

FINANCIAL STATEMENTS



FOR THE YEAR ENDED JUNE 30, 2020

NATURESERVE

CONTENTS

	PAGE NO.
INDEPENDENT AUDITOR'S REPORT	2 - 3
EXHIBIT A - Statement of Financial Position, as of June 30, 2020	4
EXHIBIT B - Statement of Activities and Change in Net Assets, for the Year Ended June 30, 2020	5
EXHIBIT C - Statement of Functional Expenses, for the Year Ended June 30, 2020	6
EXHIBIT D - Statement of Cash Flows, for the Year Ended June 30, 2020	7
NOTES TO FINANCIAL STATEMENTS	8 - 19



CPAs & ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
NatureServe
Arlington, Virginia

We have audited the accompanying financial statements of NatureServe (the Organization), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and change in net assets, 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2020, and the change 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.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2021, on our consideration of Organization'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 this 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 Organization's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Organization's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Gelman Rosenberg & Freedman".

February 17, 2021

NATURESERVE

STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2020

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 869,111
Investments	623,083
Accounts receivable, net of allowance for doubtful accounts of \$12,156	2,050,549
Prepaid expenses	<u>122,039</u>
Total current assets	<u>3,664,782</u>

PROPERTY AND EQUIPMENT, NET

162,745

NONCURRENT ASSETS

Investments, noncurrent portion	5,961,979
Deposits	<u>89,585</u>
Total noncurrent assets	<u>6,051,564</u>

TOTAL ASSETS

\$ 9,879,091

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued liabilities	\$ 377,933
Accrued salaries and related benefits	374,445
Refundable advances and deferred revenue	1,145,997
Deferred rent	293,516
Line of credit	150,000
Loan payable	<u>481,139</u>
Total current liabilities	<u>2,823,030</u>

NONCURRENT LIABILITIES

Deposits	19,167
Deferred rent, noncurrent portion	405,899
Loan payable, noncurrent portion	<u>473,561</u>
Total noncurrent liabilities	<u>898,627</u>
Total liabilities	<u>3,721,657</u>

NET ASSETS

Without donor restrictions (deficit)	(949,577)
With donor restrictions	<u>7,107,011</u>
Total net assets	<u>6,157,434</u>

TOTAL LIABILITIES AND NET ASSETS

\$ 9,879,091

NATURESERVE

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2020**

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE, GAINS AND OTHER SUPPORT			
Grants and contracts	\$ 4,148,237	\$ -	\$ 4,148,237
Contributions	389,715	1,062,890	1,452,605
In-kind contributions	1,003,392	-	1,003,392
Software support and services	1,687,838	-	1,687,838
Rental income	251,196	-	251,196
Data requests, products and services	227,758	-	227,758
Membership dues	59,350	-	59,350
Investment income, net	16,597	166,984	183,581
Unrealized gains (losses) on investments	5,580	(46,106)	(40,526)
Realized gains on sales of investments	829	124,183	125,012
Other revenue	14,297	-	14,297
Net assets released from donor restrictions	<u>473,206</u>	<u>(473,206)</u>	<u>-</u>
Total revenue, gains and other support	<u>8,277,995</u>	<u>834,745</u>	<u>9,112,740</u>
EXPENSES			
Program Activities	<u>6,719,498</u>	<u>-</u>	<u>6,719,498</u>
Supporting Services:			
General and Administrative	1,722,122	-	1,722,122
Fundraising	<u>438,259</u>	<u>-</u>	<u>438,259</u>
Total supporting services	<u>2,160,381</u>	<u>-</u>	<u>2,160,381</u>
Total expenses	<u>8,879,879</u>	<u>-</u>	<u>8,879,879</u>
Change in net assets	(601,884)	834,745	232,861
Net assets at beginning of year	<u>(347,693)</u>	<u>6,272,266</u>	<u>5,924,573</u>
NET ASSETS AT END OF YEAR	<u>\$ (949,577)</u>	<u>\$ 7,107,011</u>	<u>\$ 6,157,434</u>

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STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020

	Program Activities	Supporting Services		Total Supporting Services	Total Expenses
		General and Administrative	Fundraising		
Salaries and benefits	\$ 3,910,106	\$ 818,524	\$ 372,035	\$ 1,190,559	\$ 5,100,665
In-kind expenses	1,003,392	-	-	-	1,003,392
Professional fees	264,908	455,977	-	455,977	720,885
Subagreements	653,257	-	-	-	653,257
Rent	502,388	106,052	37,834	143,886	646,274
Internet, computer, and data expenses	189,941	142,109	-	142,109	332,050
Travel	90,194	19,350	5,969	25,319	115,513
Depreciation and amortization	25,353	52,282	-	52,282	77,635
Insurance	-	33,634	-	33,634	33,634
Payroll fees	-	33,540	-	33,540	33,540
Telephone	23,180	3,724	1,396	5,120	28,300
Office expense	12,540	6,625	249	6,874	19,414
Dues and subscriptions	8,060	5,008	4,550	9,558	17,618
Printing	15,102	1,060	215	1,275	16,377
Meetings and conferences	7,221	602	6,195	6,797	14,018
Bad debt	-	13,936	-	13,936	13,936
Equipment, rental, repairs, and maintenance	-	13,514	-	13,514	13,514
Advertising - recruiting	8,132	-	5	5	8,137
Miscellaneous	-	105	7,980	8,085	8,085
Bank fees	2,559	4,030	1,205	5,235	7,794
Taxes, licenses and permits	40	5,776	-	5,776	5,816
Interest expense	22	5,612	-	5,612	5,634
Postage and delivery	3,103	662	626	1,288	4,391
TOTAL	\$ 6,719,498	\$ 1,722,122	\$ 438,259	\$ 2,160,381	\$ 8,879,879

See accompanying notes to financial statements.

NATURESERVE

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 232,861
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation and amortization	77,635
Unrealized loss on investments	40,526
Realized gain on sales of investments	(125,012)
Increase in assets:	
Accounts receivable	(787,280)
Prepaid expenses	(4,320)
(Decrease) increase in liabilities:	
Accounts payable and accrued liabilities	(179,442)
Accrued salaries and related benefits	51,138
Refundable advances and deferred revenue	(516,951)
Deferred rent abatement	<u>(83,800)</u>
Net cash used by operating activities	<u>(1,294,645)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investments, including reinvestment of dividends	(182,731)
Proceeds from sale of investments	473,055
Purchase of property and equipment	<u>(99,916)</u>
Net cash provided by investing activities	<u>190,408</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from line of credit	360,000
Principal payments on line of credit	(210,000)
Proceeds from loan payable	<u>954,700</u>
Net cash provided by financing activities	<u>1,104,700</u>

Net increase in cash and cash equivalents 463

Cash and cash equivalents at beginning of year 868,648

CASH AND CASH EQUIVALENTS AT END OF YEAR **\$ 869,111**

NATURESERVE

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

NatureServe (the Organization) was incorporated in Washington, D.C. in 1994 as a nonprofit Organization. The Organization'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. The Organization provides the scientific knowledge that supports informed decisions. Together, with the Organization's Network of over 100 programs, the Organization collects decision-quality data about imperiled species and entire ecosystems, transforms that data into knowledge products and visualizations, and provides meaning through expert analyses and support to guide decision-making, implement action, and enhance conservation outcomes.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. As such, net assets are reported within two net asset classifications: without donor restrictions and with donor restrictions. Descriptions of the two net asset categories are as follows:

- **Net Assets Without Donor Restrictions** - Net assets available for use in general operations and not subject to donor restrictions are recorded as "net assets without donor restrictions". Assets restricted solely through the actions of the Board are referred to as Board Designated and are also reported as net assets without donor restrictions.
- **Net Assets With Donor Restrictions** - Net assets may be subject to donor-imposed stipulations that are more restrictive than the Organization mission and purpose. 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. Donor imposed restrictions are released when the 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. Other donor imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

New accounting pronouncement adopted -

During 2020, the Organization adopted ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This guidance is intended to clarify and improve the scope and the accounting guidance for contributions received and contributions made. Key provisions in this guidance include clarification regarding the accounting for grants and contracts as exchange transactions or contributions, and improve guidance to better distinguish between conditional and unconditional contributions. The Organization adopted the ASU using a modified prospective basis.

Cash and cash equivalents -

The Organization considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents. Bank deposit accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to a limit of \$250,000. At times during the year, the Organization maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

NATURESERVE

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Investments -

Investments are recorded at their readily determinable fair value. Interest, dividends, realized and unrealized gains and losses are included in investment income, which is presented net of investment expenses paid to external investment advisors in the accompanying Statement of Activities and Change in Net Assets.

Investments acquired by gift are recorded at their fair value at the date of the gift. The Organization's policy is to liquidate all gifts of investments as soon as possible after the gift.

Accounts receivable -

Accounts receivable are recorded at their net realizable value, which approximates fair value. Accounts receivable consists of amounts due from Federal, state and local government and other agencies, as well as fees charged for data conservation services provided to the Organization's network of natural heritage agencies. Accounts receivable also consist of contributions due from private individuals, foundations and other entities.

Accounts receivable are stated at the estimated net present value, net of an allowance for uncollectable amounts. The allowance for doubtful accounts is determined based upon a periodic review of individual account balances, including the age of the balance and the historical experience with the donor or customer. As of June 30, 2020, the balance in the allowance for doubtful accounts aggregated \$12,156.

As of June 30, 2020, accounts receivable consisted of the following:

Grants and contracts - billed	\$ 595,787
Grants and contracts - unbilled	1,464,877
Contributions receivable	2,041
Less: Allowance for doubtful accounts	<u>(12,156)</u>
NET ACCOUNTS RECEIVABLE	<u>\$ 2,050,549</u>

Property and equipment -

Property and equipment acquisitions are recorded at cost. Assets purchased under Federal awards with an acquisition value of \$5,000 or more (with a useful life of more than one year) are capitalized in the accompanying Statement of Financial Position. Assets purchased in the course of operations with an acquisition value of \$2,000 or more (with a useful life of more than one year) are capitalized in the accompanying Statement of Financial Position. 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 in accordance with FASB Accounting Standards Codification (ASC) 350-40: *Internal-Use Software*. Depreciation is provided over the estimated useful lives of the assets using the straight-line method, generally three to seven years. Leasehold improvements are amortized over the term of the lease. Depreciation and amortization expense for the year ended June 30, 2020 totaled \$77,635.

Income taxes -

The Organization is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is only subject to tax on unrelated business income. The Organization is not a private foundation.

NATURESERVE

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Uncertain tax positions -

For the year ended June 30, 2020, the Organization has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

Grants and contributions -

Grants and contributions are recognized in the appropriate category of net assets in the period received. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. Awards qualifying as contributions are recorded by the Organization upon notification of the award and satisfaction of all conditions, if applicable.

Conditional awards are not recognized until the condition on which they depend are substantially met. Typically, conditional awards contain a measurable barrier, as well as a right of return or right of release from obligation provision, and the Organization has limited discretion over how funds transferred should be spent. As such, the Organization recognizes revenue for these conditional contributions when the related barrier has been overcome. Awards from Federal, state and local governments are deemed to be conditional, and accordingly are recognized as revenue at such time when the conditions have been met.

Unconditional contributions and grants are classified as net assets with donor restrictions when use of the contribution or grant funds is limited to specific programmatic areas or is designated for use in future periods. Contributions and grants with donor restrictions are recognized as "without donor restrictions" only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions; such funds in excess of expenses incurred are shown as net assets with donor restrictions in the accompanying financial statements. Contributions and grants received in advance of incurring the related expenses are recorded as "net assets with donor restrictions".

Contracts -

The Organization also receives revenue under contractual agreements for program related activities. These agreements are treated as exchange transactions, as such agreements are based on a set transaction price (set by the contracting entity) and not a function of direct and indirect costs incurred by the Organization.

Software support and services -

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.

Data requests, products and services -

Data requests, products and services include data and map products maintained by the NatureServe Network, as well as services available to clients to assist them in obtaining and interpreting the biological and ecological data needed to meet regulatory, planning or natural resource management objectives. Revenue is recognized at the time services are rendered. Cash received in advance is recorded as deferred revenue.

NATURESERVE

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Membership dues -

Membership dues are based on member benefits received and recognized as revenue ratably over the membership period. Dues received in advance are recorded as deferred revenue.

In-kind contributions -

In-kind contributions include the fair value of an enterprise license agreement received by the Organization. In-kind contributions are recorded at their fair value as of the date of the gift.

Foreign currency translation -

The U.S. Dollar is the functional currency for the Organization's worldwide operations. Transactions in currencies other than U.S. Dollars are translated into dollars at the rate of exchange in effect during the month of the transaction.

Use of estimates -

The preparation of the 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 at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional allocation of 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.

Investment risks and uncertainties -

The Organization invests in various investment securities. Investment securities are exposed to various 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 accompanying financial statements.

Fair value measurement -

The Organization adopted the provisions of FASB ASC 820, *Fair Value Measurement*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. The Organization accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

NATURESERVE

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Economic uncertainties -

On March 11, 2020, the World Health Organization declared the Coronavirus disease (COVID-19) a global pandemic. As a result of the spread of COVID-19, economic uncertainties have arisen which may negatively impact the Organization's operations. The overall potential impact is unknown at this time.

New accounting pronouncements not yet adopted -

ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), as amended, which provides a framework for recognizing revenue and is intended to improve comparability of revenue recognition practices across for-profit and non-profit entities. During 2020, the FASB delayed the implementation date under ASU 2020-05 for an additional year. Organizations may elect to adopt the guidance for annual reporting periods beginning after December 15, 2019 and for interim periods within annual reporting periods beginning after December 15, 2020. Early adoption is still permitted.

ASU 2019-01, *Leases* (Topic 842), which changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the Statement of Financial Position and disclosing key information about leasing arrangements. The ASU is effective for nonpublic entities beginning after December 15, 2021. Early adoption is still permitted. The ASU can be applied at the beginning of the earliest period presented using a modified retrospective approach or applied at the beginning of the period of adoption recognizing a cumulative-effect adjustment.

The Organization plans to adopt the new ASUs at the required implementation dates and management is currently in the process of evaluating the adoption methods and the impacts of the new standards on its accompanying financial statements.

2. INVESTMENTS

In accordance with FASB ASC 820, *Fair Value Measurement*, the Organization has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Investments recorded in the Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market the Organization has the ability to access.

Level 2. These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

Level 3. These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

NATURESERVE

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020

2. INVESTMENTS (Continued)

Following is a description of the valuation methodology used for investments measured at fair value. There were no transfers between levels in the fair value hierarchy during the year ended June 30, 2020. Transfers between levels are recorded at the end of the reporting period, if applicable.

- *Money market funds* - The money market fund is an open-end funds that are registered with the Securities and Exchange Commission (SEC) and is deemed to be actively traded.
- *Public equity funds and fixed income funds* - Valued at the closing price reported on the active market in which the individual securities are traded.
- *Mixed allocation mutual funds* - Valued at the daily closing price as reported by the fund. Mutual funds held by the Organization are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily value and to transact at that price. Mutual funds held by the Organization are deemed to be actively traded.

The table below summarizes, the investments measured at fair value on a recurring basis, by level within the fair value hierarchy and those invested and measured at NAV as a practical expedient as of June 30, 2020.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Public equity funds	\$ 3,984,711	\$ -	\$ -	\$ 3,984,711
Fixed income funds	2,268,434	-	-	2,268,434
Mixed allocation mutual funds	237,964	-	-	237,964
Money market funds	<u>93,953</u>	<u>-</u>	<u>-</u>	<u>93,953</u>
TOTAL	<u>\$ 6,585,062</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,585,062</u>

Based on the nature of the investment and related liquidity, the Organization classified \$623,083 as current and \$5,961,979 as noncurrent in the accompanying Statement of Financial Position.

Included in investment income, net are the following:

Interest and dividends	\$ 209,180
Investment expenses provided to external investment advisors	<u>(25,599)</u>
TOTAL INVESTMENT INCOME, NET OF INVESTMENT EXPENSES	<u>\$ 183,581</u>

Additionally, the Organization realized \$40,526 of unrealized losses and \$125,012 of realized gains on sales of investments during the year ended June 30, 2020.

3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2020:

Software	\$ 969,702
Equipment	595,289
Furniture	121,860
Leasehold improvements	<u>57,227</u>
Total property and equipment	1,744,078
Less: Accumulated depreciation and amortization	<u>(1,581,333)</u>
NET PROPERTY AND EQUIPMENT	<u>\$ 162,745</u>

NATURESERVE

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

4. LINE OF CREDIT

The Organization maintains a line of credit with a local financial institution which is secured by all of the Organization's inventory and equipment, and has a maximum borrowing potential of \$1,500,000. The line bears interest at the bank's prime lending rate (4.25% as of June 30, 2020) and expires on March 31, 2021. As of June 30, 2020, the outstanding balance was \$150,000.

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

5. LOAN PAYABLE

On April 23, 2020, the Organization received loan proceeds in the amount of \$954,700 under the Paycheck Protection Program. The promissory note calls for monthly principal and interest payments (1%) amortized over the term of the promissory note with a deferral of payments for the first six months. Under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), the promissory note may be forgiven by the Small Business Administration in whole or in part.

The Organization intends to use the proceeds for purposes consistent with the Paycheck Protection Program and believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan. The Organization intends to apply for forgiveness after completing the 24-week period. If forgiveness is granted, the Organization will record revenue from debt extinguishments during the period that forgiveness was approved.

Principal payments as stated in the promissory note are due as follows unless otherwise forgiven:

Year Ending June 30,

2021	\$ 473,561
2022	<u>481,139</u>
	<u>\$ 954,700</u>

6. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at June 30, 2020:

Subject to expenditure for specified purpose	\$ 537,140
Subject to passage of time	350,000
Endowment to be invested in perpetuity	5,962,729
Endowment subject to appropriation	<u>257,142</u>
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	<u>\$ 7,107,011</u>

The following net assets with donor restrictions were released from donor restrictions by incurring expenses (or through the passage of time) which satisfied the restricted purposes specified by the donors:

Purpose restrictions accomplished	\$ 298,206
Passage of time	<u>175,000</u>
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	<u>\$ 473,206</u>

NATURESERVE

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020

7. LIQUIDITY AND AVAILABILITY

Financial assets available for use for general expenditures within one year of the Statement of Financial Position date comprise the following:

Cash and cash equivalents	\$ 869,111
Investments	623,083
Accounts receivable	<u>2,050,549</u>
Subtotal financial assets available within one year	3,542,743
Less: Donor restricted funds, current portion	(1,145,032)
Less: Board-designated funds	<u>(129,910)</u>

FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR

\$ 2,267,801

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. Noncurrent investments include endowment funds consisting of donor-restricted endowments. Income from donor-restricted endowments is restricted until appropriated in accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, therefore, is not available for general expenditure until appropriated. As described in Note 12, the endowment has a spending rate of 5%, therefore approximately \$310,000 will be made available for spending in the next 12 months. Additionally, subsequent to year-end, the Organization received notification (from three donors) that certain contributions (originally required to be invested in perpetuity) were approved to be released from all restrictions. Accordingly, approximately \$3,950,000 of net assets with donor restrictions will be released and placed in a Board controlled quasi-endowment available for Board approved expenditures.

The Organization expects that accounts receivables from program service fee revenue will be collected and available within 60 days of the fiscal year-end. In addition, as discussed in Note 4, the Organization has a line of credit with a maximum borrowing potential of \$1,500,000 to use at its discretion. As of June 30, 2020, \$1,350,000 was available to be drawn upon.

Additionally, the Organization's Board of Directors has designated \$129,910 to be set aside for its "Innovation Fund"; these funds could be made available for general operations through Board resolution, if the need arises.

8. IN-KIND CONTRIBUTIONS

During the year ended June 30, 2020, the Organization was the beneficiary of in-kind contributions which allowed the Organization to provide greater resources toward various its programs. The following donations have been included in revenue and expense for the year ended June 30, 2020.

Donated Short-Term Enterprise Licensing Agreement	<u>\$ 1,003,392</u>
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9. LEASE COMMITMENTS

The Organization rents office space in Arlington, Virginia under a lease agreement that was entered into during 2011 and is set to terminate on December 31, 2021.

During May 2019, the Organization entered into another lease agreement for additional office space in Arlington, Virginia. The lease term is 135 months, and is set to terminate during July 2030. The relocation of its office 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.

NATURESERVE

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

9. LEASE COMMITMENTS (Continued)

Accounting principles generally accepted in the United States of America require that the total rent commitment should be recognized on a straight-line basis over the term of the lease. Accordingly, the difference between the actual monthly payments and the rent expense being recognized for financial statement purposes is recorded as a deferred rent liability on the Statement of Financial Position.

The following is a schedule of the future minimum lease payments:

<u>Year Ending June 30,</u>	
2021	\$ 840,231
2022	587,659
2023	320,563
2024	328,577
2025	336,791
Thereafter	<u>1,846,954</u>
	<u>\$ 4,260,775</u>

Rent expense for the year ended June 30, 2020 totaled \$646,274. As of June 30, 2020, the deferred rent liability aggregated \$293,516.

In November 2018, the Organization entered into a sublease agreement for its original office space (set to expire on December 31, 2021). Monthly rent payments to be received total \$19,167, and increase by 4% each lease year.

As a result of the subleasing transaction, a financial statement loss of \$643,841 was realized during the year ended June 30, 2019, which is being amortized over the remaining life of the sublease. The negative cash flow related to the loss on the sublease agreement is partially offset by the rent abatement under the new lease. The following is a schedule of the future minimum rental income:

<u>Year Ending June 30,</u>	
2021	\$ 241,592
2022	<u>124,384</u>
	<u>\$ 365,976</u>

Rental income for the year ended June 30, 2020 totaled \$251,196.

10. RETIREMENT PLAN

The Organization maintains a safe harbor 401(k) retirement plan, in which 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 year ended June 30, 2020, the Organization contributed \$199,313 to the Plan.

11. CONTINGENCY

The Organization receives awards from various agencies of the United States Government. Such awards are subject to audit under the provisions of *Title 2 U.S. Code of Federal Regulations (CFR) Part 200* Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

NATURESERVE

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020

11. CONTINGENCY (Continued)

The ultimate determination of amounts received under United States Government awards 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 applicable provisions have been completed for all required fiscal years through 2020. 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.

12. ENDOWMENT

The Organization's endowment consists of donor-restricted endowment funds and funds designated by the governing Board to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The fund established by the Board of Directors is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those assets are time restricted until the governing Board appropriates such amounts for expenditures. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The governing Board has interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Organization considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument.

The Organization has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriated or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purpose of the organization and the donor-restricted endowment fund;
- General economic conditions and the possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments; and
- Investment policies of the organization.

Endowment net asset composition by type of fund as of June 30, 2020:

	<u>Without Donor Restriction</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 5,962,729	\$ 5,962,729
Accumulated investment earnings	<u>-</u>	<u>257,142</u>	<u>257,142</u>
TOTAL ENDOWMENT FUNDS	<u>\$ -</u>	<u>\$ 6,219,871</u>	<u>\$ 6,219,871</u>

NATURESERVE

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020

12. ENDOWMENT (Continued)

Changes in endowment net assets for the year ended June 30, 2020:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 6,272,266	\$ 6,272,266
Contributions	-	750	750
Investment income, net	-	166,984	166,984
Unrealized loss on investments	-	(46,106)	(46,106)
Realized gains on sales of investments	-	124,183	124,183
Amounts appropriated for expenditure	<u>-</u>	<u>(298,206)</u>	<u>(298,206)</u>
ENDOWMENT NET ASSETS, END OF YEAR	\$ <u>-</u>	\$ <u>6,219,871</u>	\$ <u>6,098,993</u>

Funds with Deficiencies -

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the organization to retain as a fund of perpetual duration. The Organization had no funds with deficiencies as of June 30, 2020.

Return Objectives and Risk Parameters -

The Organization 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 include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as Board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are 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.

Strategies Employed for Achieving Objectives -

To satisfy its long-term rate-of-return objectives, the Organization 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 Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to 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.

NATURESERVE

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

12. ENDOWMENT (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy (continued) -

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.

13. SUBSEQUENT EVENTS

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through February 17, 2021, the date the financial statements were issued.