

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

Financial Statements and
Independent Auditor's Report

Years Ended December 31, 2019 and 2018



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Independent Auditor's Report

To the 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, 2019 and 2018, 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, 2019 and 2018, and the changes in its net assets and its cash flows, for the years then ended in accordance with accounting principles generally accepted in the United States.

Wipfli LLP

Wipfli LLP

May 26, 2020
Missoula, Montana

The Vital Ground Foundation, Inc.

Statements of Financial Position

<i>As of December 31,</i>	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 664,660	\$ 1,011,404
Certificates of deposit - current	-	100,544
Money market funds	666,717	208,628
Donations receivable	47,865	-
Inventories	14,534	17,023
Prepays	5,091	5,091
Total Current Assets	1,398,867	1,342,690
CRAT receivable	101,989	101,989
Investments		
Investment - Forest Legacy Monitoring Fund	84,111	77,382
Investment - Endowment Fund	118,731	96,837
Investment - Northern Cascades	317,782	309,957
Other Investments	653,611	448,066
Total Investments	1,174,235	932,242
Property and Equipment, net of depreciation of \$39,782 and \$37,813, respectively	4,038	6,007
Land held for preservation	5,391,249	5,309,996
Land improvements, net	20,656	22,389
Total Land and Land Improvements	5,415,943	5,338,392
Other Assets		
Art copyright	1,000	1,000
Artwork assets	3,400	-
Certificates of deposit - long-term	100,684	100,000
Scriver mold, net of amortization of \$9,733 and \$9,733, respectively	10,267	10,267
Total Other Assets	115,351	111,267
Total Assets	\$ 8,206,385	\$ 7,826,580

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>	2019	2018
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 4,841	\$ 3,317
Accrued payroll liabilities	27,249	27,571
Notes payable - short-term	-	86,000
Split-interest agreement liability	1,200	1,200
Total Current Liabilities	33,290	118,088
Long-term Liabilities		
Split-interest agreement liability, net of current portion	12,859	13,825
Total Liabilities	46,149	131,913
Net Assets		
Net assets without restrictions	619,683	651,173
Board designated - without restrictions	1,353,088	696,885
Net assets with restrictions	6,187,465	6,346,609
Total Net Assets	8,160,236	7,694,667
Total Liabilities and Net Assets	\$ 8,206,385	\$ 7,826,580

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, 2019</i>	Net assets without restrictions	Net assets with restrictions	Total
PUBLIC SUPPORT AND REVENUES			
Public Support			
Donations	\$ 819,437	\$ 804,024	\$ 1,623,461
Donated goods and services	278,459	-	278,459
Total Public Support	1,097,896	804,024	1,901,920
Revenue			
Grant revenues	15,501	542,273	557,774
Merchandise sales, net	2,700	-	2,700
Special events, net	(9,909)	-	(9,909)
Interest on accounts and CDs	8,166	-	8,166
Realized and unrealized gain (loss) on investments	(16,456)	237,701	221,245
Other revenue	7,097	-	7,097
Total Revenue	7,099	779,974	787,073
Total Public Support and Revenue	1,104,995	1,583,998	2,688,993
NET ASSETS RELEASED FROM RESTRICTIONS	1,743,142	(1,743,142)	-
EXPENSES			
Program Services			
Land	1,233,861	-	1,233,861
Education	709,634	-	709,634
Total Program Services	1,943,495	-	1,943,495
Support Services			
Fundraising	180,079	-	180,079
Administration	99,850	-	99,850
Total Support Services	279,929	-	279,929
Total Expenses	2,223,424	-	2,223,424
CHANGE IN NET ASSETS	624,713	(159,144)	465,569
NET ASSETS - Beginning of year	1,348,058	6,346,609	7,694,667
NET ASSETS - End of year	\$ 1,972,771	\$ 6,187,465	\$ 8,160,236

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, 2018</i>	Net assets without restrictions	Net assets with restrictions	Total
PUBLIC SUPPORT AND REVENUES			
Public Support			
Donations	\$ 1,113,419	\$ 225,697	\$ 1,339,116
Donated goods and services	96,286	-	96,286
Total Public Support	1,209,705	225,697	1,435,402
Revenue			
Grant revenues	16,569	1,424,196	1,440,765
Merchandise sales, net	2,613	-	2,613
Special events, net	(7,867)	-	(7,867)
Interest on accounts and CDs	4,903	-	4,903
Realized and unrealized gain (loss) on investments	(93,675)	75,485	(18,190)
Other revenue	3,780	1,517	5,297
Total Revenue	(73,677)	1,501,198	1,427,521
Total Public Support and Revenue	1,136,028	1,726,895	2,862,923
NET ASSETS RELEASED TO RESTRICTIONS	(779,571)	779,571	-
EXPENSES			
Program Services			
Land	415,893	-	415,893
Education	401,262	-	401,262
Total Program Services	817,155	-	817,155
Support Services			
Fundraising	150,436	-	150,436
Administration	92,812	-	92,812
Total Support Services	243,248	-	243,248
Total Expenses	1,060,403	-	1,060,403
CHANGE IN NET ASSETS	(703,946)	2,506,466	1,802,520
NET ASSETS - Beginning of year	2,052,004	3,840,143	5,892,147
NET ASSETS - End of year	\$ 1,348,058	\$ 6,346,609	\$ 7,694,667

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>	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 465,569	\$ 1,802,520
Adjustments to reconcile change in net assets to net cash from operating activities		
Amortization	-	267
Depreciation	3,702	3,839
CRAT impairment	-	12,469
Donation of marketable securities	(325,326)	(40,038)
Non-cash transaction for land	261,000	-
Realized and unrealized gain (loss) on investments	(221,245)	16,336
Forgiveness of debt	(86,000)	-
Change in operating assets and liabilities:		
Accounts receivables	(47,865)	-
Inventories	2,489	(167)
Prepaid Expenses	(3,400)	-
Accounts payable	1,524	(984)
Payroll taxes payable	(322)	1,948
Split-interest agreement liability	234	250
Net cash from operating activities	50,360	1,796,440
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	936,782	30,157
Purchases of investments	(990,433)	(200,500)
Purchase of land	(342,253)	(1,372,625)
Net cash from investing activities	(395,904)	(1,542,968)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of split-interest agreement	(1,200)	(1,200)
Repayment of note payable	-	(50,000)
Net cash from financing activities	(1,200)	(51,200)
CHANGE IN CASH AND CASH EQUIVALENTS	(346,744)	202,272
CASH AND CASH EQUIVALENTS - Beginning of year	1,011,404	809,132
CASH AND CASH EQUIVALENTS - End of year	\$ 664,660	\$ 1,011,404
Checking accounts	\$ 456,972	\$ 619,303
Land Protection Checking - restricted	151,513	392,101
Insured account	56,175	-
Total	\$ 664,660	\$ 1,011,404
Cash paid for interest	\$ 363	\$ 2,720

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, 2019</i>	Program	Fundraising	Management & Administration	Total
Advertising	\$ 56,538	\$ -	\$ -	\$ 56,538
Bank service charges	-	-	114	114
Conservation grants awarded	49,000	-	-	49,000
Conservation easement acquisition	905,997	-	-	905,997
Credit card charges	1,841	921	921	3,683
Depreciation	1,851	926	925	3,702
Dues & subscriptions	9,920	1,995	590	12,505
Employee benefits	19,644	4,703	3,319	27,666
Gifts	4,296	1,576	1,077	6,949
Gift annuity expense	176	-	58	234
Insurance	10,068	-	465	10,533
Interest expense	363	-	-	363
Internet	2,377	-	-	2,377
Licenses & taxes	23,124	-	-	23,124
Meals & entertainment	11,507	490	245	12,242
Miscellaneous	236,094	-	-	236,094
Payroll taxes	29,999	7,183	5,070	42,252
Postage	17,526	9,002	2,509	29,037
Printing	39,082	21,982	1,741	62,805
Professional fees	94,050	27,547	5,763	127,360
Rent	13,756	6,878	6,879	27,513
Repairs & maintenance	1,958	979	979	3,916
Salaries	367,763	88,056	62,156	517,975
Supplies	6,519	3,259	3,260	13,038
Telephone & fax	3,162	1,580	1,580	6,322
Training & education	3,306	196	35	3,537
Transaction costs	5,148	-	-	5,148
Travel	23,546	1,049	591	25,186
Utilities	2,259	1,129	1,129	4,517
Workers compensation	2,625	628	444	3,697
TOTAL FUNCTIONAL EXPENSES	\$ 1,943,495	\$ 180,079	\$ 99,850	\$ 2,223,424
	87.41 %	8.10 %	4.49 %	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, 2018</i>	Program	Fundraising	Management & Administration	Total
Advertising	\$ 109,745	\$ -	\$ -	\$ 109,745
Amortization	-	-	267	267
Bank service charges	-	-	194	194
Conservation grants awarded	51,250	-	-	51,250
CRAT Impairment	6,235	3,117	3,117	12,469
Credit card charges	2,450	1,225	1,225	4,900
Depreciation	1,919	960	960	3,839
Dues & subscriptions	7,251	1,314	588	9,153
Employee benefits	20,902	2,515	1,377	24,794
Gifts	1,680	840	927	3,447
Gift annuity expense	187	-	63	250
Insurance	8,974	-	450	9,424
Interest expense	2,270	-	-	2,270
Internet	1,996	250	249	2,495
Licenses & taxes	14,209	-	-	14,209
Meals and entertainment	14,423	1,745	518	16,686
Miscellaneous	629	-	-	629
Payroll taxes	28,630	6,856	4,840	40,326
Postage	18,704	11,071	1,270	31,045
Printing	38,364	22,650	1,903	62,917
Professional fees	86,087	3,900	3,514	93,501
Rent	14,729	7,364	7,364	29,457
Repairs and maintenance	1,771	796	796	3,363
Salaries	337,516	78,284	56,113	471,913
Supplies	7,012	3,507	3,507	14,026
Telephone & fax	2,984	1,493	1,493	5,970
Training	2,438	233	118	2,789
Transaction costs	4,333	-	-	4,333
Travel	26,214	858	681	27,753
Utilities	1,687	844	844	3,375
Workers compensation	2,566	614	434	3,614
TOTAL FUNCTIONAL EXPENSES	\$ 817,155	\$ 150,436	\$ 92,812	\$ 1,060,403
	77.06 %	14.19 %	8.75 %	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. Established in 1990, Vital Ground is a land trust working to restore grizzly bears throughout North America by conserving wildlife habitat and supporting programs that prevent conflicts between bears and people. Vital Ground's support comes primarily from individual, foundation and corporate contributions that allow the organization to partner with private landowners and various public programs to affect its mission. Vital Ground's current programs include:

Land Conservation: Vital Ground identifies important 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 via 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 those easements. Vital Ground works to restore and manage the lands it owns as high-quality habitat for the benefit of grizzly bears and other 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.

Conflict Prevention: Vital Ground partners with federal, state and tribal agencies, other nonprofit organizations and local community groups to support programs to prevent conflicts between bears and people.

Conservation Education: Vital Ground provides information about grizzly bears and wildlife habitat conservation issues through its publications, special mailers, website, email communications, presentations, videos and other media opportunities.

Other: In addition to its land conservation, conflict prevention and conservation education programs, Vital Ground may also participate in research and management projects designed to promote the conservation and restoration of grizzly bears and their habitat.

Vital Ground received accreditation from the Land Trust Accreditation Commission, an independent program of the Land Trust Alliance, in 2014 and renewed it during 2019. 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 upholding the 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 savings and insured cash accounts. 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 at various financial institutions. At times, balances may be in excess of the FDIC insurance limit.

Certificates of Deposit

Certificates of deposit are carried at cost plus accrued interest. The certificates of deposit are subject to donor imposed restrictions and are reported as certificates of deposit short-term and long-term. These funds are subject to a \$50,000 per year disbursement schedule to support bear-human conflict prevention activities. The entire balance of this restricted account is scheduled to be spent down by the end of 2022.

Investments

Vital Ground carries investments in marketable securities, mutual funds, and money markets 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 and changes in net assets.

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.

The Stewardship and Legal Defense Fund was restricted by the board for the purposes of monitoring the organization's easements and to cover expenses should Vital Ground ever have to defend against a violation of a conservation easement. Interest from the fund may be used for annual monitoring and stewardship costs associated with Vital Ground's fee lands and conservation easements. This fund makes up a portion of the net assets with restrictions. See notes below for additional detail.

Donations totaling \$60,000, held in Vital Ground's Forest Legacy Monitoring Fund are also donor restricted and only the earnings from this fund are used for conservation easement monitoring and stewardship activities related to the four projects from which they originated.

Inventories

Inventories consist of merchandise for sale or for promotional gifts to donors. Inventories as of December 31, 2019 and 2018 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.

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 \$3,702 and \$3,839 for the years ended December 31, 2019 and 2018, 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 \$0 and \$267 for the years ended December 31, 2019 and 2018, 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 of 1.6% and standard actuarial tables for remaining lives of donors and beneficiaries.

Net Assets Categories

Net assets without restrictions: as defined by The Financial Accounting Standards Board (FASB), are composed of all resources not included in net assets with restrictions. 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 net assets without restrictions. Donor-restricted resources intended for capital projects are released and reclassified as net assets without restrictions support when the related assets are placed in service. All expenses are recorded as a reduction to net assets without restrictions.

Net assets with restrictions: 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. Net assets with restrictions are also those that may never be wholly spent by Vital Ground, including gifts of endowments, as well as the earnings on those assets when restricted by the donor. Included in this category is land enrolled in the federal Wetlands Reserve Program, which is a permanent conservation easement partially encumbering several of Vital Ground's fee holdings in Boundary and Bonner Counties, Idaho, and the organization's Alvord Lake parcel, which was purchased by Vital Ground with a federal grant from the Community Forest Program.

Contribution Revenue

Contributions, including promises to give, are considered conditional or unconditional, depending on the nature and existence of any donor or grantor conditions. A contribution or promise to give contains a donor or grantor condition when both of the following are present:

- An explicit identifying of a barrier, that is more than trivial, that must be overcome before the revenue can be earned and recognized
- An implicit right of return of assets transferred or a right of release of a donor or grantor's obligation to transfer assets promised, if the condition is not met

The Vital Ground Foundation, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Contribution Revenue (Continued)

Conditional contributions are recognized when the barrier(s) to entitlement are overcome. Unconditional contributions are recognized as revenue when received.

Unconditional contributions or conditional contributions in which the conditions have been substantially met or explicitly waived by the donor are recorded as support with or without donor restrictions, depending on the existence and nature of any donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized.

Grant Revenue

Grants are either recorded as contributions or exchange transactions based on criteria contained in the grant award.

Grant Awards That Are Contributions - Grants awards that are contributions are evaluated for conditions and recognized as revenue when conditions in the award are satisfied. Unconditional awards are recognized as revenue when the award is received. Amounts received in which conditions have not been met are reported as a refundable advance liability.

Grant Awards That Are Exchange Transactions - Exchange transactions are those in which the resource provider or grantor receives a commensurate value in exchange for goods or services transferred. Revenue is recognized when control of the promised goods or services is transferred to the customer (grantor) in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Amounts received in excess of recognized revenue are reflected as a contract liability.

Donor Restricted Contributions

All contributions are considered to be available for use unless specifically restricted by the donor. Amounts received that are restricted by the donor for specific purposes are reported as net assets with restrictions support and net assets. When the donor restriction expires, that is, when a stipulated purpose restriction is accomplished, the assets are reclassified to net assets without restrictions.

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 net assets with restrictions are reclassified to net assets without restrictions and are reported as net assets released from restrictions. Net assets without restrictions used to acquire land for preservation are likewise reclassified to net assets with restrictions.

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 net assets without donor restrictions, 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 value in the period received.

Income Taxes

Vital Ground is a non-profit organization and is exempt from federal 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 activities and changes in net assets. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Allocation is based off management's estimate of expenses used in the various areas.

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, 2019 and 2018 were \$56,538 and \$109,745, respectively.

Reclassification

Certain amounts as previously reported in the 2018 financial statements have been reclassified to conform to the 2019 presentation. Such reclassifications have no effect on reported amounts of net assets or change in net assets.

Change in Accounting Policy

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. Vital Ground applied Topic 606 on a retrospective basis and elected the practical expedient in paragraph FASB ASC 606-10-65-1(f)(1), under which an entity need not restate contracts that begin and are completed within the same annual reporting period. There was no change reported to revenue, net assets, or the change in net assets for either period presented.

On June 21, 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this update will assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and determining whether a transaction is conditional. The amendments in this update are effective for annual financial statements issued for fiscal years beginning after December 15, 2018, and for interim periods within fiscal years beginning after December 15, 2019, for transactions in which the entity serves as the resource recipient. Vital Ground adopted this guidance as of January 1, 2019, with no effects on its recognition of contributions received.

In June 2018, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230) - Restricted Cash. The amendments in ASU No. 2016-18 address the classification and presentation of changes in restricted cash and cash equivalents, which are now required to be explained on the statement of cash flows. Vital Ground adopted this guidance on a retrospective basis as of January 1, 2019.

The Vital Ground Foundation, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Accounting Standards Update

In February 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. This ASU provides guidance on the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous accounting standards and new disclosures on key information about leasing arrangements. The new standard supersedes current lease accounting requirements in FASB Accounting Standards Codification (ASC) Topic 840, Leases. When adopted, the amendments in the ASU must be applied using a modified retrospective approach. ASU No. 2016-02 is effective for nonpublic companies for annual periods beginning after December 15, 2021. Vital Ground is currently evaluating the impact of the provisions of ASC 842.

Note 2: Liquidity

As part of Vital Ground's liquidity management, it invests cash in excess of daily requirements in short-term investments. To help manage unanticipated liquidity needs, Vital Ground has \$56,000 available on its credit card limits.

Additionally, Vital Ground holds board-designated quasi-endowments totaling \$1,353,088, which are held in its Stewardship and Legal Defense and Endowment funds. Vital Ground does not spend contributions designated to these quasi-endowments, but interest and earnings from these funds are available for program related activities, and funds held in these board-designated endowments that are not otherwise donor restricted could be made available if necessary.

Vital Ground's financial assets due within one year of the statement of financial position date for general expenditures are as follows:

	2019
Cash and cash equivalents	\$ 456,972
Short-term investments	1,353,088
Total	\$ 1,810,060

Note 3: Certificates of Deposit

Certificates of deposit totaling \$100,684 and \$200,544 are included in the accompanying financial statements at December 31, 2019 and 2018, respectively. The certificates bear interest ranging from 2.10% to 2.75% and have maturities ranging from four to sixteen months, with penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements.

The Vital Ground Foundation, Inc.

Notes to Financial Statements

Note 4: 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 are included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

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. An impairment of \$12,469 was recorded in 2018. The total impairment taken against this receivable through December 31, 2019 is \$48,011. In December 2019, the donor passed away. Vital Ground expects the funds to be distributed during fiscal year 2020.

During 2019, Vital Ground became a recipient of Patagonia Inc.'s donor matching program. Vital Ground received donations during 2019 and Patagonia Inc. matched a portion of the donations for a specific period of time. At December 31, 2019, Vital Ground recorded \$47,865 of receivables from this program which are expected to be collected in early 2020. Vital Ground could not reasonably estimate the portion that Patagonia, Inc. will match, so no additional receivable was recorded as of December 31, 2019.

Note 5: 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.

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Notes to Financial Statements

Note 5: Fair Value Measurements (Continued)

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, 2019, and 2018.

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.

Money Market: 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.

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>December 31, 2019</i>	Level 1	Level 2	Level 3	Total
Mutual funds				
Income Funds	\$ 253,718	\$ -	\$ -	\$ 253,718
Moderate Funds	920,518	-	-	920,518
Money markets				
Vanguard Prime	666,716	-	-	666,716
Total assets at fair value	\$ 1,840,952	\$ -	\$ -	\$ 1,840,952
Liabilities at fair value as of December 31, 2019				
Split-Interest Agreement Liability	\$ -	\$ -	\$ 14,059	\$ 14,059

The Vital Ground Foundation, Inc.

Notes to Financial Statements

Note 5: Fair Value Measurements (Continued)

<i>December 31, 2018</i>	Level 1	Level 2	Level 3	Total
Mutual funds				
Income Funds	\$ 219,389	\$ -	\$ -	219,389
Moderate Funds	689,208	-	-	689,208
Money markets				
Vanguard Prime	208,628	-	-	208,628
Marketable securities				
Equity Securities	23,645	-	-	23,645
Total assets at fair value	\$ 1,140,870	\$ -	\$ -	1,140,870
Liabilities at fair value as of December 31, 2018				
Split-Interest Agreement Liability	\$ -	\$ -	\$ 15,025	\$ 15,025

Investment return is summarized as follows:

<i>Years Ended December 31,</i>	2019	2018
Realized/unrealized gain (loss)	\$ 255,340	\$ 131,416
Less: investment expenses	(34,095)	(149,606)
Realized/unrealized gain (loss)	\$ 221,245	\$ (18,190)

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):

<i>Years Ended December 31,</i>	2019	2018
Beginning balance	\$ 15,025	\$ 15,975
Change in value of split-interest agreement	234	250
Payments to beneficiaries	(1,200)	(1,200)
Ending balance	\$ 14,059	\$ 15,025

The Vital Ground Foundation, Inc.

Notes to Financial Statements

Note 5: Fair Value Measurements (Continued)

Information regarding Vital Ground's liabilities calculated using discounted cash flows for the year ended December 31, 2019, is as follows:

	Fair Value at 12/31/19	Valuation Techniques	Unobservable inputs	Range (Weighted Average)
Split-interest agreement liability	\$ 14,059	Discounted cash flows	Estimated remaining useful life	1-15 years (14.80 years) 1.6%

Note 6: Notes Payable

Vital Ground has the following notes payable:

<i>As of December 31,</i>	2019	2018
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. In 2019, the lender forgave the remaining \$86,000 due on the note payable. Vital Ground recorded this as a donation for the year ended December 31, 2019.	\$ -	\$ 86,000
Less current portion	-	(86,000)
Total long-term notes payable	\$ -	\$ -

Note 7: Net assets without restrictions

Net assets without restrictions hold no donor-imposed restrictions, and include board designated funds. Board designated funds include funds allocated to the Stewardship and Legal Defense fund for various properties. Total board designated funds remaining at December 31, 2019 and 2018 were \$1,353,088 and \$696,885, respectively.

The Vital Ground Foundation, Inc.

Notes to Financial Statements

Note 8: Net assets with restrictions

At December 31, 2019 and 2018, net assets with restrictions were \$6,187,465 and \$6,346,609, respectively. These assets were restricted for use on specified land preservation projects, Forest Legacy project stewardship activities, conflict prevention grants, charitable gift annuity future payments, and principal investments in Vital Ground's endowment.

As of December 31, 2019 and 2018, funds held as assets with restrictions include:

1. Restricted Land Protection funds include contributions restricted by donors and funds held for notes payable.
2. During 2007 and 2014, Vital Ground received donations totaling \$60,000 that are restricted to Forest Legacy Program services. Vital Ground may only use income from these donations for annual conservation easement monitoring and other activities related to its performance of Forest legacy Program responsibilities.
3. In 2007 and 2011, Vital Ground received split interest (Charitable Gift Annuity) agreements, of which \$56,627 was considered restricted. During subsequent years, annual adjustments reflect changes in actuarial assumptions. One of the split-interest agreements closed in 2017, and its assets were transferred to the Endowment Fund.
4. Vital Ground's Endowment Fund provides long-term financial security for organizational operations and conservation programs. Several donor restricted contributions are held in this fund.

Net assets with restrictions at December 31, 2019 and 2018 are as follows:

<i>As of December 31,</i>	2019	2018
General restrictions	\$ 613,822	\$ 860,264
Land held for preservation	5,391,228	5,309,978
Gift annuity	35,900	29,852
Forest Legacy Monitoring funds	60,000	60,000
Endowment investments	86,515	86,515
Total of net assets with restrictions	\$ 6,187,465	\$ 6,346,609

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Notes to Financial Statements

Note 9: Endowment Funds

Vital Ground's endowment fund is currently invested in the Vanguard Wellington Investor Fund. To date, the foundation has received eight donor restricted contributions to the endowment fund totaling \$86,515 and \$86,515 as of December 31, 2019 and 2018, 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 net assets with restrictions (a) the original value of gifts to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. 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.

Note 10: Donated Goods, Services and Equipment

Vital Ground recognized donated revenue in 2019 and 2018 for contributed services used for lands projects and for management and general activities.

Donated goods and services during the years ended December 31, 2019 and 2018 was as follows:

<i>Years Ended December 31,</i>	2019	2018
Advertising	\$ 42,872	\$ 91,539
Professional services	228,000	500
Total donated services	270,872	92,039
Goods and equipment	7,587	4,247
Total donated services and goods	\$ 278,459	\$ 96,286

The Vital Ground Foundation, Inc.

Notes to Financial Statements

Note 11: Land Held for Preservation and Land Improvements

Land held for preservation by Vital Ground amounted to \$5,391,249 and \$5,309,996 at December 31, 2019 and 2018, respectively. These lands at December 31, 2019 and 2018 were:

	2019	2018
<u>Fee-Title Holdings</u>		
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 (MT)	372,000	372,000
Elk Flats Neighbors (MT)	-	261,000
Alvord Lake (MT)	1,088,656	1,088,656
Wild River Estates #1 (MT)	650,303	650,303
Bismark Meadows #5 (ID)	964,000	964,000
Wild River Estates #2 (MT)	376,125	376,125
Ninemile Linkage #1 (MT)	52,500	52,500
Wild River #4 (MT)	342,250	-
	<hr/>	<hr/>
Subtotal	5,391,228	5,309,978

The Vital Ground Foundation, Inc.

Notes to Financial Statements

Note 11: Land Held for Preservation and Land Improvements (Continued)

	2019	2018
<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	1
Glen Willow (MT)	1	-
Lawrence (MT)	1	-
Quinn (MT)	1	-
Subtotal	21	18
Total of lands held for preservation	\$ 5,391,249	\$ 5,309,996

Land improvements of \$20,656 and \$22,389 as of December 31, 2019 and 2018, respectively, consist of a well installation on the Bismark Meadows #1 (ID).

Note 12: 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.

The Vital Ground Foundation, Inc.

Notes to Financial Statements

Note 13: Related Parties

For the years ended December 31, 2019 and 2018, Vital Ground received related party contributions totaling \$152,143 and \$217,905, respectively, from Board members or employees.

Note 14: Subsequent Events

Management has evaluated all subsequent events from the statement of financial position date of December 31, 2019, through the date the financial statements were available to be issued, May 26, 2020. Beginning in March 2020, the United States economy began suffering adverse effects from the COVID 19 Virus Crisis ("CV19 Crisis"). As of the date of issuance of the financial statements, the Vital Ground had not yet suffered material adverse impact from the CV19 Crisis. While the future impact of the CV19 Crisis on Vital Ground cannot be reasonably estimated, Vital Ground did apply for and received \$120,000 in loan proceeds from the Paycheck Protection Program in April 2020.

In addition, as of the date of issuance of the financial statements, Vital Ground's investment assets experienced a decrease in fair value due to the decline in the market. This decline in fair value is considered a temporary loss to the investments, which are held for long-term earning potential. No adjustment was made to the financial statements.

In January 2020, Vital Ground purchased land for \$785,000 using cash from bank accounts and donations.

In February 2020, Vital Ground received an additional \$49,260 from Patagonia Inc.'s donation matching program. This amount was received in addition to the \$47,865 recorded as a receivable at December 31, 2019.

There were no other material subsequent events that required recognition or additional disclosure in the financial statements.