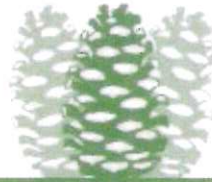




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Caring for Our Corner of the Earth



**Natural Resources
FOUNDATION**

of Wisconsin

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT**

For the Years Ended December 31, 2018 and 2017

NATURAL RESOURCES FOUNDATION OF WISCONSIN, INC.
(A Wisconsin Non-Profit Organization)

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December 31, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Natural Resources Foundation of Wisconsin, Inc.
Madison, Wisconsin

We have audited the accompanying financial statements of Natural Resources Foundation of Wisconsin, Inc. (a Wisconsin non-profit organization), which comprise the statements of financial position as of December 31, 2018 and 2017 and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 Natural Resources Foundation of Wisconsin, Inc. as of December 31, 2018 and 2017 and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, effective January 1, 2018, Natural Resources Foundation of Wisconsin, Inc. adopted provisions of FASB issued Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Johnson Block & Company, Inc.

Johnson Block & Company, Inc.
July 23, 2019

NATURAL RESOURCES FOUNDATION OF WISCONSIN, INC.
Madison, Wisconsin

STATEMENTS OF FINANCIAL POSITION
December 31, 2018 and 2017

	<u>ASSETS</u>	
Current Assets	2018	2017
Cash and cash equivalents	\$ 727,458	\$ 1,075,822
Accounts receivable	30,000	-
Unconditional promises to give	7,600	55,067
Prepaid expenses	24,430	27,201
Total Current Assets	789,488	1,158,090
Fixed Assets		
Equipment	14,741	14,741
Less accumulated depreciation	(14,741)	(14,741)
Net Fixed Assets	-	-
Noncurrent Assets		
Investments	7,729,838	7,064,604
Cash and investments held in escrow accounts	5,009,170	5,232,477
Total Noncurrent Assets	12,739,008	12,297,081
TOTAL ASSETS	\$ 13,528,496	\$ 13,455,171
 <u>LIABILITIES AND NET ASSETS</u> 		
Current Liabilities		
Accounts payable	\$ 22,591	\$ 475
Accrued expenses	13,015	15,030
Grants payable - due in less than one year	13,837	13,836
Funds held for others as escrow accounts	5,009,170	5,232,477
Funds held for others as agency endowments	1,139,638	1,154,736
Total Current Liabilities	6,198,251	6,416,554
Long-term Liabilities		
Grants payable - due in more than one year	-	17,498
Total Long-term Liabilities	-	17,498
Net Assets		
Net Assets without Donor Restrictions	404,148	347,168
Net Assets with Donor Restrictions	6,926,097	6,673,951
Total Net Assets	7,330,245	7,021,119
TOTAL LIABILITIES AND NET ASSETS	\$ 13,528,496	\$ 13,455,171

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

NATURAL RESOURCES FOUNDATION OF WISCONSIN, INC.
Madison, Wisconsin

STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2018 and 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Other Support						
Contributions	\$ 468,849	\$ 1,281,815	\$ 1,750,664	\$ 650,308	\$ 1,214,824	\$ 1,865,132
Donated Goods and Services	117,601	-	117,601	98,340	-	98,340
Fees for services	24,578	-	24,578	16,445	-	16,445
Field Trip Income	126,598	-	126,598	131,653	-	131,653
Other	35,720	-	35,720	3,909	-	3,909
Investment income (loss)	2,011	(406,095)	(404,084)	(12,590)	675,427	662,837
Net assets released from restrictions	623,574	(623,574)	-	807,748	(807,748)	-
Total Revenues and Other Support	1,398,931	252,146	1,651,077	1,695,813	1,082,503	2,778,316
Expenses						
Program services:						
Education and outreach	469,301	-	469,301	433,468	-	433,468
Rare and endangered species	133,916	-	133,916	229,271	-	229,271
State natural areas and public lands	306,902	-	306,902	167,139	-	167,139
Sustainable support and endowments	18,607	-	18,607	193,076	-	193,076
Management and general	256,982	-	256,982	299,401	-	299,401
Fundraising	156,243	-	156,243	130,172	-	130,172
Total Expenses	1,341,951	-	1,341,951	1,452,527	-	1,452,527
Increase (Decrease) in Net Assets before Transfers	56,980	252,146	309,126	243,286	1,082,503	1,325,789
Total Change in Net Assets	56,980	252,146	309,126	243,286	1,082,503	1,325,789
Net Assets - Beginning of Year	347,168	6,673,951	7,021,119	103,882	5,591,448	5,695,330
Net Assets - End of Year	\$ 404,148	\$ 6,926,097	\$ 7,330,245	\$ 347,168	\$ 6,673,951	\$ 7,021,119

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

NATURAL RESOURCES FOUNDATION OF WISCONSIN, INC.
Madison, Wisconsin

STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended December 31, 2018 and 2017

	2018							
	Program Services				Supporting Activities			
	Education and Outreach	Rare and Endangered Species	State Natural Areas and Public Lands	Sustainable Support and Endowments	Total Program Services	Management and General	Fundraising	Total
Personnel Costs	\$ 184,749	\$ 23,664	\$ 12,655	\$ 10,026	\$ 231,094	\$ 117,452	\$ 112,973	\$ 461,519
Contract Services	103,611	9,250	1,143	791	114,795	96,224	10,423	221,442
Program Costs	131,407	92,470	290,458	5,541	519,876	727	416	521,019
Facility and Equipment	16,744	3,674	1,212	1,056	22,686	12,682	12,126	47,494
Marketing and Promotion	947	106	89	132	1,274	1,446	5,983	8,703
Office Expense	29,949	4,284	1,120	878	36,231	21,839	12,529	70,599
Meeting and Travel	1,618	419	199	165	2,401	5,331	1,551	9,283
Other Expenses	276	49	26	18	369	1,281	242	1,892
	<u>\$ 469,301</u>	<u>\$ 133,916</u>	<u>\$ 306,902</u>	<u>\$ 18,607</u>	<u>\$ 928,726</u>	<u>\$ 256,982</u>	<u>\$ 156,243</u>	<u>\$ 1,341,951</u>

	2017							
	Program Services				Supporting Activities			
	Education and Outreach	Rare and Endangered Species	State Natural Areas and Public Lands	Sustainable Support and Endowments	Total Program Services	Management and General	Fundraising	Total
Personnel Costs	\$ 144,530	\$ 18,270	\$ 12,375	\$ 11,838	\$ 187,013	\$ 161,740	\$ 79,485	\$ 428,238
Contract Services	147,153	14,045	8,192	5,362	174,752	86,524	29,971	291,247
Program Costs	90,337	187,887	127,833	173,242	579,299	5,519	431	585,249
Facility and Equipment	16,563	2,807	1,637	1,072	22,079	17,292	5,990	45,361
Marketing and Promotion	661	49	14,212	12	14,934	627	3,760	19,321
Office Expense	32,007	5,687	2,209	1,446	41,349	25,133	9,376	75,858
Meeting and Travel	2,183	521	677	101	3,482	2,532	1,148	7,162
Other Expenses	34	5	4	3	46	34	11	91
	<u>\$ 433,468</u>	<u>\$ 229,271</u>	<u>\$ 167,139</u>	<u>\$ 193,076</u>	<u>\$ 1,022,954</u>	<u>\$ 299,401</u>	<u>\$ 130,172</u>	<u>\$ 1,452,527</u>

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

NATURAL RESOURCES FOUNDATION OF WISCONSIN, INC.
Madison, Wisconsin

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017

	2018	2017
<u>Cash Flows from Operating Activities</u>		
Change in Net Assets	\$ 309,126	\$ 1,325,789
Adjustments to reconcile change in net assets to net cash (provided by) operating activities:		
Contributions restricted for permanent endowments	(754,595)	(845,062)
Donated investments	(314,886)	(352,020)
Unrealized and realized (gain) loss on investments	549,573	(545,873)
Changes in operating assets and liabilities:		
Accounts receivable	(30,000)	-
Unconditional promises to give	47,467	22,407
Prepaid expenses	2,771	19,549
Accounts payable	22,116	(973)
Accrued expenses	(2,015)	6,596
Grants payable	(17,497)	(13,835)
Funds held for others as agency endowments	(15,098)	88,708
Net cash provided (used) by operating activities	(203,038)	(294,714)
<u>Cash Flows from Investing Activities</u>		
Proceeds from sale of donated investments	314,886	352,020
Proceeds from sales of investments	16,043	360,578
Purchases of investments	(1,230,850)	(933,816)
Net cash provided (used) by investing activities	(899,921)	(221,218)
<u>Cash Flows from Financing Activities</u>		
Proceeds from contributions restricted for investment in permanent endowment	754,595	845,062
Net cash provided (used) by financing activities	754,595	845,062
Net (decrease) increase in cash	(348,364)	329,130
Cash at beginning of year	1,075,822	746,692
Cash at end of year	\$ 727,458	\$ 1,075,822

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

NATURAL RESOURCES FOUNDATION OF WISCONSIN, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018 and 2017

1. Summary of Significant Accounting Policies

A. Nature of Organization

Natural Resources Foundation of Wisconsin, Inc. (“Foundation”) is mainly supported by contributions and creates opportunities for individuals and organizations that care about the conservation of Wisconsin’s lands, waters and wildlife to:

- Deepen their understanding and appreciation of these natural resources
- Support state and local conservation programs
- Establish conservation endowments

B. Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

C. Financial Statement Presentation

Net assets are classified based on the existence or absence of donor-imposed restrictions. Net assets are defined as follows:

Net assets without donor restrictions consist of investments and otherwise unrestricted amounts that are available for use in carrying out the mission of Natural Resources Foundation of Wisconsin, Inc. and include those expendable resources which have been designated for special use by Natural Resources Foundation of Wisconsin, Inc.’s Boards of Directors.

Net assets with donor restrictions consist of net assets that are subject to either donor-imposed time restrictions or donor-imposed purpose restrictions. These restrictions limit Natural Resources Foundation of Wisconsin, Inc.’s choices of when to use and how to use these resources.

D. Use of Estimates

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

E. Income Taxes

The Foundation is a nonprofit corporation exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, and Wisconsin franchise or income tax.

NATURAL RESOURCES FOUNDATION OF WISCONSIN, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018 and 2017

1. Summary of Significant Accounting Policies (Continued)

E. Income Taxes (Continued)

The Foundation follows the statutory requirements for their income tax accounting and generally avoids risks associated with potentially problematic tax positions that may be challenged upon examination. Management believes any liability resulting from taxing authorities imposing additional income taxes from activities deemed to be unrelated to the Foundation's tax-exempt status would not have a material effect on the accompanying financial statements.

The Foundation's federal exempt organization tax returns are subject to examination by the Internal Revenue Service, generally for three years after they are filed. With few exceptions, the Foundation is no longer subject to such examinations for years before 2015.

F. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Foundation considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

G. Accounts Receivable

The Foundation considers all accounts receivable to be fully collectible. Accordingly, no allowance for doubtful accounts is presented. If amounts become uncollectible, they will be charged to operations when that determination is made.

H. Promises to Give

Unconditional promises to give are recognized as support or gains in the period received and as assets, decreases in liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. All unconditional promises to give at December 31, 2018 are receivable in less than one year.

I. Property and Equipment

Property and equipment purchases that are greater than \$3,000 are capitalized at cost and depreciated over their useful life using the straight-line method.

J. Investments

Investments in marketable equity securities with readily determinable fair values are stated at fair market value in the Statements of Financial Position. Realized and unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities.

K. Grants Payable

Grants authorized but unpaid at year-end are reported as liabilities.

NATURAL RESOURCES FOUNDATION OF WISCONSIN, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018 and 2017

1. Summary of Significant Accounting Policies (Continued)

L. Contributions

Contributions received are recorded as contributions without donor restrictions, or contributions with donor restrictions, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

M. Donated Services

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the organization.

N. Fair Value Measurements

In accordance with professional standards, the Foundation follows the accounting for fair value measurement, as it pertains to the Foundation's financial assets and liabilities. Professional standards define fair value as the price that would be received to sell an asset or paid to transfer a liability in any orderly transaction between market participants at the measurement date. Fair value should be based on assumptions that market participants would use, including a consideration of non-performance risk.

Management assesses the inputs used to measure fair value using a three-tier hierarchy based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1 inputs are quoted market prices for identical instruments in an active market that the entity has the ability to access and are the most observable.

Level 2 inputs include quoted market prices for similar assets and observable inputs such as interest rates, currency exchange rates, commodity rates, and yield curves.

Level 3 inputs are not observable in the market and include management's judgments about the assumptions market participants would use in pricing the asset or liability.

NATURAL RESOURCES FOUNDATION OF WISCONSIN, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018 and 2017

1. Summary of Significant Accounting Policies (Continued)

O. Functional Allocation of Expenses

The costs of providing the various programs of the Foundation have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the various programs and supporting services benefited. The Foundation's major program services are as follows:

Education and Outreach – The Foundation provides educational, philanthropic, and recreational opportunities that build relationships between people and nature. The Foundation also supports education programs that help people discover the great outdoors and learn what they can do to protect Wisconsin's diverse and beautiful natural treasures. The Foundation's priorities include the Field Trip Program, which has existed for 20 years; this program has gotten more than 30,000 people outdoors with experts to see plants and animals up close, help scientists with their research, and form deep connections with Wisconsin's lands, waters, and wildlife. Another priority is the C.D. Besadny Conservation Grant Program, which promotes the responsible stewardship of Wisconsin's natural resources projects and programs. The Besadny program has contributed more than \$532,000 to 652 projects; covering every county in Wisconsin. Finally, the Foundation provides small grants through the Teachers' Outdoors Environmental Education Fund, which supports public and private organizations, including schools and governments.

Rare and Endangered Species – The Natural Resources Foundation of Wisconsin provides funding for priority conservation projects for rare and endangered species as identified by the Wisconsin Department of Natural Resources. Currently, 437 of Wisconsin's native animals are considered "Species of Greatest Conservation Need" and many of them are the focus of the Foundation's work on rare and threatened wildlife. The Foundation mainly assists those species that are of high conservation importance, have recovery efforts involving public-private partnerships, and lack adequate funding for their conservation. Important priorities include Wisconsin's threatened birds and bats.

State Natural Areas and Public Lands – The Natural Resources Foundation of Wisconsin helps protect and manage State Natural Areas, which include many of the last remnants of Wisconsin's native landscapes: our prairies, savannas, old-growth forests, marshes, and other ecosystems. These lands, and the plants and animals found in them, are the most crucial and vulnerable repositories of our state's biological, geological, and archeological heritage. The Wisconsin Department of Natural Resources has designated 687 State Natural Areas, totaling approximately 400,000 acres. Our Foundation supports land management activities and public outreach initiatives, focusing on sites that lie within areas designated by the "Wisconsin Land Legacy Report" and "Wisconsin Wildlife Action Plan."

Sustainable Support and Endowments – The Natural Resources Foundation of Wisconsin created the Wisconsin Conservation Endowment (WCE) to serve as a "community foundation for conservation". The WCE allows individual donors and non-profit organizations opportunities to build permanent and sustaining sources of private funding for conservation in the state. The Foundation manages the assets of more than 90 individual endowment funds and spend-down funds that support species protection, education, habitat management, and other conservation organizations. In addition, the Foundation manages the funds of escrow accounts under third-party custodial agreements for the purpose of natural area conservation.

NATURAL RESOURCES FOUNDATION OF WISCONSIN, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018 and 2017

1. Summary of Significant Accounting Policies (Continued)

P. Recently Issued Accounting Standards

In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Natural Resources Foundation of Wisconsin, Inc. adopted the provisions of this new standard during the year ended December 31, 2018. The Foundation has updated the presentation of its financial statements in accordance with the new standard. The new standard changes affect the Foundation's financial statements as follows:

- The unrestricted net asset class has been renamed *net assets without donor restrictions*.
- The temporarily restricted and permanently restricted net assets classes have been combined and the combined net asset class has been named *net assets with donor restrictions*.
- The notes to the financial statements include a new disclosure describing the liquidity and availability of financial assets (Note 13).
- Disclosures related to the allocation of functional expenses have been expanded.
- Underwater Endowments are included within the related endowment fund as net assets with donor restrictions.

The changes have the following effect on net assets at December 31, 2017:

	As Originally Presented	After Adoption of ASU 2016-14
Net asset class		
Permanently restricted net assets	\$ 5,678,137	\$ -
Temporarily restricted net assets	1,033,128	-
Unrestricted net assets	309,854	-
Net assets without donor restrictions	-	347,168
Net assets with donor restrictions	-	6,673,951
Total net assets	\$ 7,021,119	\$ 7,021,119

Q. Subsequent Events

Management has evaluated events through July 23, 2019, the date which the financial statements were available to be issued.

R. Reclassifications

As a result of implementation of ASU No. 2016-14, previously reported net assets without donor restrictions (unrestricted net assets) has been increased by \$37,314 and net assets with donor restrictions has been decreased by the same amount as of January 31, 2017 from the reclassification of the accumulated deficit associated with deficiency in endowment funds resulting from appropriations for programs that were deemed prudent by the Foundation's Board of Directors that exceeded net investment returns. In addition, other amounts in the 2017 comparative financial statements have been reclassified to conform with current year presentation.

NATURAL RESOURCES FOUNDATION OF WISCONSIN, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018 and 2017

2. Equipment

Equipment consisted of the following at December 31, 2018 and 2017:

	2018	2017
Equipment	\$ 14,741	\$ 14,741
Less: Accumulated Depreciation	14,741	14,741
Equipment - Net	\$ -	\$ -

Depreciation expense was \$0 and \$0 for 2018 and 2017.

3. Investments

Investments consisted of the following at December 31, 2018 and 2017:

	2018	2017
Cash and money market	\$ 106,303	\$ 127,476
Mutual Funds	7,623,535	6,937,128
Total Investments	\$ 7,729,838	\$ 7,064,604

	2018	2017
Dividends and Interest	\$ 189,286	\$ 158,726
Realized and Unrealized Gain (Loss)	(641,750)	653,265
Investment return allocated to/from agency endowments	64,990	(135,880)
Investment management fees	(16,610)	(13,274)
Total Investment Return	\$ (404,084)	\$ 662,837

NATURAL RESOURCES FOUNDATION OF WISCONSIN, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018 and 2017

4. Funds Held for Others

Funds held for others in escrow accounts consisted of the following at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Chippewa River Fish Protection Fund Escrow	\$ 4,703,292	\$ 4,831,234
Chippewa River Natural Resources Fund Escrow	38,839	107,235
Prairie du Sac Habitat Enhancement, Mitigation, Research, Study and Fish Passage Escrow	210,710	242,012
Grandmother Falls Fish Passage and/or Protection Escrow	<u>56,329</u>	<u>51,996</u>
Total Funds Held for Others as Escrow Accounts	<u>\$ 5,009,170</u>	<u>\$ 5,232,477</u>

Escrow account funds consisted of the following investments at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Cash and money market	\$ 550,106	\$ 592,957
Mutual Funds	1,857,126	1,476,516
Treasury Notes	1,275,514	1,980,194
Marketable certificates of deposit	99,505	99,464
Bonds	<u>1,226,919</u>	<u>1,083,346</u>
Cash and investments held in escrow accounts	<u>\$ 5,009,170</u>	<u>\$ 5,232,477</u>

5. Net Assets with Donor Restrictions

Net assets with donor restrictions consisted of the following at December 31, 2018 and 2017:

Amount subject to time or purpose restrictions:	<u>2018</u>	<u>2017</u>
Accumulated earnings on donor-restricted endowment funds	\$ 103,245	\$ 798,845
NRF Programs	<u>370,120</u>	<u>196,969</u>
Net assets with donor restrictions	<u>\$ 473,365</u>	<u>\$ 995,814</u>
Amounts that must be maintained in perpetuity:	<u>2018</u>	<u>2017</u>
Endowment funds	\$ 6,452,732	\$ 5,678,137
Net assets with donor restrictions	<u>\$ 6,452,732</u>	<u>\$ 5,678,137</u>

NATURAL RESOURCES FOUNDATION OF WISCONSIN, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018 and 2017

6. Net Assets without Donor Restrictions

The Foundation's board of directors has chosen to place the following limitations on net assets without donor restrictions as of December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Board designated net assets:		
Get Outside Fund	\$ -	\$ 10,000
Bluffs to Great Lake Shores (Endowment Fund)	150,001	150,000
Capacity Grant Appeal	1,250	1,000
Other Endowment funds	1,690	10,583
Undesignated	<u>251,207</u>	<u>175,585</u>
Net assets without donor restrictions	<u>\$ 404,148</u>	<u>\$ 347,168</u>

7. Fair Value Measurements

Fair Values of assets measured on a recurring basis at December 31, 2018 and 2017 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Mutual Funds	\$ 9,480,662	\$ 9,480,662	\$ -	\$ -
Treasury Notes	1,275,514	-	1,275,514	-
Marketable Certificates of Deposit	99,505	-	99,505	-
Bonds	<u>1,226,919</u>	<u>-</u>	<u>1,226,919</u>	<u>-</u>
2018 Total	<u>\$ 12,082,600</u>	<u>\$ 9,480,662</u>	<u>\$ 2,601,938</u>	<u>\$ -</u>

NATURAL RESOURCES FOUNDATION OF WISCONSIN, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018 and 2017

7. Fair Value Measurements (Continued)

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual Funds	\$ 8,413,644	\$ 8,413,644	\$ -	\$ -
Treasury Notes	1,980,194	-	1,980,194	-
Marketable Certificates of Deposit	99,464	-	99,464	-
Bonds	1,083,346	-	1,083,346	-
2017 Total	<u>\$ 11,576,648</u>	<u>\$ 8,413,644</u>	<u>\$ 3,163,004</u>	<u>\$ -</u>

Fair values for mutual funds are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair values for treasury notes, marketable certificates of deposit, and bonds are determined based on recent prices of similar assets.

8. Retirement Plans

All employees who work 20 or more hours per week are eligible to participate in the Foundation's 403(b) plan. The Foundation's contributions are discretionary and may change from year to year. Retirement expense was \$14,733 and \$13,782 for 2018 and 2017, respectively.

9. Lease Commitment

In August of 2013, the Foundation entered into a five-year lease agreement for office space in Madison, Wisconsin. The lease is in effect from January 2014 through December 2018. Rent Expense was \$47,493 and \$45,361 for 2018 and 2017, respectively.

In 2018, the Foundation entered into a new ten-year lease agreement for office space in Madison. The lease is in effect from June 2019 through May 2029. Future minimum lease payments are as follows:

2019	\$ 38,500
2020	66,966
2021	68,636
2022	70,351
2023	72,112
2024-2028	388,518
2029	<u>34,345</u>
Total	<u>\$ 739,428</u>

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10. Concentration of Credit Risk

The Foundation maintains its cash balance in one financial institution located in Madison, Wisconsin. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. Professional standards identify these items as a concentration of credit risk requiring disclosure, regardless of the degree of risk. The risk is managed by maintaining the deposits in high quality financial institutions. At December 31, 2018 and 2017, the Foundation had uninsured cash balances of \$743,330 and \$1,274,524, respectively.

The Foundation also maintains balances at one brokerage. These balances are insured by the Securities Investor Protection Corporation (SIPC) up to \$500,000. At December 31, 2018 and 2017, the Foundation had uninsured investment balances of \$11,940,578 and \$10,674,327, respectively.

11. Donated Services

The Foundation has the status of a friend of the Wisconsin Department of Natural Resources (DNR). This status allows the Foundation to utilize the DNR's certain resources without charge as long as the Foundation undertakes activities that assist the DNR in achieving its objectives. Donated services in 2018 and 2017 were utilized for the following program services and supporting activities:

	2018	2017
Program Services		
Education and outreach	\$ 76,768	\$ 66,471
Rare and endangered species	437	372
State natural areas	437	217
Sustainable support	229	142
Management and general	4,987	2,292
Fundraising	2,792	794
Donated Services	\$ 85,650	\$ 70,288

12. Endowments

The Foundation's endowment consists of 71 individual funds established for a variety of purposes and includes both donor-restricted endowment funds, 69 permanent funds and 2 acorn funds. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The state of Wisconsin enacted Uniform Prudent Management of Institutional Funds Act ("UPMIFA") effective July 20, 2009, the provisions of which apply to endowment funds existing on or established after that date. The Foundation had determined that its donor-restricted endowment funds meet the definition of endowment funds under UPMIFA. The Foundation has interpreted Wisconsin's enacted version of UPMIFA 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. In accordance with

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12. Endowments (Continued)

Wisconsin's enacted version of UPMIFA, the Foundation expects it will need to consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) general economic conditions, (2) the possible effect of inflation and deflation, (3) the expected tax consequences of investment decisions/strategies, (4) the role of each investment within the context of the overall portfolio, (5) the expected total return from income and appreciation, (6) other resources of the Foundation, (7) the need to make distributions and preserve capital, and (8) an asset's special relationship/value to the Foundation's charitable purpose.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature existed in sixteen donor-restricted endowment funds in 2018, which together have an original gift value of \$3,319,600, a current fair value of \$3,176,656, and a deficiency of \$142,944 as of December 31, 2018. The deficiencies in 2018 resulted from the unfavorable market fluctuations after the endowments were established. In the prior year, deficiencies existed in two donor-restricted endowment funds, which together had an original gift value of \$418,638, a current fair value of \$381,324, and a deficiency of \$37,314 as of December 31, 2017. The deficiencies in 2017 mainly resulted from the planned marketing expenses for one fund, which aimed to attract more donations in the future. The donations for this fund have increased significantly in the last few years and the Foundation expects that the future investment income will cover this fund deficiency.

Investment Objective

The Foundation has adopted investment and spending policies for endowment assets that attempt to manage the majority of the portfolio passively. Passive management is an investment strategy involving limited ongoing buying and selling actions. The Foundation will purchase investments with the intention of long-term appreciation and limited maintenance.

Within a passive management strategy, the basic philosophy governing the investments of the Foundation will be prudent growth of principal with the understanding that the Portfolio's values will fluctuate with the capital markets over shorter term time periods. Within this philosophical framework, this policy seeks to provide a competitive total return consistent with historical capital market conditions and subject to risk tolerances and liquidity requirements.

Spending Policy

The Foundation has a policy to withdraw approximately 5% of the Portfolio annually to fund the programs and support the Foundation's operational needs. For purposes of this spending policy, the amount to be spent will be determined using a rolling average of the 12 most recent quarter end market values of the Portfolio. Annual growth in the dollar amount spent will be limited to the rate of inflation as determined by the Consumer Price Index (or the GDP deflator). The purpose of this limitation is to enable the corpus of the Portfolio to grow during times of market strength, thereby providing a buffer in times of market weakness. The goal is to smooth spending patterns over time, limiting disruption to the Foundation's budget during unfavorable market cycles.

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12. Endowments (Continued)

Risk Tolerances and Control

The Foundation defines the risk as the expected standard deviation of return based on historical capital market data. The Foundation evaluates the risk in terms of the total portfolio, not each individual investment. To minimize risk, the Foundation diversifies the portfolio across asset classes, economic sectors, industry groups and individual securities as allowed by the target asset allocation of the portfolio.

Liquidity

The Foundation has established the target asset allocation and asset allocation rebalancing policies to assure funding for foreseeable liquidity events. It is anticipated that the Portfolio will distribute 3-5% of its annual allowed distributable amount. Withdrawals for liquidity needs may come from capital appreciation and income, and from assets upon approval of the trustees.

Endowment net asset composition by type of fund was as follows a December 31, 2018 and 2017:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ 151,691	\$ 6,555,977	\$ 6,707,668
Total 2018 funds	<u>\$ 151,691</u>	<u>\$ 6,555,977</u>	<u>\$ 6,707,668</u>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ 160,583	\$ 6,476,982	\$ 6,637,565
Total 2017 funds	<u>\$ 160,583</u>	<u>\$ 6,476,982</u>	<u>\$ 6,637,565</u>

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12. Endowments (Continued)

2018	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 160,583	\$ 6,476,982	\$ 6,637,565
Investment return			
Investment income(loss)	-	143,966	143,966
Net appreciation/depreciation (realized and unrealized)	-	(550,061)	(550,061)
Total investment return	-	(406,095)	(406,095)
Contributions	500	754,595	755,095
Appropriation of endowment assets for expenditure	-	(278,897)	(278,897)
Reclassifications	(9,392)	9,392	-
Endowment net assets end of 2018	<u>\$ 151,691</u>	<u>\$ 6,555,977</u>	<u>\$ 6,707,668</u>
2017	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 5,240,920	\$ 5,240,920
Investment return:			
Investment income	-	129,554	129,554
Net appreciation (realized and unrealized)	-	545,873	545,873
Total investment return	-	675,427	675,427
Contributions	150,645	845,062	995,707
Appropriation of endowment assets for expenditure	-	(274,489)	(274,489)
Reclassifications	9,938	(9,938)	-
Endowment net assets end of year	<u>\$ 160,583</u>	<u>\$ 6,476,982</u>	<u>\$ 6,637,565</u>

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13. Liquidity and Availability of Financial Assets

The Foundation monitors its liquidity so that it is able to meet its operating needs. The following table reflects the Foundation's financial assets as of December 31, 2018 and 2017, reduced by amounts not available for general expenditure within one year. Financial assets are not considered available when the assets are not liquid or not convertible into cash within one year, assets held for others, perpetual endowments and accumulated earnings net of appropriations within one year, or because the board of directors has designated funds for specific reserves or long-term investments such as board-designated quasi-endowments. The board restricted amounts could be used within one year if approved by the Board of Directors.

	2018	2017
Combined financial assets:		
Cash and cash equivalents	\$ 727,458	\$ 1,075,822
Accounts receivable, net	30,000	-
Unconditional promises to give	7,600	55,067
Investments	12,739,008	12,297,081
Total financial assets	13,504,066	13,427,970
Less those unavailable for general expenditure within one year due to:		
Endowments and accumulated earnings subject to appropriation beyond one year	(6,555,977)	(6,476,982)
Funds held for others as escrow accounts	(5,009,170)	(5,232,477)
Funds held for others as agency endowments	(1,139,638)	(1,154,736)
Other donor restrictions	(372,131)	(196,969)
Board designations	(152,941)	(171,583)
Financial assets available to meet cash needs for expenditures within one year	\$ 274,209	\$ 195,223

14. Effect of New Accounting Standards on Current-Period Financial Statements

The Financial Accounting Standards Board (FASB) has approved the following:

- Accounting Standards Update (ASU) No. 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 are effective for annual financial statements issued for fiscal years beginning after December 15, 2018.
- ASU No. 2014-09 (Topic 606): Revenue from Contracts with Customers. For entities other than public businesses, certain not-for-profit entities, and certain employee benefit plans, the amendments in this Update are effective for annual financial statements issued for fiscal years beginning after December 15, 2018.
- ASU No. 2016-02 (Topic 842): Leases. For most entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2019.

When they become effective, application of these standards may restate portions of these financial statements.