

**NATURESERVE
FINANCIAL STATEMENTS
JUNE 30, 2019**

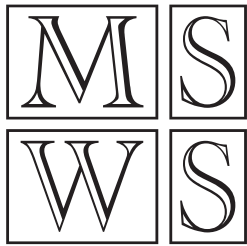


MULLEN SONDBERG WIMBISH & STONE, PA

CERTIFIED PUBLIC ACCOUNTANTS

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MULLEN & SONDBERG
WIMBISH & STONE, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

2553 Housley Road • Suite 200 • Annapolis, Maryland 21401

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
NatureServe
Arlington, Virginia

We have audited the accompanying financial statements of NatureServe (a nonprofit Organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Board of Directors of
NatureServe

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NatureServe as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2019, which is bound separately, on our consideration of NatureServe's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of NatureServe's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NatureServe's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited NatureServe's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 26, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.



MULLEN, SONDBERG, WIMBISH & STONE, P.A.

Annapolis, Maryland
October 16, 2019

NatureServe
STATEMENT OF FINANCIAL POSITION
June 30, 2019

ASSETS

	2019	2018
CURRENT ASSETS		
Cash and cash equivalents	\$ 868,648	\$ 1,515,861
Investments, current (Note 3)	820,535	899,547
Accounts receivable, net of allowance (Note 4)	1,263,269	976,488
Prepaid expenses	117,719	35,222
Total current assets	3,070,171	3,427,118
PROPERTY AND EQUIPMENT		
Net of accumulated depreciation (Note 5)	140,463	200,525
INVESTMENTS (Note 3)		
	5,970,365	5,865,018
DEPOSITS		
	89,585	40,179
Total assets	\$ 9,270,584	\$ 9,532,840

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 557,374	\$ 222,144
Accrued salaries and related liabilities	323,307	444,958
Refundable advances	1,662,948	1,604,452
Capital lease obligations (Note 9)	-	2,752
Deferred rent	288,494	48,198
Total current liabilities	2,832,123	2,322,504
LONG-TERM LIABILITIES		
Deposits	19,167	-
Deferred rent	494,721	184,181
Total long-term liabilities	513,888	184,181
Total liabilities	3,346,011	2,506,685
NET ASSETS (DEFICIT)		
Without donor restrictions (Note 12)	(347,693)	855,345
With donor restrictions (Notes 13 & 14)	6,272,266	6,170,810
Total net assets	5,924,573	7,026,155
Total liabilities and net assets	\$ 9,270,584	\$ 9,532,840

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

NatureServe
STATEMENT OF ACTIVITIES
Year Ended June 30, 2019
With Summarized Financial Information for the Year Ended June 30, 2018

	Without Donor	With Donor	Total	
	Restrictions	Restrictions	2019	2018
REVENUES, GAINS AND OTHER SUPPORT				
Grants and contracts	\$ 5,348,624	\$ -	\$ 5,348,624	\$ 5,934,916
Software support and services	1,496,910	-	1,496,910	1,276,011
In-kind contributions	1,003,389	-	1,003,389	122,050
Contributions	485,705	621	486,326	292,281
Data requests, products and services	140,240	-	140,240	105,264
Rental income	82,283	-	82,283	30,950
Membership dues	59,850	-	59,850	60,850
Registration fees	41,426	-	41,426	63,820
Other income	6,810	-	6,810	1,457
Conference sponsorship	4,351	-	4,351	11,325
Royalties and license fees	87	-	87	189
Investment income, gains and losses				
Investment income, net	21,619	190,984	212,603	191,777
Unrealized gains/(losses)	(4,478)	135,050	130,572	(7,959)
Realized gains	18,503	80,593	99,096	229,254
	8,705,319	407,248	9,112,567	8,312,185
Net assets released from restriction	305,792	(305,792)	-	-
Total revenues, gains and other support	9,011,111	101,456	9,112,567	8,312,185
EXPENSES				
Program activities	7,576,482	-	7,576,482	6,916,696
General and administrative	1,749,604	-	1,749,604	1,477,884
Fundraising	244,222	-	244,222	241,589
Total expenses	9,570,308	-	9,570,308	8,636,169
Change in net assets before other changes	(559,197)	101,456	(457,741)	(323,984)
OTHER CHANGES				
Loss on sublease	(643,841)	-	(643,841)	-
Change in net assets	(1,203,038)	101,456	(1,101,582)	(323,984)
NET ASSETS AT BEGINNING OF YEAR	855,345	6,170,810	7,026,155	7,350,139
NET ASSETS (DEFICIT) AT END OF YEAR	\$ (347,693)	\$ 6,272,266	\$ 5,924,573	\$ 7,026,155

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

NatureServe
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2019
With Summarized Financial Information for the Year Ended June 30, 2018

	Program Activities	General and Administrative	Fundraising	Total	
				2019	2018
Salaries and benefits	\$ 4,655,526	\$ 929,394	\$ 185,232	\$ 5,770,152	\$ 5,718,288
In-kind expenses	1,003,389	-	-	1,003,389	122,050
Internet, computer, and data	531,514	117,167	1,812	650,493	679,096
Subagreements	536,410	-	-	536,410	501,532
Rent	373,991	132,695	18,986	525,672	573,343
Professional fees	156,279	264,835	-	421,114	343,420
Travel	145,187	19,092	6,716	170,995	201,811
Depreciation and amortization	57,068	53,029	-	110,097	203,486
Rent - sublease	-	56,133	-	56,133	-
Telephone	33,762	11,410	1,218	46,390	46,965
Meetings and conferences	28,196	12,691	284	41,171	54,457
Printing	5,918	30,391	-	36,309	19,396
Miscellaneous	16,384	15,805	1,418	33,607	8,498
Insurance	-	32,612	-	32,612	33,285
Equipment, rental, repairs & maintenance	9,518	21,081	187	30,786	30,832
Advertising - recruiting	175	2,294	25,522	27,991	5,900
Office expense	8,859	17,421	106	26,386	20,143
Dues and subscriptions	10,175	6,013	156	16,344	27,841
Payroll fees	-	13,058	-	13,058	16,086
Taxes, licenses and permits	-	6,791	-	6,791	8,018
Postage and delivery	1,661	2,587	1,690	5,938	10,215
Bank fees	2,470	2,475	895	5,840	7,679
Interest expense	-	1,635	-	1,635	593
Bad debts	-	995	-	995	3,235
Total expenses	\$ 7,576,482	\$ 1,749,604	\$ 244,222	\$ 9,570,308	\$ 8,636,169

Included in salaries and benefits for the year ended June 30, 2019 is a one-time severance payment to several former employees in the amount of \$83,493.

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

NatureServe
STATEMENT OF CASH FLOWS
Year Ended June 30, 2019

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (1,101,582)	\$ (323,984)
Adjustments to reconcile change in net assets to net cash provided/(used) by operating activities:		
Depreciation and amortization	110,097	203,486
Realized gain on investments	(99,096)	(229,254)
Unrealized (gain)/loss on investments	(130,572)	7,959
(Increase) decrease in operating assets:		
Accounts receivable	(286,781)	149,255
Prepaid expenses	(82,497)	26,492
Deposits	(49,406)	11,329
(Increase) decrease in operating liabilities:		
Accounts payable and accrued expenses	335,230	(49,272)
Accrued salaries and related liabilities	(121,651)	(31,559)
Refundable advances	58,496	350,819
Deposits	19,167	(2,056)
Deferred rent	550,836	(34,632)
Net cash provided/(used) by operating activities	(797,759)	78,583
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments, including reinvestment of dividends	(229,641)	(216,909)
Proceeds from sale of investments	433,027	710,094
Purchase of property and equipment	(50,088)	(65,424)
Net cash provided by investing activities	153,298	427,761
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on capital lease obligations	(2,752)	(41,043)
Net change in cash and cash equivalents	(647,213)	465,301
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,515,861	1,050,560
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 868,648	\$ 1,515,861
 SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the year for interest	\$ 1,635	\$ 593

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

NatureServe
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 1 - The Organization and Summary of Significant Accounting Policies

Nature and Organization

NatureServe (the Organization) was incorporated in Washington, D.C. in 1994 as a nonprofit Organization. NatureServe's mission is to work in partnership with the Network of Natural Heritage Programs and Conservation Data Centers to manage and distribute authoritative information critical to the conservation of the world's biological diversity.

Basis of Accounting

The financial statements are presented on the accrual basis of accounting, consequently revenue is recorded when earned and expenses are recorded when incurred.

Basis of Presentation

The financial statements include certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

Classification of Net Assets

The financial statements of the Organization have been prepared in accordance with U.S. Generally Accepted Accounting Principles, which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the Board of Directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

NatureServe
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2019

Note 1 - The Organization and Summary of Significant Accounting Policies (Cont.)

Measure of Operations

The statements of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Organization's ongoing program services. Nonoperating activities are limited to resources from other activities considered to be of a more unusual or nonrecurring nature.

Cash and Cash Equivalents

The Organization considers all cash and other highly liquid investments such as investment portfolio with initial maturities of six months or less, except those included in the endowment fund, to be cash equivalents. At various times during the fiscal years ended June 30, 2019 and 2018, the Organization maintained cash balances in excess of the federally insured limit. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. As of June 30, 2019 and 2018, amounts held in excess of FDIC insurance coverage were approximately \$488,000 and \$1,556,000.

Accounts Receivable

Accounts receivable consists of grants receivable amounts due from federal, state and local government and other agencies and fees charged for data conservation services provided to our network of natural heritage agencies, and pledges receivable from private individuals or foundations. The allowance for doubtful accounts is determined by management based on their periodic review of individual account balances. As of June 30, 2019 and 2018 the balances in the allowance for doubtful accounts was \$7,220 and \$7,225, respectively.

Investments

Investments in marketable securities are stated at fair market value. The net realized and unrealized appreciation (depreciation) in fair value of investments is reflected in the statement of activities. Investments consist of mutual funds, equities, fixed income, and cash and money market funds held by a broker.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Assets purchased under federal agreements and costing \$5,000 or more and having a useful life of more than one year are capitalized. Assets purchased in the course of operations and costing \$2,000 or more and having a useful life of more than one year are capitalized. Donations of property and equipment are recorded as support at their estimated fair values. Costs incurred in connection with developing or obtaining internal-use software are capitalized. Depreciation is provided over the estimated useful lives of the assets using the straight-line method.

NatureServe
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2019

Note 1 - The Organization and Summary of Significant Accounting Policies (Cont.)

Income Tax Status

NatureServe qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is classified as other than a private foundation. Such organizations are taxed only on unrelated business income. The Organization has no unrelated business income and, therefore, no tax provision has been established.

Income Taxes

The Organization follows the guidance of *ASC 740-10, "Accounting for Uncertainty in Income Taxes"* which clarifies the accounting for the recognition and measurement of the benefits of individual tax positions in the financial statements, including those of non-profit organizations.

Tax positions must meet a recognition threshold of more-likely-than-not in order for the benefit of those tax positions to be recognized in the Organization's financial statements.

The Organization analyzes tax positions taken, including those related to the requirements set forth in IRC Sec. 501(c) to qualify as a tax-exempt organization, activities performed by volunteers and Board members, the reporting of unrelated business income, and its status as a tax-exempt organization under District of Columbia statute. The Organization does not know of any tax benefits arising from uncertain tax positions and there was no effect on the Organization's financial position or changes in net assets as a result of analyzing its tax positions. Fiscal years ending on or after June 30, 2016 remain subject to examination by federal and state authorities.

Revenue Recognition

Contributions received are recorded as net assets with or without donor restrictions, depending on the existence and/or nature of any donor-imposed 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, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Grants, cooperative agreements and contracts that are awarded to the Organization are accounted for as exchange transactions, and accordingly, revenue is recognized when the qualifying expenditures are incurred. Any funds received in advance of incurring qualifying expenditures are recorded as refundable advances.

NatureServe
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2019

Note 1 - The Organization and Summary of Significant Accounting Policies (Cont.)

Revenue Recognition (Cont.)

Revenue from cloud-based service arrangements that allow for the use of a hosted software product or service over a contractually determined period of time without taking possession of software are accounted for as subscriptions with billings recorded as unearned revenue and recognized as revenue ratably over the coverage period beginning on the date the service is made available to customers. Revenue from service arrangements that are provided on a consumption basis is recognized commensurate with the customer utilization of such resources.

Functional Expenses

Accounting principles generally accepted in the United States of America require all nonprofit organizations to present their expenses on a functional basis, separating program activities from general and administrative and fundraising expenses. Functional expenses are either charged directly to program activities as incurred or allocated based on usage for items such as occupancy, depreciation, and administrative salaries. The expenses that have been allocated include salaries and related expenses, depreciation and amortization, occupancy, maintenance, and office expenses, which are allocated based on estimates of time and effort.

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 the reported amounts of assets and liabilities and disclosure of contingencies at the statement of financial position date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Donated Materials

Donated materials are reflected in the accompanying financial statements at their estimated fair value at the date of receipt.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

NatureServe
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2019

Note 1 - Summary of Significant Accounting Policies (Cont.)

New Accounting Pronouncement

On August 18, 2016, FASB issued *ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The *ASU* is effective for fiscal years beginning after December 15, 2017, and accordingly, the Organization has adjusted the presentation of these financial statements. *ASU 2016-14* has been applied retrospectively to all periods presented.

As a result of the implementation of *ASU 2016-14*, net assets have been reclassified in the accompanying financial statements as follows as of the beginning of the year ending June 30, 2018:

Net Asset Classification	Prior to the Adoption of ASU 2016-14	After Adoption of ASU 2016-14
Unrestricted	\$ 855,345	\$ -
Temporarily restricted	209,452	-
Permanently restricted	5,961,358	-
Net assets without donor restrictions	-	855,345
Net assets with donor restrictions	-	6,170,810
	\$ 7,026,155	\$ 7,026,155

Note 2 - Availability and Liquidity

As part of the Organization’s liquidity management it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Long-term investments include endowment funds consisting of donor-restricted endowments. Income from donor-restricted endowments is restricted until appropriated in accordance with the Virginia version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, therefore, is not available for general expenditure until appropriated. As described in Note 14, the endowment has a spending rate of 5%. Accordingly, approximately \$301,280 of appropriations from the endowment will be available within the next 12 months.

The Organization expects that accounts receivables from program service fee revenue will be collected and available within 60 days of the fiscal year end.

NatureServe
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2019

Note 2 - Availability and Liquidity (Cont.)

Short-term contributions receivable consists of grants, bequests, and pledges receivable expected to be received within one year from June 30, 2019. Short-term grants, bequests and pledges receivable without donor restrictions will be available to support general operations of the Organization.

In addition, as discussed in Note 8, the Organization has a line of credit with a maximum borrowing potential of \$1,000,000 to use at its discretion.

As discussed in Note 12, the board of directors has designated \$213,311 for the Innovation Fund. These funds could be made available for general operations through board resolution, if the need arises.

The following is a quantitative disclosure which describes assets that are available within one year of June 30, 2019 to fund general expenditures and other obligations when they become due:

Financial assets at year end:

Cash and cash equivalents	\$ 868,648
Investments	6,790,900
Accounts receivable	1,263,269
Total financial assets	8,922,817

Less amounts unavailable for general expenditure within one year:

Endowment investments, net of estimated appropriations	(5,970,365)
Board designated net assets	(213,311)
Net amounts not available to be used within one year	(6,183,676)

Financial assets available to meet general expenditures
over the next twelve months

\$2,739,141

Note 3 - Investments / Fair Value Measurements

The cost and fair market values of investments are as follows at June 30:

	2019		2018	
	Cost	Market	Cost	Market
Public equity funds	\$ 2,729,393	\$ 3,430,016	\$ 2,697,680	\$ 3,356,420
Fixed income funds	2,920,510	2,929,368	3,151,711	3,074,900
Mixed allocation mutual funds	257,025	249,961	308,356	297,391
Money market funds	181,555	181,555	35,854	35,854
	\$ 6,088,483	\$ 6,790,900	\$ 6,193,601	\$ 6,764,565

NatureServe
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2019

Note 3 - Investments / Fair Value Measurements (Cont.)

ASC 820-10 Fair Value Measurements establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under FASB ASC820 are as described as follows:

Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.

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 inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs that are unobservable and supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Investments whose values are based on quoted market prices in active markets, and are, therefore classified with Level 1, include public equity funds, fixed income funds, mixed allocation mutual funds, and money market funds.

There have been no changes in investment valuation techniques or inputs.

NatureServe
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2019

Note 3 - Investments / Fair Value Measurements (Cont.)

The table below presents the balances of investments measured at fair value on a recurring basis by level within the hierarchy as of the year ended:

<u>June 30, 2019</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Public equity funds	\$ 3,430,016	\$ -	\$ -	\$ 3,430,016
Fixed income funds	2,929,368	-	-	2,929,368
Mixed allocation mutual funds	249,961	-	-	249,961
Money market funds	181,555	-	-	181,555
Total	<u>\$ 6,790,900</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,790,900</u>
<u>June 30, 2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Public equity funds	\$ 3,356,420	\$ -	\$ -	\$ 3,356,420
Fixed income funds	3,074,900	-	-	3,074,900
Mixed allocation mutual funds	297,391	-	-	297,391
Money market funds	35,854	-	-	35,854
Total	<u>\$ 6,764,565</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,764,565</u>

Note 4 - Accounts Receivable

Accounts receivable consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
Grants and contracts - billed	\$ 720,208	\$ 444,535
Grants and contracts - unbilled, net of contract reserve	539,419	495,313
Contributions receivable	10,862	31,365
Miscellaneous	-	12,500
Allowance for doubtful accounts	<u>(7,220)</u>	<u>(7,225)</u>
	<u>\$ 1,263,269</u>	<u>\$ 976,488</u>

NatureServe
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2019

Note 5 - Property and Equipment

Property and equipment consisted of the following at June 30:

	Estimated Lives	2019	2018
Software	3 - 5 years	\$ 946,486	\$ 944,444
Equipment	3 - 7 years	595,289	582,690
Furniture and fixtures	7 years	52,068	21,900
Leasehold improvements	10 years	50,319	45,091
		1,644,162	1,594,125
Less accumulated depreciation		(1,503,699)	(1,393,600)
Net property and equipment		\$ 140,463	\$ 200,525

Depreciation and amortization expense for the years ended June 30, 2019 and 2018 was \$110,097 and \$203,486, respectively.

Note 6 - Defined Contribution Retirement Plan

The Organization has established a safe harbor 401(k) retirement plan. All full-time employees with at least three months of service are eligible to participate in the Plan. The Organization matches up to six percent of the participant's eligible compensation. During the years ended June 30, 2019 and 2018, the Organization contributed \$225,572 and \$241,338, respectively to the Plan.

Note 7 - Compensated Absences

As of June 30, 2019 and 2018, the Organization accrued \$198,724 and \$225,467, respectively, in compensated absences. Employees accrue leave based on years of service. Leave may be accumulated up to a maximum of one hundred forty hours after which any remaining days will be forfeited. Sick leave is not payable upon termination of employment. Therefore, no provision for unused sick leave has been made.

Note 8 - Line of Credit

The Organization has a line of credit, secured by all of the Organization's inventory and equipment, with a bank with a maximum borrowing potential of \$1,000,000. The line bears interest at the bank's prime lending rate and expires in March 2020. There were no amounts outstanding as of June 30, 2019 and 2018.

The Organization must maintain a minimum tangible net worth of not less than \$5,000,000, which shall be evaluated at the end of each fiscal year.

NatureServe
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2019

Note 9 - Capital Leases Obligation

In August 2013, the Organization leased office equipment which is accounted for as a capital lease. The lease dictates 60 monthly payments of \$2,768 beginning on September 20, 2013. The capital lease obligation is discounted at a 2.89% interest rate and has a capitalized cost of \$154,487. The remaining book value of the office equipment at June 30, 2019 and 2018 is \$-0- and \$5,150, respectively. Amortization of the office equipment is included in depreciation and amortization expense. The lease ended in August 2018.

Note 10 - Operating Leases

The Organization is obligated under a lease agreement for premises in Arlington, Virginia. The lease was signed during 2011 and terminates on December 31, 2021. In November 2018, the Organization entered into a sublease agreement for this space that expires on December 31, 2021. Monthly rent payments to be received are \$19,167 and increase by 4% each lease year.

In May 2019, the Organization entered into a lease agreement for a new premise in Arlington, Virginia. The lease is for 135 months and terminates in July 2030. The relocation allowed the Organization to realize short term cash flow benefits and optimize long term stability while mitigating risks related to the local commercial real estate market.

The sublease resulted in accruing a current year loss of \$643,841 which will be amortized over the remaining life of the sublease. The negative cash flow related to the loss on the sublease agreement will be partially offset by rent abatement under the new lease.

Total future minimum lease payments to be received under the sublease agreement are as follows:

<u>Year Ending June 30:</u>	
2020	\$ 232,301
2021	241,592
2022	<u>124,384</u>
	<u>\$ 598,277</u>

The Organization is also obligated under long term leases for office space in Boulder, Colorado and Durham, North Carolina which expire in September 2022 and April 2020, respectively.

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NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2019

Note 10 - Operating Leases (Cont.)

Rent expense is recognized on the straight line basis and amounts to \$581,805 and \$573,343 for the years ended June 30, 2019 and 2018, respectively. The Organization has recorded a liability for deferred rent amounting to \$783,215 and \$232,379 at June 30, 2019 and 2018, respectively which represents the differences between actual rent paid and rent recorded on the straight-line basis, as well as the liability recorded for losses on subleases.

The following is a schedule of future minimum lease payments due on operating leases:

<u>Year Ending June 30:</u>	
2020	\$ 645,427
2021	788,165
2022	598,733
2023	332,527
2024	328,577
Thereafter	<u>2,183,745</u>
	<u>\$ 4,877,174</u>

Note 11 - Contingency

The Organization receives grants from various agencies of the United States Government. Such grants are subject to audit under the provisions of OMB Uniform Guidance. The ultimate determination of amounts received under the United States Government grants is based upon the allowance of costs reported to and accepted by the United States Government as a result of the audits. Audits in accordance with the provisions of OMB Uniform Guidance have been completed for all required fiscal years through 2019. Until such audits have been accepted by the United States Government, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

Note 12 - Net Assets Without Donor Restrictions

Net assets without donor restrictions at June 30, 2019 and 2018 consisted of the following:

	2019	2018
Undesignated	\$ (561,004)	\$ 168,103
Board designated for:		
Innovation Fund	213,311	675,242
Employee Training and Travel Costs	-	12,000
Total net assets without donor restrictions	\$ (347,693)	\$ 855,345

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NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2019

Note 13 - Net Assets With Donor Restrictions

Net assets with donor restrictions at June 30, 2019 and 2018 consisted of the following:

	2019	2018
Endowment investments - held to perpetuity	\$ 5,961,979	\$ 5,961,358
Endowment investments - subject to appropriation	310,287	209,452
Total net assets with donor restrictions	\$ 6,272,266	\$ 6,170,810

Note 14 - Endowment Funds

The Organization has established an endowment fund. Management follows the Uniform Prudent Management of Institutional Funds Act (UPMIFA) of Virginia. As a result, the Organization classifies as net assets with donor restrictions held to perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as net assets with donor restrictions held to perpetuity is classified as net assets with donor restrictions that are temporary in nature until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

Investment Return Objectives, Risk Parameters and Strategies: The Organization has adopted investment and spending policies, approved by the Board of Trustees, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Endowment assets shall be invested with a long-term investment horizon with an emphasis on growth and with a higher tolerance for limited liquidity. The objectives of the fund are to maximize the returns without exposure to undue risk.

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NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2019

Note 14 - Endowment Funds (Cont.)

Spending Policy: The payout rate from the Organization's endowment should provide a stable, predictable level of spending for the endowed purposes, and should achieve a proper balance between present and future needs. The amount available for payout each fiscal year will be up to a maximum of 5% of the average of the market value of the endowment on December 31st of the current fiscal year, and the end of each quarter of the three years immediately preceding that date. The amount available for payout each fiscal year shall not exceed the actual value of any income, dividend, interest and capital appreciation, both realized and unrealized, in excess of the administrative fee. In the event that the endowment sustains unrealized losses resulting from a drop in market value, the Organization may continue to pay out income from dividends, interest and realized gains earned each quarter. A decision to pay out additional funds beyond dividends and interest up to 5% in periods of market decline may be made by the Board of Directors, as long as they feel it is prudent, in the long-term interest of the Organization, and the rationale for the Board of Director's decision is properly documented.

Endowment net assets consist of the following for the years ended June 30:

	2019			
	Without Donor Restrictions	With Donor Restrictions - Subject to Appropriation	With Donor Restrictions - Held to Perpetuity	Total
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 310,287</u>	<u>\$ 5,961,979</u>	<u>\$ 6,272,266</u>
	2018			
	Without Donor Restrictions	With Donor Restrictions - Subject to Appropriation	With Donor Restrictions - Held to Perpetuity	Total
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 209,452</u>	<u>\$ 5,961,358</u>	<u>\$ 6,170,810</u>

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NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2019

Note 14 - Endowment Funds (Cont.)

Changes in endowment net assets are as follows for the years ended June 30:

	2019			Total
	Without Donor Restrictions	With Donor Restrictions - Subject to Appropriation	With Donor Restrictions - Held to Perpetuity	
Endowment net assets, beginning of the year	\$ -	\$ 209,452	\$ 5,961,358	\$ 6,170,810
Contributions	-	-	621	621
Investment income, net	-	190,984	-	190,984
Net appreciation	-	135,050	-	135,050
Realized gains	-	80,593	-	80,593
Amounts appropriated for expenditure	-	(305,792)	-	(305,792)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 310,287</u>	<u>\$ 5,961,979</u>	<u>\$ 6,272,266</u>
	2018			
	Without Donor Restrictions	With Donor Restrictions - Subject to Appropriation	With Donor Restrictions - Held to Perpetuity	Total
Endowment net assets, beginning of the year	\$ -	\$ 1,075,447	\$ 5,961,008	\$ 7,036,455
Contributions	-	-	350	350
Investment income, net	-	169,943	-	169,943
Net appreciation	-	42,330	-	42,330
Realized gains	-	155,296	-	155,296
Restrictions released due to time restriction met	-	(805,725)	-	(805,725)
Amounts appropriated for expenditure	-	(427,839)	-	(427,839)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 209,452</u>	<u>\$ 5,961,358</u>	<u>\$ 6,170,810</u>

Note 15 - Subsequent Events

The Organization has evaluated the impact of significant subsequent events. There have been no subsequent events through October 16, 2019, the date the financial statements were available to be issued, that require recognition or disclosure.