

**WARRIORS AND QUIET WATERS FOUNDATION, INC. AND SUBSIDIARY**

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2018**

**With Comparative Information about Warriors and Quiet  
Waters Foundation, Inc. as of December 31, 2017**



**AMATICS**  
CPA GROUP

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

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

We have audited the accompanying financial statements of Warriors and Quiet Waters Foundation, Inc. (a nonprofit organization) and Subsidiary, which comprise the consolidated statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. We have also audited the accompanying financial statements of Warriors and Quiet Waters Foundation, Inc., which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year 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 2018 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Warriors and Quiet Waters Foundation, Inc. and Subsidiary as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Also, in our opinion, the 2017 financial statements present fairly, in all material respects, the financial position of Warriors and Quiet Waters Foundation, Inc. as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Amatics CPA Group*

Bozeman, Montana

May 29, 2019

**WARRIORS AND QUIET WATERS FOUNDATION, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
as of December 31, 2018  
(With Comparative Information about Warriors and Quiet Waters Foundation, Inc. as of  
December 31, 2017)

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,091,736	\$ 1,040,319
Pledges receivable - current portion	219,135	346,961
Prepaid expenses	49,018	15,534
	1,359,889	1,402,814
<b>FIXED ASSETS</b>		
Land	1,537,781	1,195,781
Buildings	3,268,030	1,762,533
Improvements	1,677,344	1,347,905
Furniture and equipment	404,671	325,502
Construction in progress	41,060	287,863
	6,928,886	4,919,584
Less accumulated depreciation	(491,573)	(300,453)
	6,437,313	4,619,131
<b>OTHER ASSETS</b>		
Pledges receivable, net of discount and current portion	222,235	251,543
Investments	6,809,161	5,543,121
Security deposit	1,000	1,000
	7,032,396	5,795,664
Totals	\$ 14,829,598	\$ 11,817,609

See the accompanying notes to financial statements.

**WARRIORS AND QUIET WATERS FOUNDATION, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)**  
**as of December 31, 2018**  
**(With Comparative Information about Warriors and Quiet Waters Foundation, Inc. as of**  
**December 31, 2017)**

	December 31	
	2018	2017
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 31,223	\$ 11,841
Payroll liabilities	2,288	86
Accrued vacation	15,436	12,666
Current portion of note payable	30,888	-
	79,835	24,593
<b>LONG-TERM LIABILITIES</b>		
Gift annuity obligations	61,822	42,165
Note payable - net of current portion and unamortized debt issuance costs	1,057,761	-
	1,119,583	42,165
<b>NET ASSETS</b>		
Without donor restrictions:		
Board designated reserve fund	1,000,000	1,000,000
Unrestricted	6,236,895	5,472,028
With donor restrictions	6,393,285	5,278,823
	13,630,180	11,750,851
Totals	\$ 14,829,598	\$ 11,817,609

See the accompanying notes to financial statements.

**WARRIORS AND QUIET WATERS FOUNDATION, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
Year ended December 31, 2018

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Totals</b>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>REVENUE AND SUPPORT</b>			
Contributions	\$ 954,946	\$ 1,807,473	\$ 2,762,419
Bad debt loss	-	(10,020)	(10,020)
Special events income	291,272	27,500	318,772
Sales income	935	-	935
Rental income	4,700	-	4,700
Investment return, net	(18,876)	(273,276)	(292,152)
In-kind support	780,046	-	780,046
Satisfaction of usage restrictions	<u>437,215</u>	<u>(437,215)</u>	<u>-</u>
Total revenue and support	<u>2,450,238</u>	<u>1,114,462</u>	<u>3,564,700</u>
<b>EXPENSES</b>			
Program services	1,222,757	-	1,222,757
Administration	183,823	-	183,823
Fundraising	<u>278,791</u>	<u>-</u>	<u>278,791</u>
Total expenses	<u>1,685,371</u>	<u>-</u>	<u>1,685,371</u>
<b>CHANGE IN NET ASSETS</b>	764,867	1,114,462	1,879,329
Net assets at beginning of year	<u>6,472,028</u>	<u>5,278,823</u>	<u>11,750,851</u>
<b>NET ASSETS AT END OF YEAR</b>	<u><u>\$ 7,236,895</u></u>	<u><u>\$ 6,393,285</u></u>	<u><u>\$ 13,630,180</u></u>

See the accompanying notes to financial statements.

**WARRIORS AND QUIET WATERS FOUNDATION, INC. AND SUBSIDIARY**  
**STATEMENT OF ACTIVITIES**  
(Comparative Information about Warriors and Quiet Waters Foundation, Inc.)  
Year ended December 31, 2017

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Totals</u>
<b>REVENUE AND SUPPORT</b>			
Contributions	\$ 957,328	\$ 1,687,363	\$ 2,644,691
Special events income	93,789	-	93,789
Sales income	1,071	-	1,071
Investment return, 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>
Total revenue and support	<u>2,200,137</u>	<u>1,221,987</u>	<u>3,422,124</u>
<b>EXPENSES</b>			
Program services	1,065,818	-	1,065,818
Administration	159,199	-	159,199
Fundraising	<u>227,238</u>	<u>-</u>	<u>227,238</u>
Total expenses	<u>1,452,255</u>	<u>-</u>	<u>1,452,255</u>
<b>CHANGE IN NET ASSETS</b>	747,882	1,221,987	1,969,869
Net assets at beginning of year	<u>5,724,146</u>	<u>4,056,836</u>	<u>9,780,982</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 6,472,028</u>	<u>\$ 5,278,823</u>	<u>\$ 11,750,851</u>

See the accompanying notes to financial statements.



**WARRIORS AND QUIET WATERS FOUNDATION, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**Year Ended December 31, 2018**

	<u>Program</u>	<u>Administration</u>	<u>Fundraising</u>	<u>Total</u>
Accommodations	\$ 39,405	\$ -	\$ -	\$ 39,405
Advertising and marketing	7,056	-	-	7,056
Bank and credit card fees	-	154	7,162	7,316
Board expenses	806	917	5,648	7,371
Contracted services	96,016	2,651	7,152	105,819
Debt issuance cost - interest expense	-	39	-	39
Depreciation	189,209	1,911	-	191,120
Equipment rental	769	-	-	769
Employee benefits	16,881	13,566	10,545	40,992
Gear for warriors	234,534	-	-	234,534
Insurance	8,084	1,448	-	9,532
Occupancy	135,025	10,487	8,526	154,038
Office expense	6,318	6,033	2,512	14,863
Outreach	83,982	7,933	8,294	100,209
Payroll taxes	19,674	7,701	7,516	34,891
Postage	380	228	323	931
Printing	86	133	31	250
Professional fees	207	19,146	207	19,560
Salaries and wages	269,081	101,176	101,459	471,716
Special events	979	474	115,957	117,410
Technology	5,723	7,301	1,989	15,013
Training	4,834	2,459	1,215	8,508
Travel	103,708	66	255	104,029
	<u>\$ 1,222,757</u>	<u>\$ 183,823</u>	<u>\$ 278,791</u>	<u>\$ 1,685,371</u>

See the accompanying notes to financial statements.

**WARRIORS AND QUIET WATERS FOUNDATION, INC. AND SUBSIDIARY**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
(Comparative Information about Warriors and Quiet Waters Foundation, Inc.)  
Year Ended December 31, 2017

	<u>Program</u>	<u>Administration</u>	<u>Fundraising</u>	<u>Total</u>
Accomodations	\$ 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
Employee benefits	13,799	9,833	12,002	35,634
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
Payroll taxes	16,040	6,097	7,178	29,315
Postage	239	98	1,662	1,999
Printing	1,933	1,087	2,638	5,658
Professional fees	1,225	17,764	-	18,989
Salaries and wages	213,655	94,114	95,116	402,885
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. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(With Comparative Information about Warriors and Quiet Waters Foundation, Inc. as of  
December 31, 2017)

	<b>Years ended December 31</b>	
	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from donors, net of amounts restricted for long-term purposes	\$ 1,340,031	\$ 1,476,430
Receipts from special events	318,772	93,789
Other cash receipts	5,635	1,071
Payments for salaries and related costs	(542,627)	(474,234)
Payments to vendors	(751,354)	(646,956)
	<u>370,457</u>	<u>450,100</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payments for property and equipment	(299,558)	(434,781)
Payments for construction in progress	(41,060)	(287,863)
Net purchases of investments	(1,558,191)	(1,853,718)
Net redemptions of certificates of deposit	-	48,454
	<u>(1,898,809)</u>	<u>(2,527,908)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Endowment contributions restricted for long-term investment	1,589,159	1,069,071
Payments for debt issuance costs	(9,390)	-
	<u>1,579,769</u>	<u>1,069,071</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	51,417	(1,008,737)
Cash and cash equivalents at beginning of year	<u>1,040,319</u>	<u>2,049,056</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 1,091,736</u>	<u>\$ 1,040,319</u>
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>		
Donated property and equipment	\$ 570,685	\$ 43,898
Property and equipment acquired through issuance of debt	<u>\$ 1,098,000</u>	<u>\$ -</u>

See the accompanying notes to financial statements.

**WARRIORS AND QUIET WATERS FOUNDATION, INC. AND SUBSIDIARY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2018 and 2017**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization and Nature of Operations:**

Warriors and Quiet Waters Foundation, Inc. (the Organization) 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.

The Organization 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. The Organization'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.

**Principles of Consolidation:**

The accompanying financial statements include the Organization and its wholly-owned subsidiary Semper Fly, LLC (a single member limited liability company) formed in 2018. All significant intercompany transactions have been eliminated. See Note 13.

**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. AND SUBSIDIARY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2018 and 2017**

**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, 5.50% and 4.50% at December 31, 2018 and 2017, 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, 2018 and 2017.

**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, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restriction at that time. 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:**

For the year ended December 31, 2018, construction in progress includes expenditures for the construction of the caretaker's house on the Organization's property that was not complete at December 31, 2018. The Organization has a contract to complete construction and the cost to complete is estimated to be \$365,983. For the year ended December 31, 2017, construction in progress included expenditures for the construction of a pavilion on the Organization's property. The actual completed cost for the pavilion was \$319,586.

**WARRIORS AND QUIET WATERS FOUNDATION, INC. AND SUBSIDIARY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2018 and 2017**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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 reported as change in net assets without donor restrictions unless the income or loss is restricted by donor or law.

**Functional Expenses:**

The financial statements report certain categories of expenses that are attributed directly to our fly-fishing program or its supporting functions. Expenses are allocated evenly across all functions of the Organization, or by the ratio that best matches the expense to the function. The expenses that are allocated evenly between our program, administrative, and fundraising departments include occupancy and utilities. Salaries, benefits, and payroll taxes are allocated based on employees' job descriptions and estimates of time. All other expenses not directly related to program are allocated by management based on which support function the expense is most directly attributable.

**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 contribution revenue with donor restrictions.

**Contributions and Net Assets:**

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- *Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.
- *Net Assets With Donor Restrictions* – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

**WARRIORS AND QUIET WATERS FOUNDATION, INC. AND SUBSIDIARY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2018 and 2017**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Contributions and Net Assets (Continued):**

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation. Expirations of on net assets with donor restrictions (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 net assets without donor restrictions. 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.

**Description of Resources Unavailable for General Expenditure:**

The Organization has certain donor-restricted net assets that are available for general expenditures within one year of December 31, 2018, because the restrictions on the net assets are expected to be met by conducting the normal activities of the Organization's programs in the coming year. Accordingly, the related resources have been included in the quantitative information detailing the financial assets available to meet general expenditures within one year (Note 3). The Organization has other assets limited to use for donor-restricted purposes that because of the donor's restriction are not available to be spent in the coming year, which are not included.

**Change in Accounting Principle- Adoption of ASU 2016-14**

In 2018, the Organization retroactively adopted the requirements in FASB Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements of Not-for-Profit Entities, which amends the requirements for financial statements and notes in ASC Topic 958, Not-for-Profit Entities. The main provisions of this update include net asset terminology and category changes, revised disclosures related to liquidity and availability of financial resources, functional expense allocation methodology descriptions, investment return presentation, and treatment of underwater endowments.

**Financial Statement Presentation:**

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

**WARRIORS AND QUIET WATERS FOUNDATION, INC. AND SUBSIDIARY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2018 and 2017**

**2. CASH AND CASH EQUIVALENTS**

At December 31, 2018 and 2017, the Organization's cash and cash equivalents balances were as follows:

	<b>2018</b>	<b>2017</b>
Checking accounts	\$ 517,612	\$ 480,893
Money market accounts	574,024	559,326
Petty cash on hand	100	100
	<b>\$ 1,091,736</b>	<b>\$ 1,040,319</b>

The Organization 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, 2018 and 2017, funds exceeded federally insured limits by \$513,780 and \$542,182, respectively.

**3. LIQUIDITY AND AVAILABILITY**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Financial assets		
Cash and cash equivalents	\$ 1,091,736	
Pledges receivable	441,370	
Investments	6,809,161	
		\$ 8,342,267
Unavailable for general expenditure in one year		
Pledges due in more than one year	(222,235)	
Pledges for endowment funds	(65,635)	
Investments held to fund deferred gift annuities	(61,822)	
Endowment investments to be held in perpetuity	(5,634,531)	
		(5,984,223)
Total financial resources available for general expenditure		<b>\$ 2,358,044</b>

The purpose of the Organization's endowments is to maintain donor-restricted funds with the investment returns available to be used for their respective purposes. The Board has also appropriated excess funds without donor restrictions into a designated reserve account. Board designated assets can be used for general expenditures with Board approval. The main purpose of the board designated reserve accounts is to maximize investment growth, interest income, and dividends from liquid assets that will most likely not be needed in the following year.

As part of the Organization's liquidity plan, the Board has a policy that allows the Organization to draw on the investment earnings of the endowment funds. The income may only be used for their respective donor purpose, those purposes are program and maintenance of the Quiet Waters Ranch.



**WARRIORS AND QUIET WATERS FOUNDATION, INC. AND SUBSIDIARY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2018 and 2017**

**4. PLEDGES RECEIVABLE**

Pledges receivable as of December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Amounts due in:		
Less than one year	\$ 219,135	\$ 346,961
One to five years	<u>266,000</u>	<u>282,816</u>
	485,135	629,777
Less: discount to present value	<u>(43,765)</u>	<u>(31,273)</u>
Pledges receivable, net of discount	441,370	598,504
Less: current portion	<u>(219,135)</u>	<u>(346,961)</u>
Pledges receivable, net of discount and current portion	<u>\$ 222,235</u>	<u>\$ 251,543</u>

**5. 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 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.

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**5. FAIR VALUE MEASUREMENTS (Continued)**

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.

*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.

*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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Marketable securities - Level 1	\$ 5,994,737	\$ 5,471,280
Net present value of pledges receivable - Level 3	\$ 441,370	\$ 598,504
Money market funds - net asset value	\$ 715,529	\$ -

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>2018</u>	<u>2017</u>
Pledges receivable, beginning of year	\$ 598,504	\$ 476,015
Additional pledges	265,000	485,117
Payments received	(399,622)	(346,929)
Pledges written off	(10,020)	-
Change in discount	<u>(12,492)</u>	<u>(15,699)</u>
Pledges receivable, end of year	<u>\$ 441,370</u>	<u>\$ 598,504</u>

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**6. INVESTMENTS**

Investments are comprised of the following as of December 31, 2018:

	<u>Cost</u>	<u>Fair Value</u>	<u>Gross Unrealized Gains (Losses)</u>
Bank insured deposits	\$ 98,895	\$ 98,895	\$ -
Money market funds	715,529	715,529	-
Corporate bonds, banking	532,423	524,907	(7,516)
Mutual funds			
Bond funds	1,372,061	1,364,239	(7,822)
International bond funds	347,031	345,326	(1,705)
Large blend	1,147,966	1,145,232	(2,734)
International large blend	131,311	131,981	670
Large growth	385,777	392,721	6,944
International large growth	640,121	570,459	(69,662)
Large value	538,559	511,790	(26,769)
Loan funds	20,673	19,532	(1,141)
Mid-cap blend	130,905	125,878	(5,027)
Mid-cap growth	104,226	103,806	(420)
International mid-cap value	164,144	139,290	(24,854)
Mid-cap value	135,526	104,854	(30,672)
Small blend	212,540	181,652	(30,888)
Small growth	6,264	6,615	351
Health care ETF	166,852	185,449	18,597
Real estate ETF	154,411	141,006	(13,405)
	<u>\$ 7,005,214</u>	<u>\$ 6,809,161</u>	<u>\$ (196,053)</u>

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)

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**6. INVESTMENTS (Continued)**

	<b>Cost</b>	<b>Fair Value</b>	<b>Gross Unrealized Gains (Losses)</b>
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	125,371	121,070	(4,301)
	\$ 5,258,893	\$ 5,543,121	\$ 284,228

**7. BOARD DESIGNATED NET ASSETS**

Net assets the Board of Directors have designated to be held for unbudgeted program or operations expenses as of December 31, 2018 and 2017 was \$1,000,000.

**8. NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions are restricted by the donor as of December 31, 2018 and 2017 for the following purposes:

	<b>2018</b>	<b>2017</b>
Subject to expenditure for specific purpose:		
Renovations and improvements	\$ 24,417	\$ 179,041
Subject to the passage of time:		
Special events - Warriors Taste Festival	27,500	-
Pledges receivable with no donor restrictions	375,735	410,031
Deferred gift annuity investments	61,822	42,165
	465,057	452,196
Endowments:		
Endowment fund earnings subject to spending policy	203,645	516,921
Pledges receivable with donor restrictions for endowments	65,635	182,372
Investments held in perpetuity, donor-restricted endowments	5,634,531	3,948,293
	5,903,811	4,647,586
	\$ 6,393,285	\$ 5,278,823

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**9. ENDOWMENTS**

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 retains in perpetuity (a) the original value of initial and subsequent gift amounts (including fair value of promises to give) donated to the endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure 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.

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, 2018 and 2017, the endowment had 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.

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**9. ENDOWMENTS (Continued)**

*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.

The composition of endowment net assets by fund as of December 31, 2018 and 2017 is as follows:

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<u>December 31, 2018</u>			
Donor-restricted endowment funds			
Original donor-restricted gifts required to be maintained in perpetuity by donor	\$ -	\$ 5,634,531	\$ 5,634,531
Accumulated investment gains	-	203,645	203,645
	\$ -	\$ 5,838,176	\$ 5,838,176

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<u>December 31, 2017</u>			
Donor-restricted endowment funds			
Original donor-restricted gifts required to be maintained in perpetuity by donor	\$ -	\$ 3,948,293	\$ 3,948,293
Accumulated investment gains	-	516,921	516,921
	\$ -	\$ 4,465,214	\$ 4,465,214

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**9. ENDOWMENTS (Continued)**

Changes in net asset composition by type of funds for the years ended December 31, 2018 and 2017 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment assets, December 31, 2016	\$ -	\$ 2,910,660	\$ 2,910,660
Investment return, net	-	407,681	407,681
Cash contributions	<u>-</u>	<u>1,146,873</u>	<u>1,146,873</u>
Endowment net assets, December 31, 2017	-	4,465,214	4,465,214
Investment return, net	-	(273,276)	(273,276)
Distributions per spending policy	-	(40,000)	(40,000)
Cash contributions	<u>-</u>	<u>1,686,238</u>	<u>1,686,238</u>
Endowment net assets, December 31, 2018	<u>\$ -</u>	<u>\$ 5,838,176</u>	<u>\$ 5,838,176</u>

**10. DEFERRED CHARITABLE GIFT ANNUITY SPLIT-INTEREST AGREEMENTS**

The Organization 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, the Organization 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, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Gift annuity obligations, beginning of year	\$ 42,165	\$ 18,866
Increase in liabilities for gift annuities issued	17,105	22,356
Actuarial changes in liabilities	<u>2,552</u>	<u>943</u>
Gift annuity obligations, end of year	<u>\$ 61,822</u>	<u>\$ 42,165</u>

**11. 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, 2018 and 2017 was \$0.

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**12. NOTE PAYABLE**

	<b>2018</b>	<b>2017</b>
Note payable to First Security Bank; dated November 29, 2018; due December 10, 2038; requires 60 monthly payments of \$7,306, including interest of 5.08%, then monthly payments of \$7,780, including variable interest based on Federal Home Loan Bank of Des Moines Five Year Long-term Fixed-rate Advance Index plus 2.75%; all remaining principal and interest due at maturity December 10, 2038; secured by property.	\$ 1,098,000	\$ -
Less: current portion	(30,888)	-
Less: unamortized debt issuance costs	(9,351)	-
Long-term portion, net of unamortized debt issuance costs	\$ 1,057,761	\$ -

Note payable matures as follows:

2019	\$ 30,888	
2020	34,242	
2021	36,044	
2022	37,909	
2023	39,881	
Thereafter	919,036	
		\$ 1,098,000

**13. SEMPER FLY, LLC**

Semper Fly, LLC was formed in 2018, with Warriors and Quiet Waters Foundation, Inc. as the sole member. The LLC owns land and a building and leases the building to the Organization and other tenants. Semper Fly, LLC's activity and balances are included in the Organization's consolidated financial statements, in accordance with generally accepted accounting principles. Significant balances and transactions between the two entities have been eliminated.

**14. CONCENTRATIONS**

Contributors

The Organization is supported by contributors from the public and granting agencies. For the year ended December 31, 2018, two major contributors provided 53% of the Organization's combined contributions. For the year ended December 31, 2017, one major contributor provided 34% of the Organization's combined contributions.



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**15. IN-KIND SUPPORT**

The following in-kind support was recognized in the Statement of Functional Expenses for the year ended December 31, 2018:

	<u>Program</u>	<u>Administration</u>	<u>Fundraising</u>	<u>Total</u>
Accommodations	\$ 5,592	-	-	5,592
Advertising	1,000	-	-	1,000
Board expenses	-	141	-	141
Contracted services	817	-	-	817
Equipment rental	50	-	-	50
Gear for warriors	127,038	-	-	127,038
Occupancy	27,928	-	-	27,928
Outreach	30,298	-	-	30,298
Printing	-	5	11	16
Professional fees	-	3,835	-	3,835
Special events	120	-	12,458	12,578
Technology	-	20	-	20
Travel	48	-	-	48
	<u>\$ 192,891</u>	<u>\$ 4,001</u>	<u>\$ 12,469</u>	<u>\$ 209,361</u>

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>

For the years ended December 31, 2018 and 2017, the Organization recognized in-kind contributions for donated land, building, equipment and improvements of \$570,685 and \$43,898, respectively.

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**16. LEASE COMMITMENT**

Beginning June 12, 2013, the Organization 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. Organization 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 provided 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 were \$2,680. Rent paid during the years ended December 31, 2018 and 2017 was \$33,890 and \$27,319, respectively. During November 2018, the Organization purchased the building.

**17. LEASING ACTIVITIES**

As a result of the building purchase in 2018, the Organization leases office space to two tenants under non-cancelable leases. The non-cancelable leases are for a five year term from July 1, 2018 through June 30, 2019. The leases require monthly base payments of \$2,350 through June 30, 2021 plus lessee's pro rated portion of utilities and taxes. Beginning July 1, 2021 the leases require monthly base payments of \$2,550 through the end of lease. The Organization purchased the building in late November 2018. Rent income for the year ended December 31, 2018 amounted to \$4,700. Future remaining rental payments for the year ending December 31 are:

2019	\$	56,400
2020		56,400
2021		58,800
2022		61,200
2023		30,600
		\$ 263,400

**18. SIMPLE RETIREMENT PLAN**

The Organization established a SIMPLE IRA retirement plan in 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, 2018 and 2017 were \$9,918 and \$9,457, respectively.

**19. RELATED PARTY TRANSACTION**

During 2018, the Organization entered into a construction contract with a company that is owned by a board member. The total value of the construction contract is \$436,167, of which \$41,060 has been paid at December 31, 2018.

**20. SUBSEQUENT EVENTS**

Date of Management Evaluation

Management has evaluated subsequent events through May 29, 2019, the date on which the financial statements were available to be issued.