

**AMERICAN PRAIRIE FOUNDATION dba
AMERICAN PRAIRIE RESERVE**

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016



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, 2017 and 2016, 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, 2017 and 2016, 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
July 24, 2018



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

	December 31	
	2017	2016
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,294,841	\$ 955,604
Cash, temporarily restricted	2,023,164	398,839
Cash - Montana Prairie Holdings, LLC	125,853	306,262
Accounts receivable	83,268	196,402
Accounts receivable - Montana Prairie Holdings, LLC	186,252	171,512
Pledges receivable - current portion	4,015,000	3,401,194
Prepaid expense and commission credit	(46,761)	(99,144)
Inventory - Montana Prairie Holdings, LLC	31,760	48,240
Other current assets	9,365	9,365
	7,722,742	5,388,274
FIXED ASSETS		
Buildings	4,157,760	3,996,133
Kestrel Camp	1,522,604	1,519,257
Furniture and fixtures	99,123	99,123
Equipment	2,745,127	2,504,595
Enrico Science and Education Center	1,112,794	1,112,794
Construction in progress	1,711,539	-
	11,348,947	9,231,902
Less: accumulated depreciation	(3,016,503)	(2,305,024)
	8,332,444	6,926,878
OTHER ASSETS		
Pledges receivable, net of discount and current portion	5,488,223	4,239,134
Notes receivable	22,000	33,000
Notes receivable - Montana Prairie Holdings, LLC	59,451	85,706
Animals, at cost	130,462	138,916
Intangible assets - Montana Prairie Holdings, LLC	1,018,728	1,018,728
Investments	6,655,465	5,418,556
Conservation lands	54,041,338	47,939,082
	67,415,667	58,873,122
Total assets	\$ 83,470,853	\$ 71,188,274

See the accompanying notes to financial statements.

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

	December 31	
	2017	2016
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 138,478	\$ 170,424
Accounts payable - Montana Prairie Holdings, LLC	128,013	39,630
Accrued expenses	53,744	59,904
Accrued expenses - Montana Prairie Holdings, LLC	3,832	300
Accrued variable compensation and compensated absences	128,202	105,958
Flex spending liability	9,296	6,380
Accrued interest	88,636	80,852
Current portion of notes payable	2,132,186	1,705,003
	2,682,387	2,168,451
OTHER LIABILITIES		
Notes payable, net of current portion and unamortized debt issuance costs	21,361,059	18,358,092
Notes payable - Montana Prairie Holdings, LLC	200,000	269,750
	21,561,059	18,627,842
NET ASSETS		
Unrestricted net assets	26,841,997	23,830,761
Temporarily restricted net assets	11,960,429	7,615,142
Permanently restricted net assets	20,424,981	18,946,078
	59,227,407	50,391,981
Total liabilities and net assets	\$ 83,470,853	\$ 71,188,274

See the accompanying notes to financial statements.

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

	Years Ended December 31	
	2017	2016
UNRESTRICTED SUPPORT AND REVENUES		
Donations - unrestricted	\$ 3,535,471	\$ 5,110,896
Grants	-	20,000
In-kind contributions	7,154	77,555
Visitation income	215,629	135,132
Special events, less cost of direct donor benefits of \$280,248 and \$0	1,665,175	43,080
Net assets released from restrictions	<u>5,412,979</u>	<u>1,715,048</u>
 Total unrestricted support and revenues	 <u>10,836,408</u>	 <u>7,101,711</u>
EXPENSES		
Program services	5,048,648	4,220,527
Management and general	988,762	698,732
Fundraising	<u>2,319,857</u>	<u>1,858,848</u>
 Total expenses	 <u>8,357,267</u>	 <u>6,778,107</u>
OTHER INCOME (EXPENSE)		
Investment income	164,094	28,798
Gain (loss) on disposal of property and equipment	(11,506)	21,740
Operations income	610,114	425,523
Montana Prairie Holdings, LLC net income (loss) (see Note 13)	(230,607)	41,654
Income attributable to Montana Prairie Holdings, LLC noncontrolling interests	<u>-</u>	<u>49,626</u>
 Total other income (expense)	 <u>532,095</u>	 <u>567,341</u>
 Increase in unrestricted net assets	 <u>3,011,236</u>	 <u>890,945</u>
TEMPORARILY RESTRICTED NET ASSETS		
Donations - restricted	9,683,003	4,978,345
Investment income	75,263	39,288
Net assets released from restrictions	<u>(5,412,979)</u>	<u>(1,715,048)</u>
 Increase in temporarily restricted net assets	 <u>4,345,287</u>	 <u>3,302,585</u>
PERMANENTLY RESTRICTED NET ASSETS		
Donations - restricted	<u>1,478,903</u>	<u>2,181,491</u>
 INCREASE IN NET ASSETS	 8,835,426	 6,375,021
 Net assets, beginning of year	 <u>50,391,981</u>	 <u>44,016,960</u>
 NET ASSETS, END OF YEAR	 <u>\$ 59,227,407</u>	 <u>\$ 50,391,981</u>

See the accompanying notes to financial statements.

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

Year Ended December 31, 2017

	Program Services	Management and General	Fundraising	Totals
Communications/marketing	\$ 117,312	\$ 35,278	\$ 33,287	\$ 185,877
Communications/infrastructure	29,896	28,013	-	57,909
Contracted services	264,740	14,018	899,850	1,178,608
Depreciation	410,662	100,852	214,038	725,552
Events and outreach	227,420	9,905	156,109	393,434
Interest expense	1,086,828	-	-	1,086,828
Office expenses	90,120	177,845	41,989	309,954
Payroll taxes and employee benefits	334,584	82,168	174,385	591,137
Professional fees	103,353	31,530	-	134,883
Project area	678,180	-	-	678,180
Rent	6,800	112,420	-	119,220
Salaries	1,389,537	341,246	724,229	2,455,012
Travel	309,216	55,487	75,970	440,673
	<u>\$ 5,048,648</u>	<u>\$ 988,762</u>	<u>\$ 2,319,857</u>	<u>\$ 8,357,267</u>

In addition to the above, in 2017, the Reserve invested \$2,074,108 in capital expenditures and made \$2,704,112 in debt service principal payments. These expenditures all went directly into program services on the Reserve.

National Prize expenses are included in fundraising; American Prairie Reserve raised \$1,046,480 from the Prize event, net of 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
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
Salaries	1,070,558	403,883	810,249	2,284,690
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>

In addition to the above, in 2016, the Reserve invested \$6,357,117 in capital expenditures and made \$1,889,417 in debt service principal payments. These expenditures all went directly into program services on the Reserve.

See the accompanying notes to financial statements.

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

	Years Ended December 31	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 8,835,426	\$ 6,375,021
Adjustments to reconcile changes in net assets to cash used by operating activities:		
Depreciation	725,552	580,794
Interest expense - debt issuance costs	5,061	-
Donated securities	(6,333,108)	(5,450,700)
Donated note receivable	-	(36,000)
(Gain) loss on disposal of property and equipment	11,506	(21,740)
Unrealized gain on investments	(148,370)	(62,035)
Contributions restricted for capital acquisition	(1,478,903)	(2,181,491)
Reinvested investment earnings and gain on sale	(59,680)	26,199
Income and draws attributable to MPH non controlling interests	-	(49,626)
Change in:		
(Increase) decrease in current assets:		
Accounts receivable	98,394	(120,558)
Pledges receivable	(1,862,895)	(2,092,033)
Other current assets	(35,903)	234,346
Increase (decrease) in current liabilities:		
Accounts payable	56,437	(120,253)
Accrued expenses	(2,628)	6,254
Accrued compensation and compensated absences	22,244	7,424
Flex spending liability	2,916	(445)
Accrued interest	7,784	20,770
	<u>(156,167)</u>	<u>(2,884,073)</u>
Net cash used by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property and equipment	(364,887)	(3,950,979)
Payments for construction in progress	(1,711,539)	-
Payments for conservation lands	-	(1,901,140)
Proceeds from sale of property and equipment	-	1,806,650
Advances of notes receivable	-	(92,500)
Payments received on notes receivable	37,255	9,794
Proceeds from sale of investments	10,590,880	7,379,619
Purchase of investments	(2,988,000)	(488,150)
	<u>5,563,709</u>	<u>2,763,294</u>
Net cash provided by investing activities		

(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	
	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for capital acquisition	\$ 1,478,903	\$ 2,181,491
Proceeds from notes payable	-	200,000
Principal payments on notes payable	<u>(2,804,661)</u>	<u>(1,912,670)</u>
Net cash provided (used) by financing activities	<u>(1,325,758)</u>	<u>468,821</u>
NET CHANGE IN CASH	4,081,784	348,042
Cash at beginning of year	<u>1,808,870</u>	<u>1,460,828</u>
CASH AT END OF YEAR	<u>\$ 5,890,654</u>	<u>\$ 1,808,870</u>
CASH IS COMPRISED OF:		
Cash	\$ 1,294,841	\$ 955,604
Cash, temporarily restricted	2,023,164	398,839
Cash - Montana Prairie Holdings, LLC	<u>125,853</u>	<u>306,262</u>
	<u>\$ 3,443,858</u>	<u>\$ 1,660,705</u>
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Conservation lands acquired through issuance of debt	\$ 6,102,256	\$ 14,901,782
Conservation lands acquired through application of options	\$ -	\$ 505,000
Property and equipment acquired through issuance of debt	\$ 57,744	\$ 120,434
CASH PAID FOR INTEREST	\$ 1,079,043	\$ 785,140

See the accompanying notes to financial statements.

**AMERICAN PRAIRIE FOUNDATION dba
AMERICAN PRAIRIE RESERVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016**

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 2016, the Reserve became the sole member of Montana Prairie Holdings, LLC (see Note 13).

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, 2017 and 2016**

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. 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, 2017 and 2016.

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, 2017 and 2016**

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. 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). In general, the Reserve's information returns (Form 990) remain open to examination by federal tax authorities for three years. These taxing authorities have the authority to examine those tax years until the applicable statutes of limitations expire.

**AMERICAN PRAIRIE FOUNDATION dba
AMERICAN PRAIRIE RESERVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising:

Advertising costs are expensed as incurred.

Expense Allocation:

Directly identifiable expenses are charged to programs and supporting services. Certain costs relate to more than one function and are allocated among the programs and supporting services benefited. The National Prize event expenses are all reported as fundraising, other than direct donor benefits.

Change in Accounting Principle:

In 2017, in accordance with Accounting Standards Update 2015-03, the Company retroactively adopted new requirements to present debt issuance costs as a reduction of the carrying amount of the related debt rather than as an asset. Amortization of the debt issuance costs is reported as interest expense rather than as amortization expense. The 2016 financial statements have been retroactively restated for this change, which resulted in a decrease to other assets and notes payable of \$74,400. The change does not impact change in net assets or net asset balances.

Financial Statement Presentation:

Certain numbers have been reclassified in the 2016 financial statements for comparability with the 2017 financial statements.

2. PROMISES TO GIVE

Pledges receivable (unconditional promises to give) as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Amounts due in:		
Less than one year	\$ 4,015,000	\$ 3,401,194
One to five years	5,091,660	4,659,766
Greater than five years	<u>1,600,000</u>	<u>-</u>
	10,706,660	8,060,960
Less: discount to present value	<u>(1,203,437)</u>	<u>(420,632)</u>
Pledges receivable, net of discount	9,503,223	7,640,328
Less: current portion	<u>(4,015,000)</u>	<u>(3,401,194)</u>
Pledges receivable, net of discount and current portion	<u>\$ 5,488,223</u>	<u>\$ 4,239,134</u>

The Reserve also has \$11,075,000 in conditional promises to give and intentions to give that will be recognized as revenue when the conditions are substantially met. Of this, \$2,275,000 is restricted to projects and \$4,000,000 is restricted to land acquisition. These conditional promises and intentions are expected to be received as follows: \$4,930,000 in less than one year, \$5,845,000 in one to five years, and \$300,000 in greater than five years.

**AMERICAN PRAIRIE FOUNDATION dba
AMERICAN PRAIRIE RESERVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016**

3. INVESTMENTS

Investments are comprised of the following as of December 31, 2017:

	<u>Cost</u>	<u>Fair Value</u>	<u>Gross Unrealized Gains (Losses)</u>
Certificates of deposit	\$ 82,059	\$ 82,059	\$ -
Money market funds	5,293,740	5,293,740	-
Mutual funds			
Large blend	555,397	678,910	123,513
Mid-cap blend	132,585	155,635	23,050
Small blend	61,668	74,562	12,894
Intermediate term bond	350,623	353,508	2,885
Emerging markets	10,508	17,051	6,543
	<u>\$ 6,486,580</u>	<u>\$ 6,655,465</u>	<u>\$ 168,885</u>

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	\$ 1,322,570	\$ 1,322,497	\$ (73)
Money market funds	2,995,109	2,995,109	-
Mutual funds			
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>\$ 5,399,644</u>	<u>\$ 5,418,556</u>	<u>\$ 18,912</u>

As of December 31, 2017 and 2016, investments of \$394,688 are permanently restricted.

Investment income is comprised of the following for the year ended December 31, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest, dividends and capital gains	\$ 51,352	\$ 10,375	\$ 61,727
Unrealized gains	85,805	62,565	148,370
Realized gains	26,937	2,323	29,260
	<u>\$ 164,094</u>	<u>\$ 75,263</u>	<u>\$ 239,357</u>

**AMERICAN PRAIRIE FOUNDATION dba
AMERICAN PRAIRIE RESERVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016**

3. INVESTMENTS (Continued)

Investment income is comprised of the following for the year ended December 31, 2016:

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

4. 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.

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.

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4. FAIR VALUE MEASUREMENTS (Continued)

Fair values of assets measured on a recurring basis at December 31, 2017 are as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Net Asset Value</u>
Mutual funds	\$ 1,279,666	\$ 1,279,666	\$ -	\$ -	\$ -
Certificates of deposit	82,059	-	82,059	-	-
Money market funds	5,293,740	-	-	-	5,293,740
Pledges receivable	<u>9,503,223</u>	<u>-</u>	<u>-</u>	<u>9,503,223</u>	<u>-</u>
	<u>\$ 16,158,688</u>	<u>\$ 1,279,666</u>	<u>\$ 82,059</u>	<u>\$ 9,503,223</u>	<u>\$ 5,293,740</u>

Fair values of assets measured on a recurring basis at December 31, 2016 are as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Net Asset Value</u>
Mutual funds	\$ 1,100,950	\$ 1,100,950	\$ -	\$ -	\$ -
Certificates of deposit	1,322,497	-	1,322,497	-	-
Money market funds	2,995,109	-	-	-	2,995,109
Pledges receivable	<u>7,640,328</u>	<u>-</u>	<u>-</u>	<u>7,640,328</u>	<u>-</u>
	<u>\$ 13,058,884</u>	<u>\$ 1,100,950</u>	<u>\$ 1,322,497</u>	<u>\$ 7,640,328</u>	<u>\$ 2,995,109</u>

Marketable securities are valued at the quoted market prices for those securities. Certificates of deposit values are based on the cost of the investment plus accumulated earnings, which approximates fair value due to the short-term nature of these investments. Money market funds are managed to maintain a net asset value per share of \$1.00 and are reported at that net asset value (NAV), which closely approximates fair value.

Unconditional promises to give are reported at net realizable value if at the time the promise is made payment is expected to be received in one year or less. Unconditional promises that are expected to be collected in more than one year are reported at fair value initially and in subsequent periods because the Reserve elected the fair value option in accordance with generally accepted accounting principles. Management believes that the use of fair value reduces the cost of measuring unconditional promises to give in periods subsequent to their receipt and provides equal or better information to users of its financial statements than if those promises were measured using present value techniques and historical discount rates. The change in the fair value of the unconditional promises expected to be collected in more than one year is reported as contribution revenue.

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>2017</u>	<u>2016</u>
Pledges receivable, beginning of year	\$ 7,640,328	\$ 5,548,295
Additional pledges	7,500,000	4,275,000
Payments received	(4,854,300)	(2,171,009)
Change in discount (contribution revenue)	<u>(782,805)</u>	<u>(11,958)</u>
Pledges receivable, end of year	<u>\$ 9,503,223</u>	<u>\$ 7,640,328</u>

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5. 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, 2017 and 2016, funds exceeded federally insured limits by \$1,676,160 and \$176,280, respectively. As of December 31, 2017 and 2016, funds exceeded SIPC limits by \$5,571,910 and \$3,495,610, respectively.

6. LINE OF CREDIT

The Reserve has a line of credit with First Security Bank of Bozeman, which was collateralized by real estate owned by the Reserve. The maximum amount available under the line of credit is \$1,500,000, with an interest rate of Wall Street Prime plus 1.5%. The outstanding balance at December 31, 2017 and 2016 was \$0, and the interest rate was 5.50% at December 31, 2017. The line of credit matured March 28, 2018, and was extended through May 4, 2020, with an interest rate of Prime plus 1.0%.

7. NOTES PAYABLE

The following is a schedule of notes payable as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</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.	\$ 2,269,081	\$ 2,458,172
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.	1,041,961	1,973,446
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.	13,218,435	14,183,142
Note payable to a financial institution; dated August 16, 2017; due August 2027; interest calculated at Wall Street Prime less 0.25%; interest payments due quarterly; annual principal payments of \$308,000 for nine years; all remaining principal and interest due at maturity; secured by first mortgage on property.	5,660,000	-

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7. NOTES PAYABLE (Continued)

	2017	2016
Note payable to an individual at 6.31% imputed interest; due May 2018; annual payments of \$39,600; unsecured.	36,779	71,693
Note payable to an individual at 2.19% interest; due September 2030; annual payments of \$73,539; secured by first mortgage on property.	1,313,400	1,357,545
Equipment note payable; dated March 2016; variable interest; interest rate at December 31 2017 was 3.24%; due April 2019; monthly payments of \$2,540; secured by equipment.	39,849	68,517
Vehicle note payable; dated March 2016; no interest; due March 2019; monthly payments of \$925; secured by vehicle.	13,879	24,980
	23,593,384	20,137,495
Less: current portion	(2,132,186)	(1,705,003)
Less: unamortized debt issuance costs	(100,139)	(74,400)
Long-term portion, net of unamortized debt issuance costs	\$ 21,361,059	\$ 18,358,092
Notes payable mature as follows:		
2018	\$ 2,132,186	
2019	1,183,833	
2020	1,144,361	
2021	1,186,881	
2022	1,229,502	
Thereafter	16,716,621	
		\$ 23,593,384

8. BOARD DESIGNATED NET ASSETS

Unrestricted net assets the Board of Directors has designated to be held in perpetuity as of December 31, 2017 and 2016 are as follows:

	2017	2016
Board designated funds to be held in perpetuity:		
Endowment	\$ 654,372	\$ 550,919
Land and building acquisitions	43,587,750	37,090,276
Less: debt associated with acquisitions	(23,539,657)	(20,043,998)
	20,702,465	17,597,197
Unrestricted, not designated	6,139,532	6,233,564
Total unrestricted net assets	\$ 26,841,997	\$ 23,830,761

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9. TEMPORARILY RESTRICTED NET ASSETS

Net assets temporarily restricted by the donor as of December 31, 2017 and 2016 are as follows:

	2017	2016
Subject to expenditure for specific purpose:		
Campground	\$ 611,196	\$ -
Education and economic activities	62,563	46,779
Hut-to-Hut	217,462	100,000
National Prize	531,099	252,060
Native American projects	500,844	-
Pond restoration	100,000	-
Promises to give, proceeds of which have been restricted:		
American Wildlife Forever fund	4,000,000	-
Dellenback Interpretive Trail	200,000	-
Hut-to-Hut	-	100,000
National Prize	-	100,000
Native American projects	60,000	75,000
	6,283,164	673,839
Subject to the passage of time:		
Promises to give with no donor restrictions	5,446,659	6,785,960
Endowments:		
Income on donor permanently restricted funds	230,606	155,343
	\$ 11,960,429	\$ 7,615,142

10. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenditures satisfying the purpose restrictions specified by the donor for the years ended December 31, 2017 and 2016 as follows:

	2017	2016
Land of Legacy	\$ -	\$ 381,292
Hut-to-Hut	387,538	-
National Prize	320,960	147,940
Native American projects	14,156	-
Campground	1,388,804	-
Education and economic activities	62,220	14,809
Expiration of time restrictions	3,239,301	1,171,007
	\$ 5,412,979	\$ 1,715,048

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11. 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, 2017 and 2016, permanently restricted net assets are summarized as follows:

	2017	2016
Conservation lands	\$ 19,030,293	\$ 17,551,390
Conservation land acquisition pledges receivable	1,000,000	1,000,000
Investments held in perpetuity, donor-restricted endowments	394,688	394,688
	\$ 20,424,981	\$ 18,946,078

12. ENDOWMENTS

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. ENDOWMENTS (Continued)

The composition of endowment net assets by fund as of December 31, 2017 and 2016 is as follows:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 230,606	\$ 394,688	\$ 625,294
Board-designated endowment funds	<u>654,372</u>	<u>-</u>	<u>-</u>	<u>654,372</u>
	<u><u>\$ 654,372</u></u>	<u><u>\$ 230,606</u></u>	<u><u>\$ 394,688</u></u>	<u><u>\$ 1,279,666</u></u>

	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><u>\$ 550,919</u></u>	<u><u>\$ 155,343</u></u>	<u><u>\$ 394,688</u></u>	<u><u>\$ 1,100,950</u></u>

Changes in net asset composition by type of funds for the years ended December 31, 2017 and 2016 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, December 31, 2015	\$ 501,046	\$ 116,055	\$ 394,688	\$ 1,011,789
Interest and dividends	11,735	9,246	-	20,981
Net gains (realized and unrealized)	<u>38,138</u>	<u>30,042</u>	<u>-</u>	<u>68,180</u>
Endowment net assets at December 31, 2016	550,919	155,343	394,688	1,100,950
Interest and dividends	14,481	10,375	-	24,856
Net gains (realized and unrealized)	<u>88,972</u>	<u>64,888</u>	<u>-</u>	<u>153,860</u>
Endowment net assets at December 31, 2017	<u><u>\$ 654,372</u></u>	<u><u>\$ 230,606</u></u>	<u><u>\$ 394,688</u></u>	<u><u>\$ 1,279,666</u></u>

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13. 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. During 2016, American Prairie Reserve became the sole member of Montana Prairie Holdings, LLC. The Reserve 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, 2017 and 2016 follow:

	<u>2017</u>	<u>2016</u>
Sales and licensing revenue	\$ 2,618,537	\$ 3,228,502
Cost of sales	<u>2,415,299</u>	<u>2,832,546</u>
Gross profit	<u>203,238</u>	<u>395,956</u>
Operating expenses		
Bad debt expense	46,143	-
Bank and credit card charges	486	567
Broker commissions	40,849	48,153
Donations	1,583	5,652
Fees and licenses	959	726
Insurance	11,320	10,803
Interest	9,296	4,053
Marketing expenses	18,939	36,148
Meals and entertainment	8,675	11,600
Office expenses	3,051	4,318
Office rent	750	-
Payroll expenses	234,792	190,742
Postage and delivery	685	1,047
Professional fees	8,338	7,962
Samples	14,651	10,159
Software	3,172	-
Telephone and internet	3,252	4,289
Trade shows	1,084	-
Travel	25,023	16,463
Website	<u>797</u>	<u>1,620</u>
	<u>433,845</u>	<u>354,302</u>
Net income (loss)	<u>\$ (230,607)</u>	<u>\$ 41,654</u>

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14. DONATED GOODS AND SERVICES

The fair value of donated goods and services included as contributions in the financial statements and the corresponding expenses for the year ended December 31, 2017, are as follows:

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>
Events and outreach	\$ -	\$ -	\$ 5,854
Legal and professional	-	1,000	-
Office expenses	<u>300</u>	<u>-</u>	<u>-</u>
	<u>\$ 300</u>	<u>\$ 1,000</u>	<u>\$ 5,854</u>

The fair value of donated goods and services included as contributions in the financial statements and the corresponding expenses for the year ended December 31, 2016, are as follows:

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>
Events and outreach	\$ -	\$ -	\$ 3,243
Legal and professional	19,143	1,000	-
Office expenses	101	-	-
Project area	<u>2,801</u>	<u>-</u>	<u>-</u>
	<u>\$ 22,045</u>	<u>\$ 1,000</u>	<u>\$ 3,243</u>

Additionally, the following donations were recorded as assets during the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Furniture and fixture	\$ -	\$ 15,267
Notes receivable	<u>-</u>	<u>36,000</u>
	<u>\$ -</u>	<u>\$ 51,267</u>

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15. 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 \$112,023 and \$104,280 for the years ended December 31, 2017 and 2016, respectively.

The Reserve entered into a lease agreement on an apartment in Malta in December 2014. The original lease terms ended in November 2015, at which point the lease automatically extended on a month-to-month basis until terminated by either party. Rent paid for the Malta apartment was \$6,800 and \$6,600 for the years ended December 31, 2017 and 2016, respectively.

Future minimum rental payments under these leases are as follows:

2018	\$	115,228	
2019		118,891	
2020		122,554	
2021		93,976	
			\$ 450,649

Lessor

The Reserve leases portions of purchased land back to the sellers for agricultural use. The Reserve currently has eight leases which expire between 2018 and 2024. Lease payments under these leases range from \$5,463 to \$95,000 annually. Lease income under these leases was \$503,246 and \$318,372 for the years ended December 31, 2017 and 2016, respectively.

Estimated future minimum rentals over the remaining lease terms are:

2018	\$	369,708	
2019		95,000	
2020		95,000	
2021		95,000	
2022		95,000	
Thereafter		190,000	
			\$ 939,708

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16. 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 up to the IRS contribution limits, with additional contribution amounts allowed for employees over age 50. Management may determine the Reserve's match percentage annually. For the years ended December 31, 2017 and 2016, no match was made.

17. CONCENTRATIONS

Contributors

The Reserve is supported by contributors from the public and granting agencies. For the year ended December 31, 2017, nine major contributors provided 71% of the Reserve's combined revenues. The net present value of pledges outstanding from these contributors as of December 31, 2017 totaled \$7,228,334. 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.

18. RELATED PARTY TRANSACTIONS

During the years ended December 31, 2017 and 2016, \$4,320,313 and \$2,924,669 were contributed and/or pledged to the Reserve by board members. All of these contributions were recorded as revenue.

As of December 31, 2017 and 2016, the present value of the outstanding pledges from related parties was \$5,547,875 and \$3,523,206, 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 \$995,291 and \$1,077,958 to the Reserve for the years ended December 31, 2017 and 2016, respectively. As of December 31, 2017 and 2016, there were no balances due between FoAS and the Reserve.

19. SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 24, 2018, the date on which the financial statements were available to be issued.

The Reserve's line of credit matured in March 2018 and was extended through May 2020 (see Note 6).