

The Wilderness Society

Audited Consolidated Financial Statements

*Years ended September 30, 2018 and 2017
with Report of Independent Auditors*

The Wilderness Society

Audited Consolidated Financial Statements

Years ended September 30, 2018 and 2017

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Report of Independent Auditors

Governing Council
The Wilderness Society
Washington, DC

We have audited the accompanying consolidated financial statements of The Wilderness Society (the Society), which comprise the consolidated statements of financial position as of September 30, 2018 and 2017 and the related consolidated statements of activities, functional expenses and cash flows for years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 the consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Wilderness Society as of September 30, 2018 and 2017 and the changes in their consolidated net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Johnson Lambert LLP

Vienna, Virginia
January 31, 2019

The Wilderness Society

Consolidated Statements of Financial Position

	September 30,	
	2018	2017
Assets		
Cash and cash equivalents	\$ 4,778,309	\$ 6,203,502
Accounts and contributions receivable, net	6,011,309	4,085,300
Investments	44,653,078	40,758,727
Planned giving investments	4,405,544	4,603,697
Beneficial interest in assets held by others	4,901,700	5,214,400
Long-term receivables, net	5,071,043	669,478
Prepaid expenses and other assets	331,576	1,010,284
Fixed assets, net	776,808	436,256
Total assets	\$ 70,929,367	\$ 62,981,644
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 3,366,801	\$ 3,161,869
Deferred revenue	4,100	162,120
Deferred rent	1,372,444	1,403,682
Deposits	15,538	6,800
Planned giving liabilities	2,687,514	2,853,580
Total liabilities	7,446,397	7,588,051
Net assets:		
Without donor restrictions	22,570,411	15,935,482
With donor restrictions	40,912,559	39,458,111
Total net assets	63,482,970	55,393,593
Total liabilities and net assets	\$ 70,929,367	\$ 62,981,644

See accompanying notes to the consolidated financial statements.

The Wilderness Society

Consolidated Statements of Activities

	For the years ended September 30,					
	2018			2017		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Revenues						
Contributions:						
Individuals	\$ 21,385,491	\$ 9,415,265	\$ 30,800,756	\$ 18,108,778	\$ 5,318,934	\$ 23,427,712
Foundations	636,883	10,612,143	11,249,026	757,680	3,400,239	4,157,919
Corporations	89,165	315,062	404,227	495,541	125,558	621,099
	<u>22,111,539</u>	<u>20,342,470</u>	<u>42,454,009</u>	<u>19,361,999</u>	<u>8,844,731</u>	<u>28,206,730</u>
Program services	180,148	-	180,148	178,744	-	178,744
Investment income, net	381,959	360,562	742,521	75,479	84,337	159,816
Spending policy	774,477	(774,477)	-	765,542	(765,542)	-
Other revenues	644,820	-	644,820	493,935	-	493,935
Total revenues	<u>24,092,943</u>	<u>19,928,555</u>	<u>44,021,498</u>	<u>20,875,699</u>	<u>8,163,526</u>	<u>29,039,225</u>
Net assets released (Note I)	<u>17,548,455</u>	<u>(17,548,455)</u>	<u>-</u>	<u>14,628,906</u>	<u>(14,628,906)</u>	<u>-</u>
Total revenues	<u>41,641,398</u>	<u>2,380,100</u>	<u>44,021,498</u>	<u>35,504,605</u>	<u>(6,465,380)</u>	<u>29,039,225</u>
Expenses						
Program services:						
Land and Water	13,629,480	-	13,629,480	14,425,906	-	14,425,906
Energy and Climate	8,699,059	-	8,699,059	7,068,854	-	7,068,854
People Outdoors	3,889,219	-	3,889,219	3,101,248	-	3,101,248
Action Fund	1,441,039	-	1,441,039	60,602	-	60,602
	<u>27,658,797</u>	<u>-</u>	<u>27,658,797</u>	<u>24,656,610</u>	<u>-</u>	<u>24,656,610</u>
Support services:						
Fundraising	5,598,750	-	5,598,750	5,007,593	-	5,007,593
Management and general	1,187,570	-	1,187,570	992,315	-	992,315
	<u>6,786,320</u>	<u>-</u>	<u>6,786,320</u>	<u>5,999,908</u>	<u>-</u>	<u>5,999,908</u>
Total expenses	<u>34,445,117</u>	<u>-</u>	<u>34,445,117</u>	<u>30,656,518</u>	<u>-</u>	<u>30,656,518</u>
Change in net assets from operations	7,196,281	2,380,100	9,576,381	4,848,087	(6,465,380)	(1,617,293)
(Loss)/gain on investments	(561,352)	(998,873)	(1,560,225)	553,852	1,445,082	1,998,934
Change in value of beneficial interest	-	73,221	73,221	-	(9,354)	(9,354)
Change in net assets	<u>6,634,929</u>	<u>1,454,448</u>	<u>8,089,377</u>	<u>5,401,939</u>	<u>(5,029,652)</u>	<u>372,287</u>
Beginning net assets	<u>15,935,482</u>	<u>39,458,111</u>	<u>55,393,593</u>	<u>10,533,543</u>	<u>44,487,763</u>	<u>55,021,306</u>
Ending net assets	<u>\$ 22,570,411</u>	<u>\$ 40,912,559</u>	<u>\$ 63,482,970</u>	<u>\$ 15,935,482</u>	<u>\$ 39,458,111</u>	<u>\$ 55,393,593</u>

See accompanying notes to the consolidated financial statements.

The Wilderness Society

Consolidated Statement of Functional Expenses

Year ended September 30, 2018

	Program Services				Supporting Services			2018 Total	
	Land and Water	Energy and Climate	People Outdoors	Action Fund	Total	Fundraising	Management and General		Total
Compensation	\$ 5,539,204	\$ 3,479,773	\$ 1,252,065	\$ 43,875	\$10,314,917	\$ 2,213,801	\$ 521,816	\$ 2,735,617	\$13,050,534
Fringe benefits	<u>1,324,955</u>	<u>849,151</u>	<u>302,792</u>	<u>10,722</u>	<u>2,487,620</u>	<u>532,877</u>	<u>112,634</u>	<u>645,511</u>	<u>3,133,131</u>
	6,864,159	4,328,924	1,554,857	54,597	12,802,537	2,746,678	634,450	3,381,128	16,183,665
Professional fees	2,194,961	1,600,144	647,857	975,114	5,418,076	680,082	188,912	868,994	6,287,070
Grants and awards	566,863	436,613	472,501	24,000	1,499,977	-	-	-	1,499,977
Supplies	139,974	77,796	35,267	636	253,673	59,165	17,216	76,381	330,054
Telephone	159,514	98,490	34,396	968	293,368	70,964	15,355	86,319	379,687
Postage and shipping	433,924	267,470	235,091	73	936,558	448,775	42,210	490,985	1,427,543
Occupancy	1,269,732	795,524	278,399	8,161	2,351,816	575,222	114,593	689,815	3,041,631
Equipment rental	59,604	33,348	13,451	255	106,658	25,146	8,167	33,313	139,971
Printing and art work	752,211	442,452	288,851	346,589	1,830,103	480,789	53,032	533,821	2,363,924
Travel	762,196	395,988	168,601	2,164	1,328,949	242,441	57,959	300,400	1,629,349
Dues and subscriptions	86,677	45,596	55,453	29	187,755	18,278	8,578	26,856	214,611
Insurance	30,904	19,415	6,786	200	57,305	14,023	2,753	16,776	74,081
Mailing list rentals	72,428	42,942	38,061	27,752	181,183	63,386	6,750	70,136	251,319
Personnel acquisitions	20,120	4,426	6,559	-	31,105	79,954	1,848	81,802	112,907
Miscellaneous	143,969	64,546	37,225	33	245,773	61,065	29,311	90,376	336,149
Depreciation and amortization	<u>72,244</u>	<u>45,385</u>	<u>15,864</u>	<u>468</u>	<u>133,961</u>	<u>32,782</u>	<u>6,436</u>	<u>39,218</u>	<u>173,179</u>
Total	<u>\$13,629,480</u>	<u>\$ 8,699,059</u>	<u>\$ 3,889,219</u>	<u>\$ 1,441,039</u>	<u>\$27,658,797</u>	<u>\$ 5,598,750</u>	<u>\$ 1,187,570</u>	<u>\$ 6,786,320</u>	<u>\$34,445,117</u>

See accompanying notes to the consolidated financial statements.

The Wilderness Society

Consolidated Statement of Functional Expenses

Year ended September 30, 2017

	Program Services				Supporting Services			2017 Total	
	Land and Water	Energy and Climate	People Outdoors	Action Fund	Total	Fundraising	Management and General		Total
Compensation	\$ 5,944,548	\$ 2,644,414	\$ 1,084,495	\$ 173	\$ 9,673,630	\$ 2,143,044	\$ 410,605	\$ 2,553,649	\$12,227,279
Fringe benefits	<u>1,499,276</u>	<u>667,143</u>	<u>274,130</u>	<u>45</u>	<u>2,440,594</u>	<u>540,362</u>	<u>95,925</u>	<u>636,287</u>	<u>3,076,881</u>
	7,443,824	3,311,557	1,358,625	218	12,114,224	2,683,406	506,530	3,189,936	15,304,160
Professional fees	2,498,340	1,666,378	684,275	60,200	4,909,193	678,746	214,330	893,076	5,802,269
Grants and awards	460,052	244,000	63,800	-	767,852	-	-	-	767,852
Supplies	105,114	46,541	21,944	1	173,600	39,238	19,924	59,162	232,762
Telephone	189,442	83,138	33,297	5	305,882	73,820	15,975	89,795	395,677
Postage and shipping	311,533	213,137	205,446	-	730,116	293,472	43,582	337,054	1,067,170
Occupancy	1,408,736	621,927	251,310	41	2,282,014	557,856	100,939	658,795	2,940,809
Equipment rental	53,165	24,375	9,738	1	87,279	20,411	6,721	27,132	114,411
Printing and art work	1,034,964	545,533	289,726	-	1,870,223	325,850	62,273	388,123	2,258,346
Travel	700,050	210,390	126,288	14	1,036,742	212,676	17,310	229,986	1,266,728
Dues and subscriptions	85,849	25,666	9,316	118	120,949	25,298	6,353	31,651	152,600
Insurance	34,870	15,396	6,228	1	56,495	13,829	2,374	16,203	72,698
Mailing list rentals	49,599	35,407	23,020	-	108,026	38,945	7,039	45,984	154,010
Personnel acquisitions	5,749	4,830	875	-	11,454	9,222	346	9,568	21,022
Miscellaneous	(47,407)	(20,051)	924	-	(66,534)	(1,672)	(17,666)	(19,338)	(85,872)
Depreciation and amortization	<u>92,026</u>	<u>40,630</u>	<u>16,436</u>	<u>3</u>	<u>149,095</u>	<u>36,496</u>	<u>6,285</u>	<u>42,781</u>	<u>191,876</u>
Total	<u>\$14,425,906</u>	<u>\$ 7,068,854</u>	<u>\$ 3,101,248</u>	<u>\$ 60,602</u>	<u>\$24,656,610</u>	<u>\$ 5,007,593</u>	<u>\$ 992,315</u>	<u>\$ 5,999,908</u>	<u>\$30,656,518</u>

See accompanying notes to the consolidated financial statements.

The Wilderness Society

Consolidated Statements of Cash Flows

	Years ended September 30,	
	2018	2017
Cash flows from operating activities		
Change in net assets	\$ 8,089,377	\$ 372,287
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	173,178	191,876
Loss on disposal of fixed assets	63,942	19,042
Discount on long-term receivables	364,014	(104,726)
Allowance for uncollectible receivables	239,948	(213,432)
Net realized and unrealized investment loss/(gain)	1,560,225	(1,998,934)
Changes in investments held in trust	(198,153)	30,226
Donated securities	(3,850,810)	(1,157,654)
Contributions restricted for long-term investment	(17,100)	(18,000)
Changes in operating assets and liabilities:		
Accounts and contributions receivable	(6,931,536)	7,873,383
Prepaid expenses and other assets	678,708	(380,865)
Beneficial interests in assets held by others	312,700	382,071
Accounts payable and accrued expenses	204,932	1,052,422
Deferred rent	(31,238)	(16,280)
Deposits	8,738	1,800
Deferred revenue	(158,020)	129,229
Net cash provided by operating activities	508,905	6,162,445
Cash flows from investing activities		
Purchase of equipment	(577,675)	(166,010)
Proceeds from sale of investments	5,938,476	3,176,657
Purchase of investments	(7,344,086)	(6,682,321)
Net cash used in investing activities	(1,983,285)	(3,671,674)
Cash flows from financing activities		
Planned giving payments to beneficiaries	(166,066)	(77,611)
Investment return on planned giving assets	198,153	155,272
Contributions restricted for long-term investment	17,100	18,000
Net cash flows provided by financing activities	49,187	95,661
Change in cash and cash equivalents	(1,425,193)	2,586,432
Cash and cash equivalents, beginning of year	6,203,502	3,617,070
Cash and cash equivalents, end of year	\$ 4,778,309	\$ 6,203,502

See accompanying notes to the consolidated financial statements.

The Wilderness Society

Notes to Consolidated Financial Statements

Years ended September 30, 2018 and 2017

Note A - Organization and Purpose

The Wilderness Society (TWS) is the leading conservation organization working to protect wilderness and inspire Americans to care for our wild places. Founded in 1935, and now with more than 700,000 members and supporters, The Wilderness Society has led the effort to permanently protect 109 million acres of wilderness. We work to ensure sound management of our shared national lands, which include 635 million acres owned by the American people and managed by our government.

The Wilderness Society Action Fund (Action Fund) is an affiliated organization to the Society and was created for the purpose of educating the public and advancing issue advocacy dedicated to protecting wilderness.

Our work has profoundly improved the way our shared national lands are managed and enjoyed. The nation's wildlands provide us all with clean air and water, wildlife habitat and havens for recreation, learning and solitude. Federal lands are also important sources of renewable energy and vital natural resources that must be managed wisely.

We bring a unique breadth of expertise to public land issues. Our staff are recognized leaders in the fields of natural resource science, policy, and community engagement. From Capitol Hill and federal agencies to communities across the nation, we work strategically and collaboratively with diverse arrays of stakeholders. Through these efforts, we find common-ground solutions that lead to better protection, stewardship and restoration of our public lands, preserving the nation's rich natural legacy for current and future generations.

Our public lands represent a uniquely American ideal – that millions of acres of our country's lands belong to, and should benefit, all of us. We envision a future where at least half of the nation's public lands are protected to preserve our unique natural heritage and the special places people love. When these special lands are part of big, connected landscapes, they provide us with the best hope of helping natural systems and human communities thrive in the face of climate change and other threats. Energy development on our public lands should be part of the climate solution in the transition to a clean energy future and sited in appropriate places. We envision a country in which people from all backgrounds can connect to nature, from local parks to big wild places, where people recognize and share in the benefits we all receive from our public lands, and where people are inspired to care for these places.

The Wilderness Society

Notes to Consolidated Financial Statements (Continued)

Note A - Organization and Purpose (Continued)

Land and Water Program

Our Land and Water Program focuses on priority landscapes and watersheds to ensure they are better protected, connected and able to adapt to the changing climate and include a variety of ecosystem types. This requires better funding of land agencies and defense of the nation's bedrock conservation laws. Our nation's protected lands must also include more places that honor and recognize geographic, racial, ethnic, cultural and socioeconomic diversity. We work to build awareness and support for public lands among diverse people, partners and decision makers.

Energy and Climate Program

The Wilderness Society also works to address the key challenges for public lands as we transition to a cleaner energy future. Specifically, we work to ensure that wildlands and high-value-conservation areas are protected from degradation from new energy infrastructure, and appropriate protections established in key areas. We strive to secure policies so public lands are managed to reduce their contributions to climate change. We engage the public to increase awareness and support for the management of public lands as part of our national response to climate change.

People Outdoors Program

Inspiring Americans to care for wild places is a challenge due to the effects of urbanization, outdated policies and lack of access, among other factors. We work to spur new initiatives to get people outdoors and make public lands more inclusive. We focus on connecting communities of color and low-income residents in urban areas with public lands, helping to make them accessible and relevant to their lives; ensuring young people have multiple chances to learn, play and work outside; and fostering sustainable recreation that results in life-long enjoyment and connections to the outdoors.

Action Fund

Defending the nation's most treasured places requires action. The Action Fund works to generate awareness among citizens about threatened places. Concerned citizens in turn ask lawmakers in Congress to support conservation goals. This grassroots effort is essential for protecting specific places, whether the Arctic National Wildlife Refuge in northeast Alaska, wild forests in Maine or rugged landscapes in southern Utah. This action is also essential for protecting the bedrock laws that guard legal protections for America's lands and waters. The Action Fund is an avenue through which The Wilderness Society pursues this type of advocacy work.

Note B - Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of TWS and the Action Fund (collectively, the Society). Significant intercompany accounts and transactions have been eliminated in consolidation. For purposes of consolidated reporting, the Society has classified the net assets without donor restrictions of the Action Fund under the category of net assets with donor restrictions.

The Wilderness Society

Notes to Consolidated Financial Statements (Continued)

Note B - Summary of Significant Accounting Policies (Continued)

Basis of accounting

The Society presents its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) promulgated by the Financial Accounting Standards Board Accounting Standards Codification.

Subsequent events

The Society has performed an evaluation of subsequent events through January 31, 2019, which is the date the consolidated financial statements were available to be issued and has considered any relevant matters in the preparation of the consolidated financial statements and notes.

Use of estimates

GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts and classifications of revenues and expenses during the reporting period. Accordingly, actual results could differ from these estimates, and those differences could be material.

Income taxes

TWS is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and is not a private foundation under Section 509(a) of the IRC. The Action Fund is exempt from Federal income taxes under Section 501(c)(4) of the IRC. The Society is required to pay federal and state income taxes only on unrelated business income. Management has concluded that the Society has properly maintained its exempt status and there are no uncertain tax positions as of September 30, 2018. There are currently no examinations being conducted.

Risk and uncertainties

The Society invests in various securities. These securities are exposed to a variety of risks, such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statements of financial position.

Cash and cash equivalents

The Society considers all highly liquid investments with original maturities at the purchase date of 90 days or less to be cash equivalents. The Federal Deposit Insurance Corporation (FDIC) insures amounts on deposit with each financial institution up to limits prescribed by law. The Society may hold funds with financial institutions in excess of the FDIC insured amounts; however, the Society has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on cash and cash equivalents.

The Wilderness Society

Notes to Consolidated Financial Statements (Continued)

Note B - Summary of Significant Accounting Policies (Continued)

Investments and fair value measurement

Investments are recorded at fair value. Investment income or loss, including realized and unrealized gains and losses, is included in the consolidated statements of activities as an increase or decrease in net assets without donor restrictions unless the income or loss is restricted by donor or law.

Dividend and interest income are considered operating revenue of the Society. Realized and unrealized gains and losses above the spending rate approved by the Governing Council are not used in operations and, therefore, are reported as net assets with donor restrictions in the consolidated statements of activities as gain on investments.

In accordance with GAAP, the Society prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The levels of the hierarchy are as follows:

Level 1 – Inputs to the valuation methodology are quoted (unadjusted) for identical assets or liabilities in actively traded markets which the Society has the ability to access.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and market-corroborated inputs.

Level 3 – Inputs to the valuation methodology are unobservable for the asset or liability and are significant to the fair value measurement.

Planned giving assets and liabilities

The Society maintains a pooled income fund for planned giving investments. Donors contribute to the Society an irrevocable remainder interest in assets while they reserve the right to income from the property. The Society recognizes its remainder interest in the assets received as with donor restriction contribution revenue in the period the assets are received. The contribution is recorded at the fair value of the asset discounted over the actuarially estimated time period until the donor's death.

Charitable gift annuity contributions are recorded net of the present value of the liability of the future annuity payments. The rate used to calculate the net present value is the adjusted discount rate for the month in which the gift is made. The value of the liability is adjusted to reflect amortization of the discount, payments to the donor, and changes in actuarial assumptions.

The Wilderness Society

Notes to Consolidated Financial Statements (Continued)

Note B - Summary of Significant Accounting Policies (Continued)

Planned giving assets and liabilities (continued)

Charitable remainder trusts are recorded at the present value of estimated future cash flows. The discount rate used to calculate the net present value of the estimated future cash flows for the years ended September 30, 2018 and 2017 was 3% and 2%, respectively. The value of the trust liability is adjusted to reflect amortization of the discount and changes in actuarial assumptions related to interest rate fluctuations or other variables.

Earnings generated by planned giving investments are recorded as liabilities to cover commitments to the beneficiaries of planned giving agreements. The change in the actuarial value of planned giving assets is recorded as change in value of beneficial interest in the consolidated statements of activities.

The Society has been named as an irrevocable beneficiary of several charitable trusts held and administered by independent trustees. These trusts were created independently by donors and are administered by outside agents designated by the donors. Therefore, the Society does not have either possession or control over the assets of the trusts. It is the policy of the Society to record such assets only when the Society's interest is deemed to be irrevocable and where there is sufficient information to quantify a fair and accurate valuation. When the Society has enough information to record the beneficial interest, a contribution with donor restrictions is recorded in the statements of activities, and a beneficial interest in assets held by others is recorded in the consolidated statements of financial position at fair value using the discounted present value of the gift, based on the date of the gift and the trust life. Thereafter, beneficial interests in the trusts are reported at fair value in the statements of financial position, with changes in fair value recognized in the statements of activities. Upon receipt of trust distributions or expenditures, or both, in satisfaction of the donor-restricted purpose, if any, net assets with donor-imposed time or purpose restrictions are released to net assets without donor restrictions. Trust distributions with donor-imposed restrictions that are perpetual in nature are transferred to the endowment, in which case, net assets with donor-restrictions are not released.

The beneficial interest in assets held by others for which the Society does not serve as trustee, amounted to \$5,257,000 and \$5,571,000 as of September 30, 2018 and 2017, respectively, and is recorded in net assets with donor restrictions in the accompanying consolidated statements of financial position. Of these amounts, \$355,300 and \$356,600, is included within accounts receivable as of September 30, 2018 and 2017, respectively as is due within one year. Trust assets include publicly traded U.S. stock, corporate and government bonds, mutual funds, property and land, and life insurance policies. The change in the actuarial valuation of total planned giving agreements, including those held by third parties, is recorded in the consolidated statements of activities. The change in value of these agreements was \$73,221 and \$(9,354) for the years ended September 30, 2018 and 2017, respectively.

The Wilderness Society

Notes to Consolidated Financial Statements (Continued)

Note B - Summary of Significant Accounting Policies (Continued)

Contributions receivable

Contributions receivable that are expected to be collected within one year are reported net of any estimated uncollectible amounts. Contributions expected to be collected beyond one year are reported net of any estimated uncollectible amounts and are discounted to present value using the United States Treasury obligations risk-adjusted rate according to their corresponding terms.

Allowance for uncollectible contributions

The Society has established an allowance for uncollectible contributions based on management's judgment of the creditworthiness of the donors, past collection experience, and other relevant factors. Although variability is inherent in such estimates, management believes that the allowance provided in the consolidated financial statements is adequate, but largely dependent on economic conditions.

Fixed assets

Furniture and equipment expenditures over \$5,000 are recorded at cost and are depreciated using the straight-line method, with estimated useful lives ranging from three to ten years. Leasehold improvements are recorded at cost and are amortized over the shorter of their useful lives or the remaining term of the lease.

Collections

The Society's collections include artwork and photographs that are held for educational purposes. Each item is preserved and cared for in a manner similar to works of art held for public exhibition. The collections, which were acquired through various donations since the Society's inception, are not recognized as assets on the consolidated statements of financial position.

Net Assets

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

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor, or certain grantor, restrictions. The governing council has designated, from net assets without donor restrictions, net assets for a capital reserve.

Net Assets With Donor Restrictions – Net assets subject to donor, or certain grantor, imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

The Wilderness Society

Notes to Consolidated Financial Statements (Continued)

Note B - Summary of Significant Accounting Policies (Continued)

Net Assets (continued)

When a restriction expires, 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.

Functional Allocation of Expenses

The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs, including compensation, fringe benefits, professional fees, travel, printing and artwork, postage and shipping, and occupancy have been allocated among the programs, general and administrative and fundraising costs based on time expended.

Reclassifications

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

Recent Accounting Pronouncements

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-14 Not for Profit Entities (topic 958) Presentation of Financial Statements of Not-for-Profit-Entities. The amendments in this update are designed to improve the net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance and cash flows. The amendments in the ASU are effective for annual periods beginning after December 15, 2017. Management elected to early adopt the provisions of this ASU as of and for the year ended September 30, 2018 and have adjusted the presentation in these consolidated financial statements accordingly. The adoption of the ASU did not have an effect on the total net assets or changes in net assets reported in the consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (topic 606). The core principle of ASU 2014-09 is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity is expected to be entitled for those goods or services. The amendments in the ASU are effective for annual periods beginning after December 15, 2018 using either of two methods: (1) retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined with the ASU; or (2) retrospective with the cumulative effect of initial adoption recognized at the date of initial application. Management has not yet selected a transition method and is currently evaluating the effects that the ASU will have on the consolidated financial statements.

The Wilderness Society

Notes to Consolidated Financial Statements (Continued)

Note B - Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements (continued)

In February 2016, the FASB issued amendments to ASU 2016-02, Leases. Among other things, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: 1) a lease liability, which is the lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and 2) a right of use asset, which is an asset that represents the lessee's right to use, or control the use of a specified asset for the lease term. The amendments in the ASU are effective for nonpublic business entities for fiscal years beginning after December 15, 2019. Early adoption is permitted. Management is evaluating the impact the amendments in this ASU will have on the consolidated financial statements.

In June 2018, the FASB issued ASU 2018-08, Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made, (topic 958). The ASU clarifies when the transfer of an asset or the extinguishment of a liability (the transaction) meets the definition of an exchange transaction or a contribution. When the transaction is an exchange transaction, an entity must apply Topic 606, *Revenue from Contracts with Customers* or other applicable Topics. When the transaction is a contribution, the ASU clarifies when the contribution is conditional and when revenue should be recognized. The amendments in the ASU are effective for annual periods beginning after December 15, 2018 for contributions received and effective for fiscal years beginning after December 15, 2019 for contributions made. Early adoption is permitted. The amendments should be applied on a modified prospective basis. However, retrospective application is permitted. Management is evaluating the impact the amendments in this ASU will have on the consolidated financial statements.

Note C - Liquidity and Availability

Financial assets available for general expenditure within one year of the balance sheet date, comprise the following:

	September 30, 2018
Cash and cash equivalents	\$ 4,778,309
Contributions receivable	5,466,109
Accounts receivable	189,900
Investments - operating	15,391,145
Investments - capital reserves	11,069,339
Distributions from beneficial interests in assets held by others	355,300
Endowment spending-rate distributions and appropriations	919,924
	<u>\$ 38,170,026</u>

The Wilderness Society

Notes to Consolidated Financial Statements (Continued)

Note C - Liquidity and Availability (Continued)

As part of the Society's liquidity management plan, the Society's internal policy provides the Society with guidance in structuring financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Society conducts an annual planning process in which revenues and expenses are budgeted for the coming year. This budget is created on a month-by-month basis, as a calendarization of revenue and expenses. As part of that process, cash and non-cash items are materially identified such that a cash forecast can be produced. The Society invests cash in excess of daily requirements in mutual funds, equities, and fixed income securities.

The Society's endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure. Donor restricted endowment funds are subject to an annual spending rate of 5% percent as described in Note E.

The Society has designated a portion of its net assets without donor restrictions as board designated, which is amounts set aside for investment capital reserves. These board designated net assets are subject to self-imposed limits by action of the Governing Council or management and are earmarked for future programs, investments, contingencies, and other uses. These amounts are not deemed to be board designated endowment funds. The Society maintains within this capital reserve an amount determined by the Finance Committee or management an adequate amount to fund the maximum cash draw down of the fiscal or calendar year, and amounts may be drawn upon with Finance Committee or management approval. Although the Society does not intend to spend from these board-designated amounts set aside as capital reserves, these amounts could be made available if necessary by either the Finance Committee or management, and can be used for ongoing programs and operations. Occasionally, the Board could designate a portion of any operating surplus to the capital reserve. The Society did not have any additional amounts set aside to the capital reserve for the year ended September 30, 2018.

The Society is supported, in part, by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Society must maintain sufficient resources to meet those responsibilities to its donors, as well as to best ensure the long term continuity of the organization, in serving its mission. The Society has evaluated its general expenditures for the next fiscal year and has determined that certain donor restrictions are for purposes related to the regular, ongoing programs and activities of the organization. Therefore, certain donor restricted financial assets are considered available for general expenditure and are included in the above analysis.

The Wilderness Society

Notes to Consolidated Financial Statements (Continued)

Note D - Investments and Fair Value Measurement

Investments, at fair value, within the fair value hierarchy at September 30, 2018 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Mutual funds	\$ 17,799,525	\$ -	\$ -	\$ 17,799,525
Equities	16,958,160	-	-	16,958,160
Fixed income	<u>5,127,194</u>	<u>4,768,199</u>	-	<u>9,895,393</u>
Total investments	39,884,879	4,768,199	-	44,653,078
Planned giving assets:				
Money market funds	41,469	-	-	41,469
Mutual funds	2,320,869	-	-	2,320,869
Common stock	940,125	-	-	940,125
Fixed income	339,329	475,070	-	814,399
Life insurance contracts	<u>-</u>	<u>288,682</u>	-	<u>288,682</u>
Total planned giving assets	3,641,792	763,752	-	4,405,544
Beneficial interest in assets held by others	<u>-</u>	<u>-</u>	<u>4,901,700</u>	<u>4,901,700</u>
Total	<u>\$ 43,526,671</u>	<u>\$ 5,531,951</u>	<u>\$ 4,901,700</u>	<u>\$ 53,960,322</u>

Investments, at fair value, within the fair value hierarchy at September 30, 2017 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Mutual funds	\$ 13,992,965	\$ -	\$ -	\$ 13,992,965
Equities	17,875,888	-	-	17,875,888
Fixed income	<u>5,822,841</u>	<u>3,067,033</u>	-	<u>8,889,874</u>
Total investments	37,691,694	3,067,033	-	40,758,727
Planned giving assets:				
Money market funds	130,828	-	-	130,828
Mutual funds	2,576,712	-	-	2,576,712
Common stock	850,144	-	-	850,144
Fixed income	274,514	489,480	-	763,994
Life insurance contracts	<u>-</u>	<u>282,019</u>	-	<u>282,019</u>
Total planned giving assets	3,832,198	771,499	-	4,603,697
Beneficial interest in assets held by others	<u>-</u>	<u>-</u>	<u>5,214,400</u>	<u>5,214,400</u>
Total	<u>\$ 41,523,892</u>	<u>\$ 3,838,532</u>	<u>\$ 5,214,400</u>	<u>\$ 50,576,824</u>

The Wilderness Society

Notes to Consolidated Financial Statements (Continued)

Note D - Investments and Fair Value Measurement (Continued)

The fair value of assets classified as Level 1 are derived from identical assets traded in active markets. The fair value of Level 2 assets are derived from prices for similar or identical assets in non-active markets including pricing that is obtained directly from broker-dealers. The beneficial interest in assets held by others are classified as level 3 assets as their fair values are derived from inputs to the valuation methodology that are unobservable for the asset and are based on actuarial assumptions such as mortality rates and the applicable federal rate for charitable gifts. These assumptions are significant to the fair value measurement.

The following table summarizes changes in the Level 3 assets measured at fair value on a recurring basis:

Balance at October 1, 2016	\$	5,596,471
Change in value		(25,512)
Payments, sales, transfers, and maturities		<u>(356,559)</u>
Balance at September 30, 2017		5,214,400
Change in value		58,776
Payments, sales, transfers, and maturities		<u>(371,476)</u>
Balance at September 30, 2018	\$	<u>4,901,700</u>

Investment earnings are reported net of investment fees at September 30, 2018 and 2017 of \$258,202 and \$247,222, respectively.

Note E - Endowment Funds

The Society's endowment consists of individual funds established for a variety of purposes and are donor-restricted. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Governing Council of the Society has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. As a result of this interpretation, the Society retains in perpetuity (a) the original value of initial and subsequent gift amounts (including promises to give net of discount and allowance for doubtful accounts donated to the endowment), and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by us in a manner consistent with the standard of prudence prescribed by UPMIFA.

The Wilderness Society

Notes to Consolidated Financial Statements (Continued)

Note E - Endowment Funds (Continued)

Interpretation of Relevant Law (continued)

The Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Society and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Society
- The investment policies of the Society

As of September 30 2018, and 2017, the Society had the following endowment net asset composition by type of fund:

With Donor Restriction	2018	2017
Donor-restricted endowment funds		
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ 10,914,676	\$ 10,897,576
Planned giving assets (net), and donated insurance	1,483,740	1,445,579
Beneficial interest in assets held by third parties	1,567,969	1,538,680
Accumulated investment gains	<u>6,672,142</u>	<u>8,202,246</u>
	<u>\$ 20,638,527</u>	<u>\$ 22,084,081</u>

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Society has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At September 30, 2018, funds with original gift values of \$10,914,676 had a fair value of \$17,568,818. At September 30, 2017, funds with original gift values of \$10,166,183 had a fair value of \$18,368,429. There were no deficiencies in donor-restricted endowment funds as of September 30, 2018 and 2017, and thus, no action taken by the Society during 2018 or 2017 concerning appropriation from underwater endowment funds.

The Wilderness Society

Notes to Consolidated Financial Statements (Continued)

Note E - Endowment Funds (Continued)

Investment and Spending Policies

The Society has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets consist of those assets of donor-restricted funds that the Society must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Governing Council, the endowment's assets are invested in a manner that is intended to produce results that exceed the price and yield results of a benchmark including 75% S&P 500 index and 25% Barclays Capital Aggregate Bond Index. The Society expects its endowment funds, over time, to provide an average rate of return of approximately 6 percent annually. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Society relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Society targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

The Society has a policy of appropriating for distribution each year 5 percent of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end proceeding the fiscal year in which the distribution is planned, including those endowments deemed to be underwater, each year. In establishing this policy, the Society considered the long-term expected return on its endowment. Accordingly, over the long term, the Society expects the current spending policy to allow its endowment to grow at an average sufficient to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. During 2018 and 2017, the spending rate maximum was 5 percent.

Changes in endowment net assets for the years ended September 30, 2018 and 2017 are as follows:

<u>With Donor Restrictions</u>	<u>2018</u>	<u>2017</u>
Endowment net assets, beginning of year	\$ 22,084,081	\$ 21,230,423
Appropriation of endowment assets pursuant to spending-rate policy	(913,902)	(874,235)
Investment return, net	(549,548)	1,573,719
Transfers and adjustments	-	136,174
Contributions	<u>17,896</u>	<u>18,000</u>
Endowment net assets, end of year	<u>\$ 20,638,527</u>	<u>\$ 22,084,081</u>

The Wilderness Society

Notes to Consolidated Financial Statements (Continued)

Note F - Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods.

	2018	2017
Subject to expenditure for specified purpose:		
Conservation and education programs	\$ 15,245,712	\$ 10,325,344
Campaign	1,105,000	1,728,334
	16,350,712	12,053,678
Subject to the passage of time:		
Beneficial interests in assets held by others	3,923,320	5,410,352
	3,923,320	5,410,352
Subject to NFP endowment spending policy and appropriation:		
Conservation and education programs	10,914,676	10,897,576
Beneficial interests in assets held by others	532,000	519,000
Planned giving agreements	1,483,740	1,445,579
	12,930,416	12,862,155
Subject to appropriation and expenditure when a specified event occurs:		
Accumulated earnings (net) from endowments available for conservation and education programs	6,672,142	8,202,246
Not subject to spending policy or appropriations:		
Beneficial interests in perpetual trusts	1,035,969	1,019,680
Total net assets with donor restrictions	\$ 40,912,559	\$ 39,548,111

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended September 30, 2018 and 2017:

	2018	2017
<i>Purpose restriction</i>	\$ 14,072,836	\$ 10,375,907
<i>Time restriction:</i>		
Split interest agreements	134,491	74,767
Multi-year pledge payments	3,341,128	4,178,232
Net assets released from restriction	\$ 17,548,455	\$ 14,628,906

The Wilderness Society

Notes to Consolidated Financial Statements (Continued)

Note G - Accounts and Contributions Receivable

Accounts and contributions receivable, including long-term receivables, included the following at September 30:

	2018	2017
Contributions receivable:		
Due in one to five years	\$ 5,925,316	\$ 919,789
Less: Allowance for uncollectible pledges	(384,746)	(144,798)
Less: Discount on long-term portion	(469,527)	(105,513)
	5,071,043	669,478
Due in less than one year	5,466,109	3,741,809
	10,537,152	4,411,287
Beneficial interest in assets held by others due in less than one year	355,300	356,600
Accounts receivable	189,900	(13,109)
	\$ 11,082,352	\$ 4,754,778

Note H - Fixed Assets

Furniture, equipment, and leasehold improvements consist of the following at September 30:

	2018	2017
Furniture and equipment	\$ 1,322,960	\$ 1,302,611
Computer equipment and related assets	3,982,620	3,610,578
Leasehold improvements	2,290,424	2,286,585
	7,596,004	7,199,774
Accumulated depreciation and amortization	(6,819,196)	(6,763,518)
	\$ 776,808	\$ 436,256

Note I - Obligations Under Facility and Other Leases

The Society has entered into various operating lease agreements for office space at both its headquarters and its field offices, as well as operating leases for various office equipment. Rent expense, rent abatements, and other concessions are recognized on a straight-line basis over the term of the lease, with the difference between the straight-line rent and the actual rent payments being recorded as deferred rent in the accompanying consolidated statements of financial position. Occupancy expense under operating leases was \$3,041,631 and \$2,940,809 in 2018 and 2017, respectively.

The Wilderness Society

Notes to Consolidated Financial Statements (Continued)

Note I - Obligations Under Facility and Other Operating Leases (Continued)

The Society's future minimum payments for occupancy and equipment under noncancelable operating leases as of September 30, 2018 are:

	<u>Facility</u>	<u>Equipment</u>	<u>Total</u>
2019	\$ 2,877,091	\$ 50,633	\$ 2,927,724
2020	2,856,102	38,708	2,894,810
2021	2,718,041	33,477	2,751,518
2022	2,659,397	2,060	2,661,457
2023	1,745,633	-	1,745,633
Total	<u>\$ 12,856,264</u>	<u>\$ 124,878</u>	<u>\$ 12,981,142</u>

As required by the terms of its lease for its headquarters, the Society maintains a letter-of-credit agreement for \$200,000 with a local financial institution for the benefit of the landlord.

Note J - Rental Income

The Society is the lessor of a portion of its building space to various organizations under operating leases expiring at various times through 2022. Future minimum rental income to be received under these noncancelable leases for the years ended September 30 are as follows:

2019	\$ 376,599
2020	199,322
2021	104,183
2022	<u>59,849</u>
Total	<u>\$ 739,953</u>

Note K - Allocation of joint costs of direct mailings

The Society produces mailings that includes programmatic and administrative information, together, with a request for contributions in support of the Society's mission. The costs of producing these mailings is not directly attributable to any single function. In 2018 and 2017, the Society incurred joint costs of \$4,818,338 and \$4,185,361, respectively, for informational materials and activities that included fundraising appeals. Of those costs, \$2,293,557 and \$1,764,332, respectively, were allocated to program expenses, \$1,386,101 and \$1,619,708, respectively, were allocated to management and general, and \$1,138,680 and \$801,321, respectively, remained in fundraising.

Note L - Retirement Plan

The Society has a noncontributory defined contribution pension plan covering all eligible permanent employees. The Society makes quarterly contributions of 6% of the eligible compensation paid to plan participants. For the years ended September 30, 2018 and 2017, the Society contributed \$660,243 and \$686,542, respectively, to the plan.

The Wilderness Society

Notes to Consolidated Financial Statements (Continued)

Note M - Related Party Transactions

The consolidated statements of financial position include \$4,717,536 and \$3,333,334 in outstanding contributions receivable as of September 30, 2018 and 2017, respectively, from members of the Society's Governing Council. The Society recognized \$9,135,066 and \$6,105,964 in contribution revenue from these members for the years ended September 30, 2018 and 2017, respectively.

Note N - Self-Insured Health Plan

The Society provides self-insured health benefits for its eligible employees. Under the Program, the Society pays the administrative fees and benefit claims of its employees up to \$70,000 effective January 1, 2016. Individual claims in excess of these limits are insured by a third-party insurance carrier.

The Society recorded claims payable and incurred but not reported of \$184,186 and \$184,086 as of September 30, 2018 and 2017, respectively, which is included in accounts payable and accrued expenses in the accompanying consolidated statements of financial position. Additionally, the claims paid under this Program were \$1,623,812 and \$1,577,601 for the years ended September 30, 2018 and 2017.

It is inherently difficult to estimate the liability for claims payable and incurred but not reported as of the consolidated statement of financial position date due to the unknown nature of the claims and the potentially lengthy settlement process. This significant estimate is based on management's best estimate and judgment, and may be adjusted as more current information becomes available. Resulting adjustments could be material.