

**NATURESERVE**  
**FINANCIAL STATEMENTS**  
**AND ADDITIONAL INFORMATION**  
**JUNE 30, 2017**



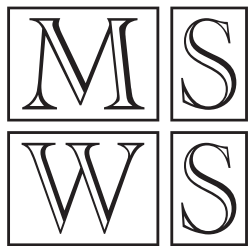
**MULLEN SONDBERG WIMBISH & STONE, PA**  

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**CERTIFIED PUBLIC ACCOUNTANTS**

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

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
NatureServe  
Arlington, Virginia

We have audited the accompanying financial statements of NatureServe (a non-profit Organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, 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, 2017, 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 Matters**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2017, 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 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 15, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, 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  
November 8, 2017

NatureServe  
STATEMENT OF FINANCIAL POSITION  
June 30, 2017

ASSETS

	2017	2016
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,050,560	\$ 334,620
Accounts receivable, net of allowance (Note 3)	1,125,743	1,326,943
Investments (Note 2)	-	542,336
Prepaid expenses	61,714	50,624
Total current assets	2,238,017	2,254,523
PROPERTY AND EQUIPMENT		
Net of accumulated depreciation (Note 4)	338,587	604,086
INVESTMENTS (Note 2)	7,036,455	6,824,613
DEPOSITS	51,508	48,812
Total assets	<u>\$ 9,664,567</u>	<u>\$ 9,732,034</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 271,416	\$ 299,273
Accrued salaries and related liabilities	476,517	680,278
Refundable advances	1,253,633	1,136,204
Deposits	2,056	2,056
Capital lease obligations (Note 8)	41,040	44,323
Deferred rent	34,632	21,430
Total current liabilities	2,079,294	2,183,564
LONG TERM LIABILITIES		
Capital leases obligations (Note 8)	2,755	43,795
Deferred rent	232,379	267,011
Total long term liabilities	235,134	310,806
Total liabilities	2,314,428	2,494,370
NET ASSETS		
Unrestricted	301,684	401,051
Unrestricted - Board designated (Note 11)	12,000	12,000
Temporarily restricted (Note 12)	1,075,447	864,105
Permanently restricted (Note 13)	5,961,008	5,960,508
Total net assets	7,350,139	7,237,664
Total liabilities and net assets	<u>\$ 9,664,567</u>	<u>\$ 9,732,034</u>

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

NatureServe  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2017  
With Summarized Financial Information for the Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017	2016
REVENUES, GAINS AND OTHER SUPPORT					
Grants and contracts	\$ 5,952,720	\$ -	\$ -	\$ 5,952,720	\$ 6,275,069
Software support and services	1,190,201	-	-	1,190,201	1,162,004
Contributions	457,563	-	500	458,063	472,444
Data requests, products and services	139,149	-	-	139,149	98,093
Registration fees	118,475	-	-	118,475	93,117
Conference sponsorship	64,662	-	-	64,662	70,174
Membership dues	61,350	-	-	61,350	60,894
Rental income	32,502	-	-	32,502	26,499
Other income	4,157	-	-	4,157	1,954
Royalties and license fees	120	-	-	120	32
Investment income, gains and losses					
Unrealized gains/(losses)	-	460,808	-	460,808	(486,415)
Investment income	2,424	163,766	-	166,190	183,336
Realized gains	3,171	19,767	-	22,938	260,435
	8,026,494	644,341	500	8,671,335	8,217,636
Net assets released from restriction	432,999	(432,999)	-	-	-
Total revenues, gains and other support	8,459,493	211,342	500	8,671,335	8,217,636
EXPENSES					
Program activities	6,802,775	-	-	6,802,775	7,042,797
General and administrative	1,469,172	-	-	1,469,172	1,907,292
Fundraising	286,913	-	-	286,913	383,760
Total expenses	8,558,860	-	-	8,558,860	9,333,849
Change in net assets	(99,367)	211,342	500	112,475	(1,116,213)
NET ASSETS AT BEGINNING OF YEAR	413,051	864,105	5,960,508	7,237,664	8,353,877
NET ASSETS AT END OF YEAR	\$ 313,684	\$ 1,075,447	\$ 5,961,008	\$ 7,350,139	\$ 7,237,664

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

NatureServe  
STATEMENT OF CASH FLOWS  
Year Ended June 30, 2017

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 112,475	\$ (1,116,213)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	275,921	308,811
Loss on disposal of assets	-	1,497
Realized gain on investments	(22,938)	(260,435)
Unrealized (gain)/loss on investments	(460,808)	486,415
Contributions restricted for long-term purposes	(500)	(1,175)
(Increase) decrease in operating assets:		
Accounts receivable	201,200	(44,801)
Prepaid expenses	(11,090)	11,695
Deposits	(2,696)	2,450
(Increase) decrease in operating liabilities:		
Accounts payable and accrued expenses	(27,857)	87,589
Accrued salaries and related liabilities	(203,761)	245,850
Refundable advances	117,429	76,024
Deferred rent	(21,430)	(8,580)
Net cash used by operating activities	<u>(44,055)</u>	<u>(210,873)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments, including reinvestment of dividends	(205,304)	(241,356)
Proceeds from sale of investments	1,019,544	646,381
Purchase of property and equipment	(10,422)	(41,490)
Net cash provided by investing activities	<u>803,818</u>	<u>363,535</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on notes payable	-	(94,446)
Principal payments on capital lease obligations	(44,323)	(43,420)
Contributions restricted for long-term purposes	500	1,175
Net cash used by financing activities	<u>(43,823)</u>	<u>(136,691)</u>
Net change in cash and cash equivalents	715,940	15,971
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>334,620</u>	<u>318,649</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 1,050,560</u></u>	<u><u>\$ 334,620</u></u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the year for interest	<u><u>\$ 10,344</u></u>	<u><u>\$ 11,215</u></u>

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

NatureServe  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017

Note 1 - Summary of Significant Accounting Policies

Nature and Organization

NatureServe was incorporated in Washington, D.C. in 1994 as a non-profit 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 in total but not by net asset class. 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, 2016, from which the summarized information was derived.

Cash and Cash Equivalents

The Organization considers all cash and other highly liquid investments, excluding those included in the endowment fund, or included in an investment portfolio with initial maturities of six months or less to be cash equivalents.

Accounts Receivable

Accounts receivable consists of amounts due from government and other funding agencies and amounts due from customers for services provided. The allowance for doubtful accounts is determined by management based on their periodic review of individual account balances. As of June 30, 2017 and 2016 the balances in the allowance for doubtful accounts was \$8,990 and \$8,512, respectively.



NatureServe  
NOTES TO FINANCIAL STATEMENTS (Cont.)  
June 30, 2017

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

Investments

Investments in marketable securities are stated at current market value. The net realized and unrealized appreciation (depreciation) in market value of investments is reflected in the statement of activities. Investments consist of mutual funds, equities, 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.

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 Organizations' financial position or changes in net assets as a result of analyzing its tax positions. Fiscal years ending on or after June 30, 2014 remain subject to examination by federal and State authorities.

NatureServe  
NOTES TO FINANCIAL STATEMENTS (Cont.)  
June 30, 2017

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

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, 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 unrestricted net assets 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 temporarily or permanently restricted net assets, depending on the nature of the restriction.

When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets 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.

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

The costs of providing various program and supporting services has been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs including salaries and rent have been allocated among the programs and supporting services benefited.

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.

Reclassifications

Certain amounts 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, 2017

Note 2 - Investments / Fair Value Measurements

Investments at June 30 are reported in the statement of financial position as follows:

	<u>2017</u>	<u>2016</u>
Investments reported as current assets	\$ -	\$ 542,336
Investments held for long-term purposes	<u>7,036,455</u>	<u>6,824,613</u>
Total investments	<u><u>\$ 7,036,455</u></u>	<u><u>\$ 7,366,949</u></u>

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

	<u>2017</u>		<u>2016</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Fixed income funds	\$ 2,770,042	\$ 2,758,202	\$ 3,238,163	\$ 3,235,795
Public equity funds	3,387,075	3,987,283	3,626,839	3,793,234
Money market funds	34,854	34,854	93,126	93,126
Mixed allocation mutual funds	<u>265,948</u>	<u>256,116</u>	<u>261,285</u>	<u>244,794</u>
	<u><u>\$ 6,457,919</u></u>	<u><u>\$ 7,036,455</u></u>	<u><u>\$ 7,219,413</u></u>	<u><u>\$ 7,366,949</u></u>

NatureServe  
NOTES TO FINANCIAL STATEMENTS (Cont.)  
June 30, 2017

Note 2 - Investments / Fair Value Measurements (Cont.)

The following schedule summarizes investment income, gains and losses for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Interest, dividends and other income, net	\$ 166,190	\$ 183,336
Net realized and unrealized gains / (losses) on investments	<u>483,746</u>	<u>(225,980)</u>
	<u>\$ 649,936</u>	<u>\$ (42,644)</u>

Interest and dividend income is reported net of related expenses of \$32,492 and \$44,262 for the years ended June 30, 2017 and 2016, respectively.

ASC 820, Fair Value Measurements and Disclosures, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The Organization measures fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Organization also prioritizes, within the measurement of fair value, the use of market-based information over entity-specific information and establishes a three-level hierarchy for fair value measurements based on the transparency of information used in the valuation of an asset or liability at the measurement date. The three levels of the fair value hierarchy are 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 other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.
- 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.

NatureServe  
NOTES TO FINANCIAL STATEMENTS (Cont.)  
June 30, 2017

Note 2 - Investments / Fair Value Measurements (Cont.)

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the Organization. The Organization considers observable data to be that market data, which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The classification of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Organization's perceived risk of that instrument.

Investments whose values are based on quoted market prices in active markets, and are, therefore classified with Level 1, include active listed mutual funds, exchange traded funds, equity securities, and money market funds.

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

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, 2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Public equity funds	\$ 3,987,283	\$ -	\$ -	\$ 3,987,283
Fixed income funds	2,758,202	-	-	2,758,202
Mixed allocation mutual funds	256,116	-	-	256,116
Money market funds	34,854	-	-	34,854
Total	<u>\$ 7,036,455</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,036,455</u>
 <u>June 30, 2016</u>	 <u>Level 1</u>	 <u>Level 2</u>	 <u>Level 3</u>	 <u>Total</u>
Public equity funds	\$ 3,793,233	\$ -	\$ -	\$ 3,793,233
Fixed income funds	3,235,795	-	-	3,235,795
Mixed allocation mutual funds	244,795	-	-	244,795
Money market funds	93,126	-	-	93,126
Total	<u>\$ 7,366,949</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,366,949</u>

NatureServe  
NOTES TO FINANCIAL STATEMENTS (Cont.)  
June 30, 2017

Note 3 - Accounts Receivable

Accounts receivable consisted of the following at June 30:

	<u>2017</u>	<u>2016</u>
Grants and contracts - billed	\$ 424,448	\$ 492,372
Grants and contracts - unbilled	661,697	723,150
Contributions receivable	23,588	82,433
Miscellaneous	25,000	37,500
Allowance for doubtful accounts	<u>(8,990)</u>	<u>(8,512)</u>
	<u><u>\$ 1,125,743</u></u>	<u><u>\$ 1,326,943</u></u>

Note 4 - Property and Equipment

Property and equipment consisted of the following at June 30:

	Estimated <u>Lives</u>	<u>2017</u>	<u>2016</u>
Leasehold improvements	10 years	\$ 49,924	\$ 44,624
Equipment	3 - 7 years	592,015	586,894
Software	3 - 5 years	919,690	919,690
Furniture and fixtures	7 years	<u>12,457</u>	<u>12,457</u>
		1,574,086	1,563,665
Less accumulated depreciation		<u>(1,235,499)</u>	<u>(959,579)</u>
Net property and equipment		<u><u>\$ 338,587</u></u>	<u><u>\$ 604,086</u></u>

Depreciation and amortization expense for the years ended June 30, 2017 and 2016 was \$275,921 and \$308,811, respectively.

Note 5 - 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, 2017 and 2016, the Organization contributed \$239,380 and \$255,595, respectively to the Plan.

NatureServe  
NOTES TO FINANCIAL STATEMENTS (Cont.)  
June 30, 2017

Note 6 - Compensated Absences and Severance Pay

As of June 30, 2017 and 2016, the Organization accrued \$232,914 and \$194,237, 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 remaining days will be forfeited. Sick leave is not payable upon termination of employment. Therefore, no provision for unused sick leave has been made.

For the years ended June 30, 2017 and June 30, 2016, the Organization accrued a liability for severance pay due to a former executive in the amount of \$-0- and \$232,502, respectively. The severance pay is included in the salaries and benefits expense on the schedule of functional expenses.

Note 7 - 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 \$500,000. The line bears interest at the bank's prime lending rate and expires in March 2018. There were no amounts outstanding as of June 30, 2017 and 2016.

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.

Note 8 - 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, 2017 and 2016 is \$36,047 and \$66,944, respectively. Amortization of the office equipment is included in depreciation expense.

NatureServe  
NOTES TO FINANCIAL STATEMENTS (Cont.)  
June 30, 2017

Note 8 - Capital Leases Obligation (Cont.)

In February 2015 the Organization leased office equipment which is accounted for as a capital lease. The lease dictates 36 monthly payments of \$1,052 beginning on March 10, 2015. The capital lease obligation is discounted at a 0% interest rate and has a capitalized cost of \$37,866. The remaining book value of the office equipment at June 30, 2017 and 2016 is \$8,415 and \$21,037, respectively. Amortization of the office equipment is included in depreciation expense.

Future minimum lease payments under the lease are as follows:

<u>Year Ending June 30:</u>	
2018	\$ 41,632
2019	<u>2,762</u>
	44,394
Less payments representing interest	<u>(599)</u>
Present value of future lease payments (including current portion of \$41,040)	<u><u>\$ 43,795</u></u>

Note 9 - Operating Leases

The Organization is obligated under a lease agreement for its premises in Arlington, Virginia. The lease was signed during 2011 and terminates on December 31, 2021. The Organization is also obligated under long term leases for office space in Boulder, Colorado and Durham, North Carolina which expire in September 2017 and April 2018, respectively. The Organization entered into a new lease agreement in June 2017 for office space in Boulder, Colorado commencing October 2017 and terminating in September 2022.

Rent expense is recognized on the straight line basis and amounts to \$578,287 and \$590,245 for the years ended June 30, 2017 and 2016, respectively. Actual cash paid for rent expense was \$599,717 and \$598,826 for the years ended June 30, 2017 and 2016, respectively. The Organization has recorded a liability for deferred rent amounting to \$267,011 and \$288,441 at June 30, 2017 and 2016, respectively which represents the future differences between actual rent paid and rent recorded on the straight-line basis.



NatureServe  
NOTES TO FINANCIAL STATEMENTS (Cont.)  
June 30, 2017

Note 9 - Operating Leases (Cont.)

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

<u>Year Ending June 30:</u>	
2018	\$ 562,746
2019	550,342
2020	565,569
2021	581,237
2022	<u>322,423</u>
	<u>\$ 2,582,317</u>

Note 10 - 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 2017. 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 11 - Board Designated Net Assets

The Board of Directors designated funds during the year ended June 30, 2014 towards future employee training and travel costs. The Organization maintained \$12,000 as of June 30, 2017 and 2016 towards this purpose.

Note 12 - Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2017 and 2016 consisted of the following.

	<u>2017</u>	<u>2016</u>
Unappropriated endowment earnings	\$ 220,622	\$ 41,849
Innovation Fund	<u>854,825</u>	<u>822,256</u>
Total temporarily restricted net assets	<u>\$ 1,075,447</u>	<u>\$ 864,105</u>

The Innovation Endowment Fund is restricted until July 1, 2017. Thereafter, the funds will be used as directed by the Board of Directors for strategic innovative investments.

NatureServe  
NOTES TO FINANCIAL STATEMENTS (Cont.)  
June 30, 2017

Note 13 - 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 permanently restricted net assets (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 in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by 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.

*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 6% of the average of the market value of the endowment on December 31<sup>st</sup> 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 6% 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.

NatureServe  
NOTES TO FINANCIAL STATEMENTS (Cont.)  
June 30, 2017

Note 13 - Endowment Funds (Cont.)

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

	2017			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 220,622	\$ 5,961,008	\$ 6,181,630
Innovation endowment funds	-	854,825	-	854,825
Total endowed net assets	<u>\$ -</u>	<u>\$ 1,075,447</u>	<u>\$ 5,961,008</u>	<u>\$ 7,036,455</u>

	2016			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 41,849	\$ 5,960,508	\$ 6,002,357
Innovation endowment funds	-	822,256	-	822,256
Total endowed net assets	<u>\$ -</u>	<u>\$ 864,105</u>	<u>\$ 5,960,508</u>	<u>\$ 6,824,613</u>

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

	2017			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of the year	\$ -	\$ 864,105	\$ 5,960,508	\$ 6,824,613
Contributions	-	-	500	500
Investment income, net	-	163,766	-	163,766
Net appreciation	-	460,808	-	460,808
Realized gains	-	19,767	-	19,767
Amounts appropriated for expenditure	-	(432,999)	-	(432,999)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 1,075,447</u>	<u>\$ 5,961,008</u>	<u>\$ 7,036,455</u>

NatureServe  
NOTES TO FINANCIAL STATEMENTS (Cont.)  
June 30, 2017

Note 13 - Endowment Funds (Cont.)

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

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of the year	\$ -	\$ 804,084	\$ 5,959,333	\$ 6,763,417
Contributions	-	-	1,175	1,175
Investment income, net	-	165,408	-	165,408
Net depreciation	-	(453,961)	-	(453,961)
Realized gains	-	241,712	-	241,712
Reclassification of unspent appropriations	-	106,862	-	106,862
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 864,105</u>	<u>\$ 5,960,508</u>	<u>\$ 6,824,613</u>

Note 14 - Subsequent Events

The Organization has evaluated the impact of significant subsequent events. There have been no subsequent events through November 8, 2017, the date the financial statements were available to be issued, that require recognition or disclosure.

## ADDITIONAL INFORMATION

NatureServe  
SCHEDULE OF FUNCTIONAL EXPENSES  
Year Ended June 30, 2017  
With Summarized Financial Information for the Year Ended June 30, 2016

	Program Activities	General and Administrative	Fundraising	Total	
				2017	2016
Salaries and benefits	\$ 4,697,305	\$ 802,893	\$ 228,943	\$ 5,729,141	\$ 6,406,596
Rent	423,964	135,879	18,444	578,287	590,245
Subagreements	554,629	-	-	554,629	506,834
Internet, computer, and data expenses	437,643	106,066	2,119	545,828	577,848
Depreciation and amortization	113,574	162,347	-	275,921	308,811
Travel	226,888	19,298	11,099	257,285	343,976
In-kind expenses	109,564	9,327	2,659	121,550	68,062
Meetings and conferences	105,333	6,998	4,726	117,057	93,597
Professional fees	25,522	87,762	-	113,284	157,368
Equipment, rental, repairs & maint.	19,554	30,608	333	50,495	63,002
Telephone	40,855	7,368	1,521	49,744	58,268
Insurance	-	32,630	-	32,630	30,796
Dues and subscriptions	9,779	8,789	6,653	25,221	15,958
Printing	18,015	802	2,843	21,660	13,151
Office expense	6,727	9,742	4,096	20,565	21,459
Payroll fees	-	18,148	-	18,148	17,546
Interest expense	-	10,344	-	10,344	11,215
Postage and delivery	6,327	1,239	1,474	9,040	10,966
Taxes, licenses and permits	-	8,894	-	8,894	9,676
Bank fees	4,739	2,953	833	8,525	9,733
Miscellaneous	2,357	1,003	1,170	4,530	9,731
Bad debts	-	3,381	-	3,381	6,175
Advertising - recruiting	-	2,701	-	2,701	2,836
Total expenses	<u>\$ 6,802,775</u>	<u>\$ 1,469,172</u>	<u>\$ 286,913</u>	<u>\$ 8,558,860</u>	<u>\$ 9,333,849</u>