

WARRIORS AND QUIET WATERS FOUNDATION, INC.

AUDITED FINANCIAL STATEMENTS

December 31, 2017 and 2016



AMATICS
CPA GROUP

**WARRIORS AND QUIET WATERS FOUNDATION, INC.
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Warriors and Quiet Waters Foundation, Inc.
Bozeman, Montana

We have audited the accompanying financial statements of Warriors and Quiet Waters Foundation, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 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 financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Warriors and Quiet Waters Foundation, Inc. as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Amatics CPA Group

Bozeman, Montana
August 15, 2018



WARRIORS AND QUIET WATERS FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION

		December 31	
		2017	2016
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$	1,040,319	\$ 2,049,056
Certificates of deposit		-	48,454
Pledges receivable - current portion		346,961	349,945
Prepaid expenses		15,534	15,854
		1,402,814	2,463,309
FIXED ASSETS			
Land		1,195,781	1,195,781
Buildings		1,762,533	1,762,533
Improvements		1,347,905	957,925
Furniture and equipment		325,502	236,803
Construction in progress		287,863	-
		4,919,584	4,153,042
Less accumulated depreciation		(300,453)	(152,388)
		4,619,131	4,000,654
OTHER ASSETS			
Pledges receivable, net of discount and current portion		251,543	126,070
Investments		5,543,121	3,233,481
Security deposit		1,000	2,200
		5,795,664	3,361,751
Totals	\$	11,817,609	\$ 9,825,714
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	\$	11,841	\$ 6,714
Payroll liabilities		86	8,484
Accrued vacation		12,666	10,668
		24,593	25,866
GIFT ANNUITY OBLIGATIONS			
		42,165	18,866
NET ASSETS			
Unrestricted:			
Board designated reserve fund		1,000,000	1,000,000
Unrestricted		5,472,028	4,724,146
Temporarily restricted		1,148,158	995,243
Permanently restricted		4,130,665	3,061,593
		11,750,851	9,780,982
Totals	\$	11,817,609	\$ 9,825,714

See the accompanying notes to financial statements.

WARRIORS AND QUIET WATERS FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year ended December 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
REVENUE AND SUPPORT				
Contributions	\$ 957,328	\$ 618,291	\$ 1,069,072	\$ 2,644,691
Special events income	93,789	-	-	93,789
Sales income	1,071	-	-	1,071
Investment and interest income, net	48,241	407,681	-	455,922
In-kind support	226,651	-	-	226,651
Satisfaction of usage restrictions	<u>873,057</u>	<u>(873,057)</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>2,200,137</u>	<u>152,915</u>	<u>1,069,072</u>	<u>3,422,124</u>
EXPENSES				
Program services	1,065,818	-	-	1,065,818
Administration	159,199	-	-	159,199
Fundraising	<u>227,238</u>	<u>-</u>	<u>-</u>	<u>227,238</u>
Total expenses	<u>1,452,255</u>	<u>-</u>	<u>-</u>	<u>1,452,255</u>
CHANGE IN NET ASSETS	747,882	152,915	1,069,072	1,969,869
Net assets at beginning of year	<u>5,724,146</u>	<u>995,243</u>	<u>3,061,593</u>	<u>9,780,982</u>
NET ASSETS AT END OF YEAR	<u>\$ 6,472,028</u>	<u>\$ 1,148,158</u>	<u>\$ 4,130,665</u>	<u>\$ 11,750,851</u>

See the accompanying notes to financial statements.

WARRIORS AND QUIET WATERS FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
REVENUE AND SUPPORT				
Contributions	\$ 1,507,684	\$ 805,704	\$ 913,563	\$ 3,226,951
Bad debt loss	-	(160,000)	-	(160,000)
Special events income	256,790	-	-	256,790
Sales income	1,288	-	-	1,288
Investment and interest income, net	10,686	110,981	-	121,667
In-kind support	413,385	-	-	413,385
Satisfaction of usage restrictions	<u>674,702</u>	<u>(674,702)</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>2,864,535</u>	<u>81,983</u>	<u>913,563</u>	<u>3,860,081</u>
EXPENSES				
Program services	961,019	-	-	961,019
Administration	80,884	-	-	80,884
Fundraising	<u>315,877</u>	<u>-</u>	<u>-</u>	<u>315,877</u>
Total expenses	<u>1,357,780</u>	<u>-</u>	<u>-</u>	<u>1,357,780</u>
CHANGE IN NET ASSETS	1,506,755	81,983	913,563	2,502,301
Net assets at beginning of year	<u>4,217,391</u>	<u>913,260</u>	<u>2,148,030</u>	<u>7,278,681</u>
NET ASSETS AT END OF YEAR	<u>\$ 5,724,146</u>	<u>\$ 995,243</u>	<u>\$ 3,061,593</u>	<u>\$ 9,780,982</u>

See the accompanying notes to financial statements.

WARRIORS AND QUIET WATERS FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2017

	<u>Program</u>	<u>Administration</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 213,655	\$ 94,114	\$ 95,116	\$ 402,885
Payroll taxes	16,040	6,097	7,178	29,315
Employee benefits	13,799	9,833	12,002	35,634
Accommodations	66,286	-	118	66,404
Advertising and marketing	3,070	9	-	3,079
Bank and credit card fees	82	77	4,252	4,411
Board expenses	119	1,770	5,712	7,601
Contracted services	96,265	6,005	32,811	135,081
Depreciation	148,065	-	-	148,065
Equipment rental	5,106	-	-	5,106
Gear for warriors	200,557	-	-	200,557
Insurance	10,411	1,158	1,223	12,792
Occupancy	112,672	8,568	12,504	133,744
Office expense	7,777	4,173	3,614	15,564
Outreach	58,025	400	-	58,425
Postage	239	98	1,662	1,999
Printing	1,933	1,087	2,638	5,658
Professional fees	1,225	17,764	-	18,989
Special events	873	107	44,093	45,073
Technology	2,921	3,256	3,552	9,729
Training	-	4,683	763	5,446
Travel	106,698	-	-	106,698
	<u>\$ 1,065,818</u>	<u>\$ 159,199</u>	<u>\$ 227,238</u>	<u>\$ 1,452,255</u>

See the accompanying notes to financial statements.

WARRIORS AND QUIET WATERS FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2016

	<u>Program</u>	<u>Administration</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 230,536	\$ 39,174	\$ 101,142	\$ 370,852
Payroll taxes	17,622	2,909	7,924	28,455
Employee benefits	19,438	3,244	13,238	35,920
Accommodations	57,261	248	256	57,765
Advertising and marketing	4,222	-	-	4,222
Bank and credit card fees	254	4,294	5,720	10,268
Board expenses	2,000	10,568	-	12,568
Contracted services	81,811	715	36,728	119,254
Depreciation	108,854	-	-	108,854
Equipment rental	13,153	-	-	13,153
Gear for warriors	151,421	-	-	151,421
Insurance	8,976	852	968	10,796
Interest expense	3,096	-	-	3,096
Miscellaneous	22	125	16	163
Occupancy	114,707	2,779	10,351	127,837
Office expense	6,555	1,171	3,698	11,424
Outreach	38,984	-	-	38,984
Postage	852	497	3,025	4,374
Printing	1,122	251	10,265	11,638
Professional fees	1,190	11,220	252	12,662
Special events	966	-	107,193	108,159
Supplies	5,163	-	-	5,163
Technology	3,342	71	4,142	7,555
Training	8,107	1,973	1,944	12,024
Travel	81,365	793	9,015	91,173
	<u>\$ 961,019</u>	<u>\$ 80,884</u>	<u>\$ 315,877</u>	<u>\$ 1,357,780</u>

See the accompanying notes to financial statements.

WARRIORS AND QUIET WATERS FOUNDATION, INC.
STATEMENTS OF CASH FLOWS

	Years ended December 31	
	2017	2016
CASH FLOW FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,969,869	\$ 2,502,301
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	148,065	108,854
Donated equipment	(43,898)	(151,607)
Endowment contributions restricted for long-term investment	(1,069,071)	(913,563)
Unrealized gain on investments	(146,500)	(62,179)
Realized (gain) loss on investments	(152,070)	9,660
(Increase) decrease in current assets:		
Pledges receivable	(122,489)	851,873
Prepaid expense	320	18,287
Security deposit	1,200	-
Increase (decrease) in current liabilities:		
Accounts payable	5,127	(12,031)
Payroll taxes payable	(8,399)	308
Accrued vacation	1,999	4,050
Gift annuity obligations	23,299	10,771
Net cash provided by operating activities	<u>607,452</u>	<u>2,366,724</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(722,644)	(731,391)
Proceeds from sale of investments	1,702,397	438,516
Purchase of investments	(3,713,467)	(2,105,937)
Net redemptions (purchases) of certificates of deposit	<u>48,454</u>	<u>294,544</u>
Net cash used by investing activities	<u>(2,685,260)</u>	<u>(2,104,268)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Endowment contributions restricted for long-term investment	1,069,071	913,563
Payments on line of credit	-	(400,000)
Proceeds from line of credit	<u>-</u>	<u>400,000</u>
Net cash provided by financing activities	<u>1,069,071</u>	<u>913,563</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,008,737)	1,176,019
Cash and cash equivalents at beginning of year	<u>2,049,056</u>	<u>873,037</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,040,319</u>	<u>\$ 2,049,056</u>
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Donated property and equipment	<u>\$ 43,898</u>	<u>\$ 151,607</u>
CASH PAID FOR INTEREST	<u>\$ -</u>	<u>\$ 3,096</u>

See the accompanying notes to financial statements.

WARRIORS AND QUIET WATERS FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations:

Warriors and Quiet Waters Foundation, Inc. (WQW) was founded in Bozeman, Montana in 2007. The Organization is a recognized 501(c)(3) non-profit. All funding is from individual, private foundation and corporate donations; no government support is accepted.

The Organization's mission is to be a catalyst for positive change in the lives of post-9/11 combat veterans through the experience of fly-fishing in Montana.

WQW brings warriors to Montana for a six-day program of fly fishing and rehabilitation. Once here, they have the opportunity to relax and to learn to fly fish in the quiet and beautiful surroundings of Montana.

The positive impact on the healing and rehabilitation of the warriors from the program and their experience here is clear. WQW's Fishing Experience program provides a respite from the rigors and stresses of war and from the treatment they have endured because of their injuries. They receive quality fly fishing instruction from caring and expert fly fishing guides, instructors and companions. Through adaptive methods of fly fishing they can move beyond their disabilities to learn a new life skill and gain the recognition of the importance of engaging in new activities as they move on in their recovery. The program provides transportation, accommodations, meals, and gives each warrior a complete fly fishing outfit (including rod, reel and waders) so they can continue to fish when they leave MT – all at no cost to them. The program supports these warriors and their spouses solely through the generosity of donors and volunteers.

Basis of Accounting:

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. This basis of accounting recognizes revenues and related receivables when they are earned and expenses and related liabilities when incurred.

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.

Income Taxes:

The Organization is a nonprofit organization as described in 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 Organization 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. The Organization'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 Costs:

Advertising costs are expensed as incurred.

WARRIORS AND QUIET WATERS FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents:

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Pledges Receivable:

As required by Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, pledges receivable to be paid in more than one year from the date of the financial statements are discounted at the prime interest rate, 4.50% and 3.75% at December 31, 2017 and 2016, respectively. As a result of adopting the FASB's Fair Value Measurement guidance, including the Fair Value Option for Financial Assets and Financial Liabilities, the discount rate used in the present value technique to determine fair value of pledges receivable is revised at each measurement date to reflect current market conditions and the creditworthiness of donors. Subsequent changes in the fair value of pledges receivable are reported in the statement of activities as contribution revenue. At this time, management believes all pledges receivable are collectible, therefore, no allowance has been recorded as of December 31, 2017 and 2016.

Prepaid Expenses:

Prepaid expenses consists of fishing gear, clothing and hats for warrior experiences to occur in the next year.

Property and Equipment:

Purchased assets and assets leased under capital leases over the capitalization policy of \$5,000 are carried at their historical cost. 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, WQW reports expirations of donor restrictions when the the donated or acquired assets are placed in service as instructed by the donor. WQW reclassifies temporarily restricted net assets to unrestricted net assets at that time. Depreciation of equipment and assets under capital leases is provided over the estimated useful lives of the respective assets on the straight-line method. Operating leases for equipment are expensed over the life of the lease. Estimated useful lives of the fixed assets are as follows:

Furniture and equipment	5-7 years
Improvements	20 years
Buildings	40 years

Construction in Progress:

Construction in progress includes expenditures for the construction of a pavilion on the Organization's property that was not complete at December 31, 2017. The Organization has a contract to complete construction and the cost to complete is estimated to be \$31,724.

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.

WARRIORS AND QUIET WATERS FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Expenses:

Most expenses are charged directly to the program, to fundraising, or to general and administrative based on specific identification; however, some indirect expenses are allocated.

Split Interest Agreements:

The Organization's split-interest agreements with donors consist primarily of gift annuity agreements for which the Organization serves as trustee. Assets held in relation to the annuity agreements are included in investments. Contribution revenues are recognized when annuity agreements are established, after recording liabilities for the present value of the estimated future payments to be made to beneficiaries. The liabilities are adjusted annually for changes in the value of assets, accretion of the discount, and other changes in the estimates of future benefits; this annual adjustment is reported as permanently restricted contribution revenue.

Contributions and Net Assets:

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

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

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Unrestricted promises to give are shown as increases in unrestricted net assets. Contributions of assets other than cash are recorded at their estimated fair value.

In-Kind Support:

The Organization records various types of in-kind support including services, 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.

WARRIORS AND QUIET WATERS FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

2. CASH AND CASH EQUIVALENTS

At December 31, 2017 and 2016, the Organization's cash and cash equivalents balances were as follows:

	<u>2017</u>	<u>2016</u>
Checking accounts	\$ 480,893	\$ 1,217,622
Money market accounts	559,326	831,334
Petty cash on hand	<u>100</u>	<u>100</u>
	<u>\$ 1,040,319</u>	<u>\$ 2,049,056</u>

WQW 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 Organization has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk on cash and cash equivalents. As of December 31, 2017 and 2016, funds exceeded federally insured limits by \$513,780 and \$542,182, respectively.

3. PLEDGES RECEIVABLE

Pledges receivable as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Amounts due in:		
Less than one year	\$ 346,961	\$ 349,945
One to five years	<u>282,816</u>	<u>141,644</u>
	629,777	491,589
Less: discount to present value	<u>(31,273)</u>	<u>(15,574)</u>
Pledges receivable, net of discount	598,504	476,015
Less: current portion	<u>(346,961)</u>	<u>(349,945)</u>
Pledges receivable, net of discount and current portion	<u>\$ 251,543</u>	<u>\$ 126,070</u>

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).

WARRIORS AND QUIET WATERS FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

4. FAIR VALUE MEASUREMENTS (Continued)

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 Organization 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.

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 the discount rate as disclosed in Note 1.

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 Organization 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 Organization's assets at fair value as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Marketable securities - Level 1	\$ 5,350,210	\$ 2,591,151
Certificates of deposit - Level 2	\$ -	\$ 48,454
Net present value of pledges receivable - Level 3	\$ 598,504	\$ 476,015

WARRIORS AND QUIET WATERS FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

4. FAIR VALUE MEASUREMENTS (Continued)

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	\$ 476,015	\$ 1,327,888
Additional pledges	485,117	188,000
Payments received	(346,929)	(933,214)
Pledges written off	-	(160,000)
Change in discount	<u>(15,699)</u>	<u>53,341</u>
Pledges receivable, end of year	<u>\$ 598,504</u>	<u>\$ 476,015</u>

5. 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>
Bank insured deposits	\$ 71,841	\$ 71,841	\$ -
Corporate bonds, banking	635,610	633,898	(1,712)
Mutual funds			
Bond funds	821,634	826,419	4,785
Large blend	204,915	221,724	16,809
Large growth	282,255	325,338	43,083
International large growth	320,094	312,743	(7,351)
Large value	2,012,292	2,198,284	185,992
Mid-cap blend	112,359	125,897	13,538
Mid-cap growth	91,070	100,923	9,853
International mid-cap value	129,097	133,904	4,807
Mid-cap value	107,066	106,043	(1,023)
Small-cap value	98,572	92,606	(5,966)
Small blend	85,224	93,825	8,601
Small growth	10,542	11,740	1,198
Health care ETF	150,951	166,866	15,915
Real estate ETF	<u>125,371</u>	<u>121,070</u>	<u>(4,301)</u>
	<u>\$ 5,258,893</u>	<u>\$ 5,543,121</u>	<u>\$ 284,228</u>

WARRIORS AND QUIET WATERS FOUNDATION, INC.
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5. INVESTMENTS (Continued)

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	\$ 48,454	\$ 48,454	\$ -
Bank insured deposits	642,330	642,330	-
Corporate bonds, banking	249,171	248,267	(904)
Mutual funds			
Bond funds	276,585	276,471	(114)
International bond funds	75,520	75,666	146
Large blend	195,092	201,320	6,228
International large blend	54,406	54,458	52
Large growth	142,287	141,356	(931)
International large growth	48,880	48,902	22
Large value	1,188,239	1,220,997	32,758
Mid-cap blend	49,739	51,333	1,594
Mid-cap growth	52,600	51,490	(1,110)
Mid-cap value	48,835	51,466	2,631
Small blend	47,192	51,570	4,378
Small growth	35,135	38,226	3,091
Health care ETF	44,364	43,609	(755)
Real estate ETF	35,527	36,020	493
	<u>\$ 3,234,356</u>	<u>\$ 3,281,935</u>	<u>\$ 47,579</u>

Components of investment and interest income for the years ended December 31, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Interest and dividend income	\$ 169,184	\$ 69,148
Management fees	(11,832)	-
Unrealized gains	146,500	62,179
Realized gains (losses)	<u>152,070</u>	<u>(9,660)</u>
	<u>\$ 455,922</u>	<u>\$ 121,667</u>

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6. TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2017</u>	<u>2016</u>
Pledges receivable	\$ 410,031	\$ 179,742
Deferred gift annuity investments	42,165	18,866
Endowment fund earnings	516,921	109,240
Renovations and improvements	<u>179,041</u>	<u>687,395</u>
	<u>\$ 1,148,158</u>	<u>\$ 995,243</u>

7. PERMANENTLY RESTRICTED NET ASSETS

As of December 31, 2017 and 2016, permanently restricted net assets are summarized as follows:

	<u>2017</u>	<u>2016</u>
Pledges receivable, donor-restricted endowments	\$ 182,372	\$ 260,173
Investments held in perpetuity, donor-restricted endowments	<u>3,948,293</u>	<u>2,801,420</u>
	<u>\$ 4,130,665</u>	<u>\$ 3,061,593</u>

The Organization 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 Organization's endowment consists of donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Organization'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 Organization 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 classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by MUPMIFA. The Finance and Budget 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 reviews the accounting of the assets, income and expenditures of the endowment on a regular basis, and the Board determines how much of the earnings from the endowment may be appropriated for spending. The investment policy has been established to provide reasonable and sustainable flow of funds to maximize the capital in support of the Organization's activities.

WARRIORS AND QUIET WATERS FOUNDATION, INC.
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7. PERMANENTLY RESTRICTED NET ASSETS (Continued)

In accordance with MUPMIFA, the Organization 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 Organization 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 Organization; and
- (g) The investment policies of the Organization.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or MUPMIFA requires Organization to retain as a fund of perpetual direction. For both years ended December 31, 2017 and 2016, the endowment had a no deficiency.

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to operations while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s). The Organization expects its endowment funds, over time, to provide a reasonable level of current income to support the spending policy authorized by the Board of Directors and to grow equity assets. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation including cash equivalents, fixed income, and equity securities to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization reviews the endowment account statements and the returns of the endowment accounts annually to determine if the income from these accounts has reached a level which is significant to the overall operating budget. Upon this review, the Board of Directors may approve distributions within the parameters of the Organization's endowment and investment policies.

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7. PERMANENTLY RESTRICTED NET ASSETS (Continued)

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

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ -	\$ 516,921	\$ 3,948,293	\$ 4,465,214

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ -	\$ 109,240	\$ 2,801,420	\$ 2,910,660

Changes in net asset composition by type of funds for the year ended December 31, 2017 is as follows:

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment assets, beginning of year	\$ -	\$ 109,240	\$ 2,801,420	\$ 2,910,660
Interest and dividends, net of fees	-	121,596	-	121,596
Net gains (realized and unrealized)	-	286,085	-	286,085
Cash contributions	-	-	1,146,873	1,146,873
Endowment net assets at December 31, 2017	\$ -	\$ 516,921	\$ 3,948,293	\$ 4,465,214

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment assets, beginning of year	\$ (19,555)	\$ 17,814	\$ 1,515,282	\$ 1,513,541
Interest and dividends	-	67,830	-	67,830
Net gains (realized and unrealized)	19,555	23,596	-	43,151
Cash contributions	-	-	1,286,138	1,286,138
Endowment net assets at December 31, 2016	\$ -	\$ 109,240	\$ 2,801,420	\$ 2,910,660

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8. DEFERRED CHARITABLE GIFT ANNUITY SPLIT-INTEREST AGREEMENTS

WQW has received several charitable gift annuities that are restricted to the Organization's endowment funds and are deposited to a designated account for these contributions as required by Board policy. Under the annuity agreements, WQW agrees to pay the donor an annual sum, commencing on an agreed-upon date, for the remainder of the donor's life. The value is calculated based upon the discount rate at the time of the gift and the estimated amount of payments expected based upon actuarial tables.

Changes in gift annuity obligations for the years ended December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Gift annuity obligations, beginning of year	\$ 18,866	\$ 8,095
Increase in liabilities for gift annuities issued	22,356	10,443
Actuarial changes in liabilities	<u>943</u>	<u>328</u>
Gift annuity obligations, end of year	<u>\$ 42,165</u>	<u>\$ 18,866</u>

9. LINE OF CREDIT

The Organization has a revolving line of credit with American Bank, which is dated May 15, 2015 and collateralized by real estate owned by the Organization. The maximum amount available under this line of credit is \$1,000,000, and it matures September 1, 2019. The line of credit bears interest at 3.98%. The outstanding balance at December 31, 2017 and 2016 was \$0.

10. CONCENTRATIONS

Contributors

The Organization is supported by contributors from the public and granting agencies. For the year ended December 31, 2017, one major contributor provided 37% of the Organization's combined contributions. For the year ended December 31, 2016, two major contributors provided 60% of the Organization's combined contributions. The net present value of pledges outstanding from one of these 2016 major contributors as of December 31, 2017 and 2016, totaled \$42,616 and \$177,987, respectively.

WARRIORS AND QUIET WATERS FOUNDATION, INC.
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11. IN-KIND SUPPORT

The following in-kind support was recognized in the Statement of Functional Expenses for the year ended December 31, 2017:

	<u>Program</u>	<u>Administration</u>	<u>Fundraising</u>	<u>Total</u>
Accommodations	\$ 29,494	-	-	29,494
Board expenses	-	-	15	15
Contracted services	8,400	-	-	8,400
Equipment rental	500	-	-	500
Gear for warriors	101,299	-	-	101,299
Occupancy	7,777	141	83	8,001
Office	272	-	-	272
Outreach	24,300	-	-	24,300
Printing	278	32	106	416
Professional fees	-	4,331	-	4,331
Special events	155	-	3,707	3,862
Technology	50	50	50	150
Travel	1,713	-	-	1,713
	<u>\$ 174,238</u>	<u>\$ 4,554</u>	<u>\$ 3,961</u>	<u>\$ 182,753</u>

The following in-kind support was recognized in the Statement of Functional Expenses for the year ended December 31, 2016:

	<u>Program</u>	<u>Administration</u>	<u>Fundraising</u>	<u>Total</u>
Accommodations	\$ 36,047	-	-	36,047
Advertising	2,241	-	-	2,241
Board expenses	2,000	2,630	-	4,630
Contracted services	4,024	-	844	4,868
Equipment rental	4,646	-	-	4,646
Gear for warriors	76,025	-	-	76,025
Occupancy	37,498	-	450	37,948
Office	6,089	45	-	6,134
Outreach	18,155	-	-	18,155
Printing	108	72	1,845	2,025
Professional fees	-	2,213	-	2,213
Special events	-	-	44,383	44,383
Supplies	95	-	-	95
Technology	598	-	599	1,197
Training	3,478	524	936	4,938
Travel	15,859	79	295	16,233
	<u>\$ 206,863</u>	<u>\$ 5,563</u>	<u>\$ 49,352</u>	<u>\$ 261,778</u>

For the years ended December 31, 2017 and 2016, WQW recognized in-kind support for donated equipment and improvements of \$43,898 and \$151,607, respectively.

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12. OPERATING LEASE

Beginning June 12, 2013, WQW entered into a 2-year lease for office space for \$1,200 per month. In January 2015, this lease was extended through June 2017 with lease payments based on the space occupied. After renewal, monthly payments through June 2017 were \$2,200 per month. WQW entered a 40-month lease for office space during 2017. The lease requires a base rent amount based on the completed construction costs of the occupied office building and its portion of insurance and property taxes. The lease provides for a renewal option of three years subsequent to December 31, 2020, and an option to purchase the building through the expiration date of the initial lease. Monthly rent payments under the 2017 lease are \$2,680. Under lease agreements, rent paid during the years ended December 31, 2017 and 2016 was \$27,319 and \$26,400, respectively. Future remaining rental payments are \$32,160 per year for 2018, 2019, and 2020.

13. SIMPLE RETIREMENT PLAN

WQW established a SIMPLE IRA retirement plan on January 1, 2016. Regular full-time and part-time employees are eligible the first of the month following ninety days after their start date. The Organization matches employee contributions to the plan dollar-for-dollar up to 3% of employee's annual compensation. The Organization's contributions for the years ended December 31, 2017 and 2016 were \$9,457 and \$8,833, respectively.

14. SUBSEQUENT EVENTS

Date of Management Evaluation

Management has evaluated subsequent events through August 15, 2018, the date on which the financial statements were available to be issued.