

The Vital Ground Foundation, Inc.
(A non-profit organization)

Financial Statements and Independent Auditor's Report

Years Ended December 31, 2017 and 2016

WIPFLi^{LLP}
CPAs and Consultants



Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of The Vital Ground Foundation, Inc., which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and changes in net assets, cash flows, and functional expenses 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; 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.

Auditor's 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. 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 auditor's 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 entity'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 entity'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 The Vital Ground Foundation, Inc. as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows, and functional expenses for the years then ended in accordance with accounting principles generally accepted in the United States.

Wipfli LLP

Wipfli LLP
April 06, 2018
Missoula, Montana

The Vital Ground Foundation, Inc.

Statements of Financial Position

<i>As of December 31,</i>	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 809,132	\$ 579,418
Short-term investments	205,549	272,872
Inventories	16,856	15,856
Prepays	5,091	5,091
Total Current Assets	1,036,628	873,237
CRAT receivable	114,458	114,458
Investments		
Investment - Forest Legacy Monitoring Fund	82,014	72,158
Investment - Endowment Fund	99,689	44,169
Investment - Northern Cascades	320,686	-
Other Investments	439,431	438,154
Total Investments	941,820	554,481
Property and Equipment		
Furniture and office equipment	43,820	40,652
Accumulated depreciation	(35,852)	(33,700)
Total Property and Equipment, net	7,968	6,952
Land held for preservation	3,917,371	3,297,567
Land improvements, net	24,267	25,856
Total Land and Land Improvements	3,941,638	3,323,423
Other Assets		
Art copyright	1,000	1,000
Option contract	20,000	-
Scriver mold	20,000	20,000
Accumulated amortization	(9,466)	(8,933)
Total Other Assets	31,534	12,067
Total Assets	\$ 6,074,046	\$ 4,884,618

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

The Vital Ground Foundation, Inc.

Statements of Financial Position (Continued)

<i>As of December 31,</i>	2017	2016
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 4,301	\$ 5,699
Accrued payroll taxes	25,623	11,998
Notes payable - short-term	50,000	-
Split-interest agreement liability	1,200	10,500
Total Current Liabilities	81,124	28,197
Long-term Liabilities		
Split-interest agreement liability, net of current portion	14,775	16,910
Notes payable - long-term	86,000	-
Total Liabilities	181,899	45,107
Net Assets		
Unrestricted	1,942,004	2,098,594
Unrestricted board designated	110,000	110,000
Temporarily restricted	2,483,269	1,326,848
Permanently restricted	1,356,874	1,304,069
Total Net Assets	5,892,147	4,839,511
Total Liabilities and Net Assets	\$ 6,074,046	\$ 4,884,618

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

The Vital Ground Foundation, Inc.

Statement of Activities and Changes in Net Assets

<i>Year Ended December 31, 2017</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC SUPPORT AND REVENUES				
Public Support				
Donations	\$ 614,770	\$ 535,269	\$ -	\$ 1,150,039
Donated goods and services	134,497	-	-	134,497
Total Public Support	749,267	535,269	-	1,284,536
Revenue				
Grant revenues	10,000	778,015	-	788,015
Merchandise sales, net	3,990	-	-	3,990
Special events, net	37,487	-	-	37,487
Dividends and interest	3,142	-	-	3,142
Realized and unrealized gain (loss) on investments	24,959	72,998	-	97,957
Change in value of split-interest agreement	-	-	11,435	11,435
Other revenue	(51,099)	17,763	41,370	8,034
Total Revenue	28,479	868,776	52,805	950,060
Total Public Support and Revenue	777,746	1,404,045	52,805	2,234,596
NET ASSETS RELEASED FROM RESTRICTIONS	247,624	(247,624)	-	-
EXPENSES				
Program services				
Land	472,936	-	-	472,936
Education	456,299	-	-	456,299
Total Program Services	929,235	-	-	929,235
Support Services				
Fundraising	139,512	-	-	139,512
Administration	113,213	-	-	113,213
Total Support Services	252,725	-	-	252,725
Total Expenses	1,181,960	-	-	1,181,960
CHANGE IN NET ASSETS	(156,590)	1,156,421	52,805	1,052,636
NET ASSETS - Beginning of year	2,208,594	1,326,848	1,304,069	4,839,511
NET ASSETS - End of year	\$ 2,052,004	\$ 2,483,269	\$ 1,356,874	\$ 5,892,147

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

The Vital Ground Foundation, Inc.

Statement of Activities and Changes in Net Assets

<i>Year Ended December 31, 2016</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC SUPPORT AND REVENUES				
Public Support				
Donations	\$ 510,422	\$ 68,865	\$ -	\$ 579,287
Donated goods and services	127,992	26,000	-	153,992
Total Public Support	638,414	94,865	-	733,279
Revenue				
Grant revenues	18,000	69,500	-	87,500
Merchandise sales, net	5,854	-	-	5,854
Special events, net	(28,000)	-	-	(28,000)
Dividends and interest	199	1,501	-	1,700
Realized and unrealized gain (loss) on investments	(2,328)	43,080	-	40,752
Change in value of split-interest agreement	-	-	(1,201)	(1,201)
Other revenue	7,698	500	-	8,198
Total Revenue	1,423	114,581	(1,201)	114,803
Total Public Support and Revenue	639,837	209,446	(1,201)	848,082
NET ASSETS RELEASED FROM RESTRICTIONS	345,105	(345,105)	-	-
EXPENSES				
Program Services				
Land	273,054	-	-	273,054
Education	470,326	-	-	470,326
Total Program Services	743,380	-	-	743,380
Support Services				
Fundraising	115,720	-	-	115,720
Administration	102,636	-	-	102,636
Total Support Services	218,356	-	-	218,356
Total Expenses	961,736	-	-	961,736
CHANGE IN NET ASSETS	23,206	(135,659)	(1,201)	(113,654)
NET ASSETS - Beginning of year	2,185,388	1,462,507	1,305,270	4,953,165
NET ASSETS - End of year	\$ 2,208,594	\$ 1,326,848	\$ 1,304,069	\$ 4,839,511

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

The Vital Ground Foundation, Inc.

Statements of Cash Flows

<i>Years Ended December 31,</i>	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,052,636	\$ (113,654)
Adjustments to reconcile change in net assets to net cash from operating activities		
Amortization	533	800
Depreciation	3,741	1,501
CRAT impairment	-	19,798
Donation of marketable securities	(47,296)	(42,528)
Donated land	(200,000)	(21,500)
Non-cash transaction for land	30,500	-
Realized and unrealized gain (loss) on investments	(97,957)	(40,775)
(Increase) decrease in		
Inventories	(1,000)	877
Prepaid Expenses	(20,000)	(1,105)
Accounts payable	(1,398)	2,710
Payroll taxes payable	13,625	4,535
Split-interest agreement liability	(935)	11,701
Net cash from operating activities	732,449	(177,640)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of marketable securities	148,185	20,911
Purchases of investments	(322,948)	-
Purchases of other assets	-	(85,776)
Purchase of furniture and equipment	(3,168)	(6,568)
Cash paid for land improvements	-	(4,500)
Purchase of land	(450,304)	(30,500)
Net cash from investing activities	(628,235)	(106,433)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of split-interest agreement	(10,500)	(10,500)
Proceeds from issuance of note payable	186,000	-
Repayment of note payable	(50,000)	-
Net cash from financing activities	125,500	(10,500)
CHANGE IN CASH AND CASH EQUIVALENTS	229,714	(294,573)
CASH AND CASH EQUIVALENTS - Beginning of year	579,418	873,991
CASH AND CASH EQUIVALENTS - End of year	809,132	579,418
Cash paid for interest	\$ 1,040	\$ -

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

The Vital Ground Foundation, Inc.

Statement of Functional Expenses

<i>Year Ended December 31, 2017</i>	Program	Fundraising	Management & Administration	Total
Advertising	\$ 122,887	\$ -	\$ -	\$ 122,887
Amortization	-	-	533	533
Bank service charges	-	-	247	247
Conservation grants awarded	27,325	-	-	27,325
Conservation easement acquisition	199,999	-	-	199,999
Credit card charges	2,354	1,177	1,178	4,709
Depreciation	1,871	935	935	3,741
Donation of land	30,500	-	-	30,500
Dues & subscriptions	5,783	742	395	6,920
Employee benefits	15,258	3,438	2,794	21,490
Gifts	3,471	844	1,594	5,909
Gift annuity expense	7,124	-	-	7,124
Insurance	5,436	-	599	6,035
Interest Expense	1,040	-	-	1,040
Internet	5,723	716	715	7,154
Licenses & taxes	10,760	-	-	10,760
Meals & entertainment	6,531	2,597	1,228	10,356
Miscellaneous	5,049	-	559	5,608
Payroll taxes	22,667	5,108	4,150	31,925
Postage	16,793	8,522	4,454	29,769
Printing	30,224	19,890	2,345	52,459
Professional fees	56,329	6,021	21,193	83,543
Rent	13,341	6,671	6,671	26,683
Repairs & maintenance	1,836	705	705	3,246
Salaries	301,501	67,944	55,204	424,649
Supplies	4,864	2,432	2,432	9,728
Telephone & fax	2,365	1,183	1,183	4,731
Training & education	1,529	356	902	2,787
Transaction costs	2,841	-	-	2,841
Travel	18,285	8,422	1,536	28,243
Utilities	2,038	1,018	1,018	4,074
Workers compensation	3,511	791	643	4,945
TOTAL FUNCTIONAL EXPENSES	\$ 929,235	\$ 139,512	\$ 113,213	\$ 1,181,960
	78.62 %	11.80 %	9.58 %	100.00 %

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

The Vital Ground Foundation, Inc.

Statement of Functional Expenses

<i>Year Ended December 31, 2016</i>	Program	Fundraising	Management & Administration	Total
Advertising	\$ 118,044	\$ -	\$ -	\$ 118,044
Amortization	-	-	800	800
Bank service charges	-	-	35	35
Conservation grants awarded	55,250	-	-	55,250
CRAT Impairment	-	-	19,798	19,798
Credit card charges	1,897	949	949	3,795
Depreciation	751	375	375	1,501
Dues & subscriptions	5,664	-	415	6,079
Employee benefits	12,672	3,077	2,353	18,102
Gifts	7,985	-	572	8,557
Gift annuity expense	8,777	-	1,723	10,500
Insurance	6,326	-	1,998	8,324
Internet	4,466	788	-	5,254
Licenses & taxes	8,943	-	-	8,943
Meals & entertainment	12,403	-	759	13,162
Miscellaneous	1,580	-	102	1,682
Payroll taxes	27,761	6,742	5,156	39,659
Postage	20,417	7,915	1,199	29,531
Printing	40,587	12,169	3,238	55,994
Professional fees	102,874	12,007	5,690	120,571
Rent	13,390	6,695	6,695	26,780
Repairs & maintenance	2,324	992	993	4,309
Salaries	241,754	58,469	43,712	343,935
Supplies	4,576	2,288	2,288	9,152
Telephone & fax	2,235	1,118	1,118	4,471
Training & education	1,930	271	550	2,751
Transaction costs	658	-	-	658
Travel	35,994	364	742	37,100
Utilities	1,947	973	971	3,891
Workers compensation	2,175	528	405	3,108
TOTAL FUNCTIONAL EXPENSES	\$ 743,380	\$ 115,720	\$ 102,636	\$ 961,736
	77.30 %	12.03 %	10.67 %	100.00 %

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

The Vital Ground Foundation, Inc.

Notes to Financial Statements

Note 1: 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 willing landowners to protect the land's conservation values. This is done through the voluntary placement of donated or purchased conservation easements on the land, or the outright purchase of land. Vital Ground has a perpetual responsibility to monitor the lands on which it holds conservation easements and ensure adherence to the terms of the easements. It has a responsibility to restore and manage the lands it owns as quality habitat for the benefit of grizzly bears and associated wildlife. In addition to developing and managing its own projects, Vital Ground occasionally provides grants to agencies and other nonprofit conservation organizations to assist with their efforts to conserve and restore important wildlife habitat.

Conservation Education: Vital Ground provides information about grizzly bears, associated wildlife, and habitat conservation issues through its publications, special mailers, website, email communications, presentations, videos and other media opportunities. The organization also supports programs to minimize conflicts between bears and people, participates in collaborative educational programs to promote the conservation of grizzly bears in their habitat, and enhances the survival of grizzly bears.

Other: In addition to its land conservation and conservation education programs, Vital Ground may also participate in research and management projects designed to promote the conservation of grizzly bears and their habitat, minimize conflicts between bears and humans, and/or enhance the survival of grizzly bears.

Vital Ground received accredited Land Trust Status from the Land Trust Accreditation Commission, an independent program of the Land Trust Alliance, in 2014. This accreditation recognizes organizations that meet and adhere to national quality control standards for protecting natural places forever. By adopting the Land Trust Accreditation Commission's standards and practices, Vital Ground has demonstrated its commitments to excellence in management and the upholding of public trust to ensure Vital Ground's conservation efforts are permanent.

Basis of Accounting

The financial statements of Vital Ground have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States.

The Vital Ground Foundation, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

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.

Cash subject to donor imposed restrictions is reported within cash and cash equivalents on the statements of financial position. Restricted cash noted in 2016, which is held for a project to conserve grizzly bear habitat in the North Cascades, was transferred to a Vanguard investment account in 2017. Total restricted cash was \$0 and \$300,780 for the years ended December 31, 2017 and 2016, respectively.

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

Investments

Vital Ground carries investments in marketable securities with readily determined fair values and all investments in debt securities at their fair values in the statements of financial position. Quoted market prices in active markets are used as the basis of measurement. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities.

Investment Management Policies

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 statement of activities and change in net assets. Vital Ground's policy is to liquidate marketable securities as soon as possible after the donation has occurred.

The Vital Ground Foundation, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Stewardship & Legal Defense and Forest Legacy Monitoring Funds

Vital Ground places a minimum of \$5,000 in the Stewardship & 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 fund.

Four donations made by individuals totaling the amount of \$60,000, known as the Forest Legacy 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 Ground 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. This fund makes up a portion of the permanently restricted net assets. See Note 5 for additional detail.

Inventories

Inventories consist of merchandise for sale or for promotional gifts to donors. Inventories at December 31, 2016 are stated at the lower of cost or market. Cost is determined using the average cost method. In 2017, Vital Ground adopted Accounting Standard Update (ASU) 2015-11, "Inventory - Simplifying the Measurement of Inventory," which changed how inventory is valued. Inventories as of December 31, 2017 are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The adoption of ASU 2015-11 did not have a material impact on Vital Ground's financial statements.

Property and Equipment

Property and equipment is stated at cost or, if donated, at the approximate fair value at the date of donation, in excess of \$1,000. 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 \$3,741 and \$1,501 for the years ended December 31, 2017 and 2016, 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 \$533 and \$800 for the years ended December 31, 2017 and 2016, respectively.

The Vital Ground Foundation, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

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 discount rates ranging from 1.6% to 6.2% and standard actuarial tables for remaining lives of donors and beneficiaries.

Net Assets 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.

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.

Contributions

Vital Ground accounts for contributions in accordance with the guidance in ASC 958. In accordance with ASC 958, contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence or nature of any donor restrictions.

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.

The Vital Ground Foundation, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Donor Restricted Contributions (Continued)

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 the donor stipulates 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 non-profit organization and is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code.

Vital Ground 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 prior three tax years. In the event that the organization 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 the financial statements in conformity with accounting principles generally accepted in the United States 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 the various programs and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The Vital Ground Foundation, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Advertising and Promotion

Advertising costs are generally charged to operations in the year incurred. Total advertising costs for the years ended December 31, 2017 and 2016 were \$122,887 and \$118,044, respectively.

Reclassification

Certain amounts as previously reported in the 2016 financial statements have been reclassified to conform to the 2017 presentation. Such reclassifications have no effect on reported amounts of net assets or change in net assets.

Accounting Standards Update

On August 18, 2016, the FASB issued ASU 2016-14 (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities ("Update"). The Update reduces the number of net asset classes from three to two, those with donor restrictions and those without, requires all nonprofits to report expenses by nature and function and improves information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance, and cash flows. The amendments in this Update are effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Early application of the amendments in this Update is permitted. Vital Ground has not elected to early implement the amendment.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU, as amended, provides comprehensive guidance on the recognition of revenue from customers arising from the transfer of goods and services, guidance on accounting for certain contract costs, and new disclosures. The new standard supersedes current revenue recognition requirements in FASB Accounting Standards Codification (ASC) Topic 605, *Revenue Recognition*, and most industry-specific guidance. When adopted, the amendments in the ASU must be applied using one of two retrospective methods. ASU No. 2014-09 is effective for nonpublic entities for annual periods beginning after December 15, 2018. Vital Ground is currently evaluating the impact of the provisions of ASC 606.

Note 2: Receivables

Pledges receivable that are expected to be collected within one year are recorded at net realizable value. Pledges receivable that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

The Vital Ground Foundation, Inc.

Notes to Financial Statements

Note 2: Receivables (Continued)

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 was recorded as a non-current receivable. During 2013, Vital Ground became aware the assets supporting the trust were impaired and recorded an impairment to the receivable of \$15,744, reducing the recorded amount to \$134,256 as of December 31, 2013. An impairment of \$19,798 was recorded in 2016.

Note 3: 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, 2017, and 2016.

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the organization are open-end mutual funds registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The funds held by the organization are deemed to be actively traded.

Short-term investments: Valued at the net asset value of \$1. These money market funds are comprised of short-term, securities, representing highly-liquid debt and monetary instruments.

The Vital Ground Foundation, Inc.

Notes to Financial Statements

Note 3: Fair Value Measurements (Continued)

Marketable equity and debt securities: Valued at fair value based on quoted market prices.

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 Vital Ground 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 following tables sets forth by level, within the fair value hierarchy, Vital Ground's assets and liabilities at fair value as of December 31:

<i>Year Ended December 31, 2017</i>	Level 1	Level 2	Level 3	Total
Mutual funds				
Income Funds	\$ 225,056	\$ -	\$ -	\$ 225,056
Moderate Funds	716,764	-	-	716,764
Short-term investments				
Vanguard Prime	205,549	-	-	205,549
Total assets at fair value	\$ 1,147,369	\$ -	\$ -	\$ 1,147,369

Liabilities at fair value as of December 31, 2017

Split-Interest Agreement Liability	\$ -	\$ -	\$ 15,975	\$ 15,975
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<i>Year Ended December 31, 2016</i>	Level 1	Level 2	Level 3	Total
Mutual funds				
Income Funds	\$ 256,233	\$ -	\$ -	\$ 256,233
Moderate Funds	273,116	-	-	273,116
Short-term investments				
Vanguard Prime	272,872	-	-	272,872
Marketable securities				
Equity Securities	25,132	-	-	25,132
Total assets at fair value	\$ 827,353	\$ -	\$ -	\$ 827,353

Liabilities at fair value as of December 31, 2016

Split-Interest Agreement Liability	\$ -	\$ -	\$ 27,410	\$ 27,410
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The Vital Ground Foundation, Inc.

Notes to Financial Statements

Note 3: Fair Value Measurements (Continued)

The following is a reconciliation of the beginning and ending balances for assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the periods ended December 31, 2017 and 2016:

<i>Split-Interest Agreement Liability</i>	2017	2016
Beginning balance	\$ 27,410	\$ 26,209
Change in value of split-interest agreement	(4,311)	11,701
Payments to beneficiaries	(7,124)	(10,500)
Ending balance	\$ 15,975	\$ 27,410

Information regarding Vital Ground's liabilities calculated using discounted cash flows for the year ended December 31, 2017, is as follows:

	Fair Value at 12/31/17	Valuation Techniques	Unobservable inputs	Range (Weighted Average)
Split-interest agreement liability	\$ 15,975	Discounted cash flows	"Estimated remaining life of recipient"	1-17 years (11.32 years) 1.6 - 6.2%

Note 4: Notes Payable

Vital Ground has the following notes payable as of December 31:

<i>As of December 31,</i>	2017	2016
Note payable to private investor for the purchase of real property in Lincoln County, Montana. The note provides for annual payments of \$50,000 at December 29th, 2017, \$50,000 at December 31, 2018 and \$86,000 at December 31, 2019, including interest assessed at 2.0%. The note payable is unsecured.	\$ 136,000	\$ -
Total debt	136,000	-
Less current portion	(50,000)	-
Total long-term notes payable	\$ 86,000	\$ -

The Vital Ground Foundation, Inc.

Notes to Financial Statements

Note 4: Notes Payable (Continued)

Scheduled principal payments on long-term debt at December 31, 2017, including current maturities, are summarized as follows:

<i>Year ended</i>		
2018	\$	50,000
2019		86,000
Total	\$	136,000

Note 5: Unrestricted Net Assets

During 2010, the board designated \$55,000 from two separate unrestricted bequests. These funds were allocated to the Stewardship and Legal Defense Funds for various properties. In 2011, the board designated an additional \$20,000 from an unrestricted bequest. These funds were allocated to the Stewardship and Legal Defense Fund for the Yaak Mountain property. During 2014, the board designated \$35,000 for use in purchasing the Alvord Lake property. Total board designated funds remaining at December 31, 2017 and 2016 were \$110,000.

Note 6: Temporarily Restricted Net Assets

At December 31, 2017 and 2016, the temporarily restricted net assets of \$2,483,269 and \$1,326,848, respectively, were restricted by the donors for use on specified land preservation projects, stewardship activities, and charitable gift annuity future payments.

Note 7: Permanently Restricted Net Assets

During 2007, Vital Ground received a split-interest agreement, of which \$53,153 was permanently restricted. During the years 2008 through 2014, \$26,945 was adjusted to reflect a change in actuarial assumptions bringing the total permanently restricted split-interest agreement to \$26,208 as of December 31, 2014. During 2017 and 2016, \$4,311 and \$(1,201) was adjusted to reflect a change in actuarial assumptions, respectively.

During 2007, Vital Ground received a permanently restricted donation of \$30,000, the income from which is to be used for the Forest Legacy Property monitoring. During 2011, Vital Ground received an additional three permanently restricted donations totaling \$30,000, the income from which is to be used for the Forest Legacy Property monitoring.

As of December 31, 2014, 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. During 2015, Vital Ground completed the Alvord Lake Community Forest Project, which resulted in a total land acquisition of \$1,088,657.

The Vital Ground Foundation, Inc.

Notes to Financial Statements

Note 7: Permanently Restricted Net Assets (Continued)

During 2015, Vital Ground transferred an additional \$36,617 to the endowment fund at the bequest of two donors as part of their memorial funds. No donations occurred in 2017.

During 2017, a recipient of the split-interest agreement passed away. Per the original agreement, the remaining gift at the time of death was to be transferred to the permanent endowment fund.

Permanently restricted assets at December 31, 2017 and 2016 are as follows:

<i>Years Ended December 31,</i>	2017	2016
Land held for preservation	\$ 1,178,224	\$ 1,178,224
Gift annuity	78,333	25,528
Forest Legacy Monitoring funds	60,000	60,000
Endowment investments	40,317	40,317
Total of permanently restricted net assets	\$ 1,356,874	\$ 1,304,069

Note 8: Endowment Funds

Vital Ground's endowment fund is currently invested in the Vanguard Wellington Investor Fund. To date, the foundation has received six donor restricted contributions to the endowment fund totaling \$99,689 and \$40,317 as of December 31, 2017 and 2016, 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 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, Vital Ground 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.

The Vital Ground Foundation, Inc.

Notes to Financial Statements

Note 9: Donated Goods, Services and Equipment

Vital Ground recognized donated revenue in 2017 and 2016 for contributed services used for lands projects and for management and general.

Donated goods and services during the years ended December 31, 2017 and 2016 was as follows:

<i>Years Ended December 31,</i>	2017	2016
Advertising	\$ 93,352	\$ 105,938
Professional services	17,789	156
Total donated services	111,141	106,094
Goods and equipment	23,354	26,398
Donated land	-	21,500
Total donated services and goods	\$ 134,495	\$ 153,992

Note 10: Land Held for Preservation and Land Improvements

Land held for preservation by Vital Ground amounted to \$3,827,804 and \$3,208,000 at December 31, 2017 and 2016, respectively. These lands at December 31, 2017 and 2016 were:

	2017	2016
Fee-Title Holdings		
Boundary Creek (ID)	\$ 90,169	\$ 90,169
Thorman (ID)	89,567	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	675,000
Yaak Mountain #1 (MT)	372,000	372,000
Elk Flats Neighbors (MT)	261,000	261,000
Alvord Lake (MT)	1,088,656	1,088,656
Weber Gulch (MT)	-	30,500
Wild River Estates (MT)	650,304	-
Subtotal	3,917,354	3,297,550

The Vital Ground Foundation, Inc.

Notes to Financial Statements

Note 10: Land Held for Preservation and Land Improvements (Continued)

	2017	2016
<u>Conservation Easements</u>		
Coyote Forest (MT)	1	1
Cooney Creek (MT)	1	1
Mckay Creek (MT)	1	1
Condon Creek (MT)	1	1
Curley Creek #1 (MT)	1	1
Curley Creek #2 (MT)	1	1
Cedar Creek (MT)	1	1
Windfall Creek #1 (MT)	1	1
Windfall Creek #2 (MT)	1	1
Elk Flats Neighbors #1 (MT)	1	1
Elk Flats Neighbors #2 (MT)	1	1
Elk Flats Neighbors #3 (MT)	1	1
Elk Flats Neighbors #4 (MT)	1	1
Elk Flats Neighbors #5 (MT)	1	1
Simmons Meadow (MT)	1	1
Ellis Mountain (MT)	1	1
Meadow Creek (MT)	1	1
Polebridge Palace (MT)	1	-
Subtotal	18	17
Total of lands held for preservation	\$ 3,917,371	\$ 3,297,567

Land improvements of \$25,856 as of December 31, 2017 consist of a well installation on the Bismark Meadows #1 (ID).

Note 11: 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 during 2017. It is Vital Ground's intent to continue the lease.

Note 12: Subsequent Events

Management has evaluated all subsequent events from the statement of financial position date of December 31, 2017, through the date the financial statements were available to be issued, April 06, 2018. There were no material subsequent events that required recognition or additional disclosure in the financial statements.