under these leases are as follows:

| | | | |
|------|----|---------------|-------------------|
| 2017 | \$ | 112,023 | |
| 2018 | | 115,228 | |
| 2019 | | 118,891 | |
| 2020 | | 122,554 | |
| 2021 | | <u>93,976</u> | |
| | | | <u>\$ 562,672</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 \$318,372 and \$423,170 for the years ended December 31, 2016 and 2015, respectively.

Estimated future minimum rentals over the remaining lease terms are:

| | | | |
|------------|----|----------------|---------------------|
| 2017 | \$ | 369,708 | |
| 2018 | | 95,000 | |
| 2019 | | 95,000 | |
| 2020 | | 95,000 | |
| 2021 | | 95,000 | |
| Thereafter | | <u>285,000</u> | |
| | | | <u>\$ 1,034,708</u> |

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17. RELATED PARTY TRANSACTIONS

During the years ended December 31, 2016 and 2015, \$2,924,669 and \$4,777,700 were contributed and/or pledged to the Reserve by board members. All of these contributions were recorded as revenue.

As of December 31, 2016 and 2015, the present value of the outstanding pledges from related parties was \$3,523,206 and \$5,542,045, 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 \$1,077,958 and \$0 to the Reserve for the years ended December 31, 2016 and 2015, respectively. As of December 31, 2016 and 2015, there were no balances due between FoAS and the Reserve.

18. SUBSEQUENT EVENTS

In accordance with FASB ASC 855, management has evaluated subsequent events through May 24, 2017, the date on which the financial statements were available to be issued. As disclosed in Note 5, the Reserve reinstated a line of credit in March 2017.