

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

THE VITAL GROUND FOUNDATION, INC.
(A NON-PROFIT ORGANIZATION)

December 31, 2010 and 2009

THE VITAL GROUND FOUNDATION, INC.

December 31, 2010 and 2009

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
The Vital Ground Foundation, Inc.
Missoula, Montana

We have audited the accompanying statements of financial position of The Vital Ground Foundation, Inc. (a non-profit organization) as of December 31, 2010 and 2009, and the related statements of activity, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the organization's management. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

For financial statement purposes, the company records pledges when cash is received. Vital Ground has not recorded non-binding revocable pledges receivable which, in our opinion, should be recorded in order to conform to accounting principles generally accepted in the United States of America. If such non-binding revocable pledges receivable had been recorded as of December 31, 2010 and 2009, assets and unrestricted net assets would have been increased by \$23,500 and \$23,000, respectively, as discussed in Note B.

In our opinion, except for the effects of not recording non-binding revocable pledges receivable as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the organization as of December 31, 2010 and 2009, and the changes in net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Missoula, Montana
September 14, 2011

THE VITAL GROUND FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
December 31

ASSETS	2010	2009
Current Assets		
Cash	\$ 343,424	\$ 289,305
Stewardship and legal defense fund	158,541	99,000
Investments - other	246,075	97,443
Contribution Receivable	232,500	-
Grants receivable	20,000	2,500
Inventories	14,978	17,171
Prepaid expenses	4,805	6,379
Total current assets	1,020,323	511,798
CRAT receivable	150,000	150,000
Investments		
Investment - stewardship fund	30,000	30,000
Investment - endowment fund	2,700	2,600
	32,700	32,600
Property and Equipment		
Furniture and equipment	21,707	21,707
Less accumulated depreciation	(15,261)	(12,875)
	6,446	8,832
Scriver mold	20,000	20,000
Less accumulated amortization	(5,733)	(5,467)
	14,267	14,533
Land held for preservation	1,545,403	870,401
	\$ 2,769,139	\$ 1,588,164
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 8,563	\$ 5,144
Payroll taxes payable	4,788	4,554
Deferred revenue	-	7,500
Split-interest agreement liability	9,300	9,300
Notes payable	-	37,500
Total current liabilities	22,651	63,998
Long-term liabilities		
Split-interest agreement liability	6,311	15,611
Notes payable	529,749	-
Total Liabilities	558,711	79,609
NET ASSETS		
Unrestricted	1,789,546	1,201,016
Unrestricted Board Designated	55,000	-
Temporarily restricted	190,463	132,220
Permanently restricted	175,419	175,319
Total net assets	2,210,428	1,508,555
	\$ 2,769,139	\$ 1,588,164

The accompanying notes are an integral part of these financial statements.

THE VITAL GROUND FOUNDATION, INC.
STATEMENT OF ACTIVITY
for the year ended December 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC SUPPORT AND REVENUES				
<u>Public Support</u>				
Donations	\$ 1,008,523	\$ 69,325	\$ 100	\$ 1,077,948
Donated goods, services, and equipment	290,071	-	-	290,071
Total Public Support	<u>1,298,594</u>	<u>69,325</u>	<u>100</u>	<u>1,368,019</u>
<u>Revenue</u>				
Grant revenues	208,647	73,250	-	281,897
Merchandise sales, net	1,928	-	-	1,928
Special event income, net	37,523	-	-	37,523
Dividends and interest	5,965	970	-	6,935
Realized and unrealized loss on investments	9,100	-	-	9,100
Other revenue	346	-	-	346
Total Revenues	<u>263,509</u>	<u>74,220</u>	<u>-</u>	<u>337,729</u>
Total Public Support and Revenue	<u>1,562,103</u>	<u>143,545</u>	<u>100</u>	<u>1,705,748</u>
NET ASSETS RELEASED FROM RESTRICTIONS	<u>85,302</u>	<u>(85,302)</u>	<u>-</u>	<u>-</u>
EXPENSES				
<u>Program Services</u>				
Program support	<u>794,382</u>	<u>-</u>	<u>-</u>	<u>794,382</u>
<u>Support Services</u>				
Fundraising	114,461	-	-	114,461
Administration	95,032	-	-	95,032
Total Support Services	<u>209,493</u>	<u>-</u>	<u>-</u>	<u>209,493</u>
Total Expenses	<u>1,003,875</u>	<u>-</u>	<u>-</u>	<u>1,003,875</u>
CHANGE IN NET ASSETS	643,530	58,243	100	701,873
NET ASSETS - Beginning of year	<u>1,201,016</u>	<u>132,220</u>	<u>175,319</u>	<u>1,508,555</u>
NET ASSETS - End of year	<u>\$ 1,844,546</u>	<u>\$ 190,463</u>	<u>\$ 175,419</u>	<u>\$ 2,210,428</u>

The accompanying notes are an integral part of these financial statements.

THE VITAL GROUND FOUNDATION, INC.
STATEMENT OF ACTIVITY
for the year ended December 31, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
PUBLIC SUPPORT AND REVENUES				
<u>Public Support</u>				
Donations	\$ 869,953	\$ -	\$ -	\$ 869,953
Donated goods, services, and equipment	207,637	-	-	207,637
	<u>1,077,590</u>	<u>-</u>	<u>-</u>	<u>1,077,590</u>
<u>Revenue</u>				
Grant revenues	216,450	14,449	-	230,899
Merchandise sales, net	3,296	-	-	3,296
Special event income, net	19,947	-	-	19,947
Dividends and interest	3,226	161	-	3,387
Realized and unrealized loss on investments	15,413	-	-	15,413
Loss on disposal of fixed assets	(99)	-	-	(99)
Other revenue	61	-	-	61
Total Revenues	<u>258,294</u>	<u>14,610</u>	<u>-</u>	<u>272,904</u>
Total Public Support and Revenue	<u>1,335,884</u>	<u>14,610</u>	<u>-</u>	<u>1,350,494</u>
NET ASSETS RELEASED FROM RESTRICTIONS	<u>15,226</u>	<u>(15,226)</u>	<u>-</u>	<u>-</u>
EXPENSES				
<u>Program Services</u>				
Program support	<u>767,042</u>	<u>-</u>	<u>-</u>	<u>767,042</u>
<u>Support Services</u>				
Fundraising	97,292	-	-	97,292
Administration	84,564	-	-	84,564
Total Support Services	<u>181,856</u>	<u>-</u>	<u>-</u>	<u>181,856</u>
Total Expenses	<u>948,898</u>	<u>-</u>	<u>-</u>	<u>948,898</u>
CHANGE IN NET ASSETS	402,212	(615)	-	401,596
NET ASSETS - Beginning of year	<u>798,804</u>	<u>132,835</u>	<u>175,319</u>	<u>1,106,958</u>
NET ASSETS - End of year	<u>\$ 1,201,016</u>	<u>\$ 132,220</u>	<u>\$ 175,319</u>	<u>\$ 1,508,554</u>

The accompanying notes are an integral part of these financial statements.

THE VITAL GROUND FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
for the year ended December 31, 2010

Department	Program	Fundraising	Management & Administration	Total
Advertising	\$ 220,496	\$ -	\$ -	\$ 220,496
Amortization	-	-	266	266
Bank service charges	-	-	216	216
Conservation grants awarded	350	-	-	350
Conservation easement	279,998	-	-	279,998
Credit card charges	-	-	7,884	7,884
Depreciation	-	-	2,386	2,386
Dues & subscriptions	4,200	-	-	4,200
Employee benefits	31,585	11,351	6,415	49,351
Gifts	2,421	11,201	135	13,757
Insurance	-	-	6,627	6,627
Interest	749	-	-	749
Internet	14,576	-	-	14,576
Licenses & taxes	-	-	3,221	3,221
Meals & entertainment	1,425	1,936	793	4,154
Miscellaneous	190	35	94	319
Payroll taxes	11,213	4,029	2,278	17,520
Postage	7,606	4,148	2,074	13,828
Printing	13,427	7,342	1,584	22,353
Professional fees	19,860	4,042	14,997	38,899
Rent	6,162	3,081	3,081	12,324
Repairs & maintenance	744	-	611	1,355
Salaries	144,615	52,551	31,632	228,798
Supplies	2,424	4,553	5,477	12,454
Telephone & fax	1,921	960	960	3,841
Training & education	1,181	-	496	1,677
Transaction costs	8,673	-	-	8,673
Travel	16,504	7,698	2,601	26,803
Utilities	1,330	665	665	2,660
Workers compensation	2,732	869	539	4,140
TOTAL FUNCTIONAL EXPENSES	\$ 794,382	\$ 114,461	\$ 95,032	\$ 1,003,875
	<u>79.13%</u>	<u>11.40%</u>	<u>9.48%</u>	<u>100.00%</u>

The accompanying notes are an integral part of these financial statements.

THE VITAL GROUND FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
for the year ended December 31, 2009

Department	Program	Fundraising	Management & Administration	Total
Advertising	\$ 202,990	\$ -	\$ -	\$ 202,990
Bank service charges	90	-	166	256
Conservation grants awarded	30,000	-	-	30,000
Conservation easement	258,999	-	-	258,999
Credit card charges	-	-	3,562	3,562
Depreciation	-	-	2,264	2,264
Dues & subscriptions	3,960	-	-	3,960
Employee benefits	30,509	10,654	7,264	48,427
Gifts	-	5,046	535	5,581
Insurance	-	-	3,088	3,088
Internet	12,519	659	-	13,178
Licenses & taxes	-	-	2,634	2,634
Meals & entertainment	6,538	449	94	7,081
Miscellaneous	113	512	20	645
Payroll taxes	11,462	4,002	2,729	18,193
Postage	7,226	3,942	1,971	13,139
Printing	7,639	8,872	1,093	17,604
Professional fees	17,931	3,584	12,305	33,820
Rent	5,457	2,728	2,729	10,914
Repairs & maintenance	-	-	300	300
Salaries	146,931	51,468	33,660	232,059
Supplies	1,282	855	6,409	8,546
Telephone & fax	1,812	906	906	3,624
Training & education	895	171	295	1,361
Transaction costs	2,097	-	-	2,097
Travel	15,068	2,033	1,389	18,490
Utilities	1,191	596	596	2,383
Workers compensation	2,333	815	555	3,703
TOTAL FUNCTIONAL EXPENSES	\$ 767,042	\$ 97,292	\$ 84,564	\$ 948,898
	<u>80.85%</u>	<u>10.25%</u>	<u>8.90%</u>	<u>100.00%</u>

The accompanying notes are an integral part of these financial statements.

THE VITAL GROUND FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
for the years ended December 31

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 701,873	\$ 401,596
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	2,386	2,264
Amortization	266	-
Donation of marketable securities	(7,152)	(9,615)
Realized and unrealized (gain) loss on investments	(9,100)	(15,413)
Loss on disposal of fixed assets	-	99
(Increase) decrease in		
Receivables	(250,000)	8,750
Inventories	2,193	5,283
Prepaid expenses	1,574	(830)
Increase (decrease) in		
Accounts payable	3,417	(2,582)
Payroll taxes payable	234	(3,218)
Deferred revenue	(7,500)	5,500
Net cash from operating activities	438,191	391,834
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of marketable securities	844	913
Purchases of investments	(192,863)	(9,200)
Purchase of furniture and equipment	-	(4,930)
Purchase of land held for preservation	(675,002)	(240,000)
Net cash from investing activities	(867,021)	(253,217)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term borrowings	529,749	-
Repayment of short-term borrowings	(37,500)	-
Repayment of long-term borrowings	-	(51,100)
Repayment of split-interest agreement	(9,300)	(9,300)
Net cash from financing activities	482,949	(60,400)
NET INCREASE IN CASH AND CASH EQUIVALENTS	54,119	78,217
CASH AND CASH EQUIVALENTS - Beginning of year	289,305	211,088
CASH AND CASH EQUIVALENTS - End of year	\$ 343,424	\$ 289,305

The accompanying notes are an integral part of these financial statements.

THE VITAL GROUND FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization. The Vital Ground Foundation, Inc. (Vital Ground) is a non-profit corporation. Vital Ground was established to preserve and protect grizzly bear habitat on private land in North America. Vital Ground was founded in 1990 by Doug and Lynne Seus, trainers of grizzly bears and wolves born in captivity. These animals, who appear in films and television, are the unofficial ambassadors of the organization. Vital Ground's support comes primarily from individual, foundation and corporate contributions. Its current programs include:

Land Conservation: Vital Ground identifies crucial grizzly bear habitat on private land, and works with the landowners to place permanent conservation easements on the land. Under certain circumstances, Vital Ground purchases the land outright. In addition, Vital Ground makes grants to conservation partners to protect land that is deemed critical for grizzly bears.

Education: Vital Ground provides information about grizzly bears, associated wildlife and habitat conservation through its publications, website, presentations, videos and other media opportunities. The organization also participates in collaborative educational programs to promote the conservation of grizzly bears and their habitat, minimize conflicts between bears and humans, and enhance the survival of grizzly bears.

Basis and Method of Accounting. The financial statements of Vital Ground have been prepared on the accrual basis of accounting.

Cash and Cash Equivalents. Cash and cash equivalents consist of cash held in checking and money market accounts, certificates of deposit and money market mutual funds. Vital Ground considers all highly liquid investments with a maturity of three months or less and available for general operations when purchased to be cash equivalents.

Vital Ground maintains its cash balances in financial institutions. At times, balances may be in excess of the FDIC insurance limit.

Investments. Under ASC 958-320, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

Investment Policy. Vital Ground has adopted investment and spending policies for each fund to provide necessary guidance for the investment and spending of the organization's financial assets. The investment objectives stress safety and preservation of principal as the primary objective, while seeking rates of return that can be attained through knowledgeable and prudent investing. Investment performance is gauged against industry-standard benchmarks pertinent to the specific investments.

Marketable Securities. Donated marketable securities are recorded at fair value. Unrealized gains and losses are included in the change in net assets. Vital Ground's policy is to liquidate marketable securities as soon as possible after the donation has occurred.

Stewardship and Legal Defense Fund. Vital Ground places a minimum of \$5,000 in the Stewardship and Legal Defense Fund for each conservation easement or land parcel acquired. These funds may be contributed by the landowner, a third-party donor, or transferred from another

THE VITAL GROUND FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Vital Ground fund. One donation made by individuals in the amount of \$30,000, known as the Clifty View Foothills Monitoring Fund, is considered permanently restricted and only the earnings from this account are to be used for conservation easement monitoring. The remaining funds are managed as a "quasi-endowment" and its purpose is to serve as a "legal defense fund" should Vital Grounds ever have to defend a conservation easement through litigation. Interest from the fund may be used for annual stewardship and maintenance costs associated with the lands and easements.

Inventories. Inventories consist of merchandise for sale or for promotional gifts to donors, and are stated at the lower of cost or market. Cost is determined using the average cost basis.

Property and Equipment. Property and equipment is stated at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective classes of property, ranging from three to seven years. Depreciation expense was \$2,386 and \$2,264 for the years ended December 31, 2010 and 2009, respectively.

Scriver Mold. In 1995, Vital Ground received a contribution of the original mold of "The Protector," a bronze sculpture of grizzly bears from the artist, Robert Scriver. Bronzes are produced from the mold in limited quantities for use as gifts to major donors. The mold was valued at the estimated present value of the artwork that could be produced from the mold. Amortization is recognized as artwork is produced. Amortization expense was \$266 and \$0 for the years ended December 31, 2010 and 2009, respectively.

Split Interest Agreements. Some donors enter into trust or other arrangements under which Vital Ground has a beneficial interest. Vital Ground will retain a remainder interest in the donated investments and will pay annuity payments to donors at future dates. For irrevocable agreements whereupon Vital Ground has control of the assets, assets are recorded at their estimated fair market value upon notification of the beneficial interest, provided that reliable information is available. A liability for payments to beneficiaries is estimated at the present value of the expected payments to beneficiaries and is presented as "Split-interest agreement liability" on the statement of financial position. Present value estimates use a discount rate of 6.2% and standard actuarial tables for remaining lives of donors and beneficiaries.

Net Asset Categories. *Unrestricted* net assets, as defined by The Financial Accounting Standards Board (FASB), are composed of all resources not included in temporarily or permanently restricted net assets. Included are expendable resources used to support Vital Ground's core activity of preserving and protecting grizzly bear habitat. Donor-restricted contributions that are received and expended in the same year are classified as unrestricted. Donor-restricted resources intended for capital projects are released and reclassified as unrestricted support when the related assets are placed in service. All expenses are recorded as a reduction to unrestricted net assets.

Temporarily restricted net assets carry restrictions that expire upon the passage of a prescribed period or upon the occurrence of a stated event as specified by the donor. This category may include gifts held by Vital Ground pending their use in accordance with donor stipulations, unexpended gifts for capital projects, term endowments, and pledges and living trust agreements where the principal is expendable upon redemption or maturity.

THE VITAL GROUND FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Permanently restricted net assets are those that may never be spent by Vital Ground, including gifts of endowment, as well as the earnings on those assets when permanently restricted by the donor. Included in this category is land enrolled in the federal wetlands reserve program, which was purchased by Vital Ground with a federal grant.

Donor Restricted Contributions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for specific purposes are reported as temporarily restricted support and net assets. When the donor restriction expires, that is, when a stipulated purpose restriction is accomplished, temporarily restricted net assets are reclassified. If the purpose restriction is accomplished by grants to conservation partners or other specified spending, then the temporarily restricted net assets are reclassified to unrestricted net assets and are reported as net assets released from restrictions. If the purpose restriction is accomplished by the acquisition of land for preservation or conservation easements, which are considered permanently restricted assets, these temporarily restricted net assets are reclassified to permanently restricted net assets. Unrestricted net assets used to acquire land for preservation are likewise reclassified to permanently restricted net assets.

Donated Goods, Services and Equipment. Donations of noncash assets are recorded at their fair values in the period received. Donated furniture and equipment is recorded as unrestricted support, unless donors stipulate how long the assets must be used.

Donations of services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

Income Taxes. Vital Ground is a nonprofit organization and is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code.

The company applies generally accepted accounting principles for recognition of uncertainty in income taxes and prescribing a recognition threshold and measurement attribute for the recognition and measurement of a tax position taken or expected to be taken in a tax return. In the course of its assessment, Vital Ground has determined that it is subject to examination for income tax filings in the United States for the 2007 through 2010 tax years. In the event that the company is assessed penalties and or interest, penalties will be charged to penalties expense and interest will be charged to interest expense.

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

Functional Expenses. The costs of providing various programs and supporting services have been reported on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the various programs and supporting services based on estimates made by management.

Advertising Costs. Advertising costs are generally charged to operations in the year incurred. Total advertising costs for the years ended December 31, 2010 and 2009 were \$220,496 and \$202,990, respectively.

THE VITAL GROUND FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Reclassifications. Certain reclassifications have been made to the prior year's financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported change in net assets or net assets.

NOTE B RECEIVABLES

The company records pledges when cash is received; therefore, the company has not recorded non-binding revocable pledges receivable on the accompanying financial statements for the years ended December 31, 2010 and 2009. Vital Ground internally tracks non-binding revocable pledges receivable and the uncollected balance of non-binding revocable pledges receivable at December 31, 2010 and 2009 was \$23,500 and \$23,000, respectively, to be collected over the next 4 years for both 2010 and 2009.

During 2006, Vital Ground became an irrevocable remainder beneficiary of one and one-half percent (1½%) of the total future remainder of a charitable remainder annuity trust. The Trust has been valued at \$10,000,000; therefore, \$150,000 has been recorded as a non-current receivable at December 31, 2010 and 2009, respectively.

During 2008, Vital Ground partnered with the Nature Conservancy of Canada (NCC) to assist the NCC in obtaining necessary funding for the Darkwoods Project for a period of two years. NCC agreed to pay Vital Ground for its services, the sum of \$25,000. 10% of the fee was received upon execution, with 45% due upon the delivery by Vital Ground of at least one-half of the funds raised for the Darkwoods Project. On December 30, 2008, Vital Ground awarded the NCC a \$25,000 grant for the Darkwoods project, which represents one-half of the funds raised. Vital Ground recorded a receivable as of December 31, 2008 for \$11,250, which was paid in February 2009.

During 2010, Vital Ground became aware of payments that were to be made in 2011 totaling \$232,500 from an estate of which Vital Ground was named as a 30% beneficiary. These payments have been booked as a Contribution Receivable. These funds were ultimately received in 2011.

NOTE C NOTES PAYABLE

On December 15, 2010 The Vital Ground Foundation entered into a loan agreement with Resource Legacy Fund, a California nonprofit benefit corporation, in the amount of \$529,749. The loan is interest only with a balloon payment due December 15, 2013. The effective interest rate is 3%.

On December 29, 2006, Vital Ground exercised its option to purchase a Conservation Easement and Bargain Sale, dated November 28, 2006, with Teton Prairie, LLC. Payments of \$150,000 were made on the loan during 2009, and the remaining balance of \$37,500 was paid on July 22, 2010.

On December 19, 2007, Vital Ground exercised its option to purchase a Conservation Easement and Bargain Sale, dated July 23, 2007, with George E. Beck. In December 2009, Vital Ground paid off the remainder of the note in the amount of \$13,600 originally due December 31, 2010.

THE VITAL GROUND FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE C NOTES PAYABLE, continued

In December 2008, Vital Ground paid all of the debt owed in 2009 and \$15,200 of the debt owed by December 31, 2010. In 2009, Vital Ground paid \$51,100 of the debt owed by December 31, 2010.

Maturities of long-term debt at December 31, 2010 are:

December 31, 2011	\$	-
December 31, 2012		-
December 31, 2013		529,749
December 31, 2014		-
Thereafter		-

NOTE D FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, 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 measurements). 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 plan has the ability to access.
- Level 2 inputs to the valuation methodology include the following:
 1. Quoted prices for similar assets or liabilities in active markets.
 2. Quoted prices for identical or similar assets or liabilities in inactive markets.
 3. Inputs other than quoted prices that are observable for the asset or liability.
 4. 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.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2010, and 2009.

- *Mutual funds*: Valued at the net asset value (NAV) of shares held by the foundation at year-end.
- *Marketable equity and debt securities*: Valued at fair value based on quoted market prices.

The preceding method 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 company believes

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NOTE D FAIR VALUE MEASUREMENTS, continued

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 following tables sets forth by level, within the fair value hierarchy, the company's assets at fair value as of December 31, 2010 and 2009:

	Assets at Fair Value as of December 31, 2010			
	Level 1	Level 2	Level 3	Total
Mutual funds				
Growth Funds	\$ 42,834	\$ -	\$ -	\$ 42,834
Conservative Funds	44,101	-	-	44,101
Intermediate Government Funds	76,486	-	-	76,486
Short Term Government Bond	79,214	-	-	79,214
Common Stocks				
Technology Stocks	4,039	-	-	4,039
Utility Stocks	2,101	-	-	2,101
Total assets at fair value	\$ 248,775	\$ -	\$ -	\$ 248,775

	Assets at Fair Value as of December 31, 2009			
	Level 1	Level 2	Level 3	Total
Mutual funds				
Growth Funds	\$ 91,463	\$ -	\$ -	\$ 91,463
Common Stocks				
Technology Stocks	2,554	-	-	2,554
Healthcare Stocks	6,026	-	-	6,026
Total assets at fair value	\$ 100,043	\$ -	\$ -	\$ 100,043

NOTE E UNRESTRICTED NET ASSETS

During 2010, the board had designated \$55,000 from two separate unrestricted bequests. These funds were allocated to the Stewardship and Legal Defense Funds for various properties. There were no board designated funds at December 31, 2009.

NOTE F TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2010 and 2009, the temporarily restricted net assets of \$190,463 and \$132,220, respectively, were restricted by the donors for use on specified land preservation projects, stewardship activities and charitable gift annuity future payments.

THE VITAL GROUND FOUNDATION, INC.
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NOTE G PERMANENTLY RESTRICTED NET ASSETS

During 2007, Vital Ground received a gift annuity, of which \$53,153 is permanently restricted and a permanently restricted donation of \$30,000, the income from which is to be used for the Clifty View Property monitoring. Permanently restricted net assets consisted of one land holding that was purchased with a federal grant and enrolled in the federal wetland reserve program, the gift annuity and monitoring funds received in 2007 and endowment fund cash. These restricted assets at December 31, 2010 and 2009 were:

Land held for preservation	\$ 89,566
Gift annuity	53,153
Clifty View monitoring funds	30,000
Endowment investments	<u>2,700</u>
Total of permanently restricted net assets	\$ <u>175,419</u>

NOTE H ENDOWMENT

Vital Ground's endowment fund is currently invested in the Oakmark Equity and Income Mutual Fund. To date, the foundation has received four donor restricted contributions to the endowment fund totaling \$2,700 and \$2,600 as of December 31, 2010 and 2009, respectively. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Agency management has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) 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, Vital Ground Foundation classifies as permanently restricted net assets (a) the original value of gifts to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is 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 SPMIFA. In accordance with SPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the organization and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the organization, and (7) the investment policies of the organization.

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NOTE I DONATED GOODS, SERVICES AND EQUIPMENT

Vital Ground recognized donated revenue in 2010 and 2009 for contributed services used for lands projects and for management and general.

Donated goods and services during the years ended December 31 was as follows:

	<u>2010</u>	<u>2009</u>
Professional services	\$ 8,505	\$ 3,850
Advertising	217,350	199,990
Total donated services	225,855	203,840
Goods and equipment	64,216	<u>3,797</u>
Total donated services and goods	\$ <u>290,071</u>	\$ <u>207,637</u>

NOTE J LAND HELD FOR PRESERVATION

On December 15, 2010, Vital Ground exercised its option to purchase approximately 327 acres of property, referred to as "Bismark Meadows - #4 (ID)." Of the \$675,000 appraisal value of the property, \$4,650 was donated to Vital Ground. The balance of \$670,350 was paid at closing.

On December 23, 2010, Vital Ground received a fully-donated perpetual conservation easement on approximately 60 acres. The property, referred to as "Windfall Creek #1" is located in Missoula County, Montana. The full \$210,000 appraisal value of the easement was donated to Vital Ground. The easement is recorded on the statement of financial position at \$1, to be consistent with industry practice, and is included in land held for preservation.

On December 23, 2010, Vital Ground received a fully-donated perpetual conservation easement on approximately 20 acres. The property, referred to as "Windfall Creek #2" is located in Missoula County, Montana. The full \$70,000 appraisal value of the easement was donated to Vital Ground. The easement is recorded on the statement of financial position at \$1, to be consistent with industry practice, and is included in land held for preservation.

On December 30, 2009, Vital Ground exercised its option to purchase approximately 55 acres of property, referred to as "Bismark Meadows - #3 (ID)". Of the \$240,000 appraisal value of the property, \$158,000 was donated to Vital Ground. The balance of \$82,000 was paid when the option was exercised.

On December 30, 2009, Vital Ground received a fully-donated perpetual conservation easement on approximately 157 acres. The property, referred to as "Cedar Creek" is located in Flathead County, Montana. The full \$259,000 appraisal value of the easement was donated to Vital Ground. The easement is recorded on the statement of financial position at \$1, to be consistent with industry practice, and is included in land held for preservation.

THE VITAL GROUND FOUNDATION, INC.
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December 31, 2010 and 2009

NOTE J LAND HELD FOR PRESERVATION, continued

Land held for preservation by Vital Ground amounted to \$1,545,393 and \$870,400, respectively, at December 31, 2010 and 2009. These lands at December 31, 2010 were:

	2010	2009
<u>Fee-title Holdings</u>		
Boundary Creek (ID)	\$ 90,169	\$ 90,169
Thorman (ID)	89,566	89,567
Bismark Meadows - #1 (ID)	150,192	150,192
Weiler (ID)	225,000	225,000
Bismark Meadows - #2 (ID)	75,466	75,466
Bismark Meadows - #3 (ID)	240,000	240,000
Bismark Meadows - #4 (ID)	675,000	-
Subtotal	1,545,393	870,394
<u>Purchase Option</u>		
Bismark Meadows - #3 option (ID)		1,000
<u>Conservation Easements.</u> Conservation easements are recorded on the Statement of Financial Position at \$1, and included in "land held for preservation."		
Coyote Forest (MT)	1	1
Cooney Creek (MT)	1	1
McKay Creek (MT)	1	1
Condon Creek (MT)	1	1
Curley Creek #1 (ID)	1	1
Curley Creek #2 (ID)	1	1
Cedar Creek (MT)	1	1
Windfall Creek #1 (MT)	1	-
Windfall Creek #2 (MT)	1	-
Subtotal	9	7
Total of lands held for preservation	\$ 1,545,402	\$ 870,401

NOTE K LEASE AGREEMENT

On June 10, 2008, Vital Ground entered into a three-year lease with the Idaho Department of Fish and Game for the use of the Bismark Meadows - #1 (ID) property. Annual rent is \$5 per year, with the tenant assuming all maintenance responsibilities for the premises. The parties may agree, following the expiration of the initial lease term, to renew the lease for three-year renewal terms. This lease was renewed with the same terms in June of 2010.

THE VITAL GROUND FOUNDATION, INC.
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NOTE L OTHER

During 2009, Vital Ground became a 30% beneficiary in an estate valued at approximately \$1.5 million. During 2009 the estate was in the process of being settled; however, much of the value was held in real estate which needed to be sold. Due to time and valuation constraints management was not able to reasonably estimate the amount that they would ultimately receive; therefore, no amounts were recorded in these financial statements for the year ended December 31, 2009. On August 4, 2010, Vital Ground received \$57,000 from the estate. During 2011, Vital Ground received an additional \$232,500 in two payments consisting of the rest of the significant payments which has been recorded as revenue in 2010.

During 2010, Vital Ground became a 40% residuary beneficiary in an estate valued at approximately \$2.7 million. The estate is currently in the process of being settled; however, distributions to the residuary beneficiaries cannot be made until all specific bequests have been fulfilled. One of the specific bequests is a parcel of land that may require environmental remediation before it is distributed to the specific beneficiary. Due to the unknown extent of the potential contamination or the cost of the remediation to the estate, management is not able to reasonably estimate the amount that will ultimately be received; therefore, no amounts have been recorded in these financial statements for the year ended December 31, 2010.

NOTE M SUBSEQUENT EVENTS

Management has performed an analysis of the activities and transactions subsequent to December 31, 2010 to determine the need for any adjustments to and/or disclosure within the audited financial statements for the year ended December 31, 2010. We have performed this analysis through September 14, 2011, the date the financial statements were available to be issued.