

**NATURESERVE
FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION
JUNE 30, 2018**

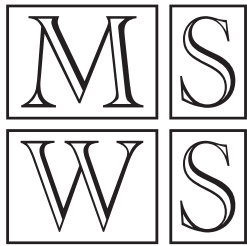


MULLEN SONDBERG WIMBISH & STONE, PA

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 non-profit Organization), which comprise the statement of financial position as of June 30, 2018, 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, 2018, 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 September 26, 2018, 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 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 8, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, 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
September 26, 2018

NatureServe
STATEMENT OF FINANCIAL POSITION
June 30, 2018

ASSETS

	2018	2017
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,515,861	\$ 1,050,560
Accounts receivable, net of allowance (Note 3)	976,488	1,125,743
Prepaid expenses	35,222	61,714
Total current assets	2,527,571	2,238,017
PROPERTY AND EQUIPMENT		
Net of accumulated depreciation (Note 4)	200,525	338,587
INVESTMENTS (Note 2)	6,764,565	7,036,455
DEPOSITS	40,179	51,508
Total assets	\$ 9,532,840	\$ 9,664,567

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 222,144	\$ 271,416
Accrued salaries and related liabilities	444,958	476,517
Refundable advances	1,604,452	1,253,633
Deposits	-	2,056
Capital lease obligations (Note 8)	2,752	41,040
Deferred rent	48,198	34,632
Total current liabilities	2,322,504	2,079,294
LONG TERM LIABILITIES		
Capital leases obligations (Note 8)	-	2,755
Deferred rent	184,181	232,379
Total long term liabilities	184,181	235,134
Total liabilities	2,506,685	2,314,428
NET ASSETS		
Unrestricted (Note 11)	855,345	313,684
Temporarily restricted (Note 12)	209,452	1,075,447
Permanently restricted (Note 13)	5,961,358	5,961,008
Total net assets	7,026,155	7,350,139
Total liabilities and net assets	\$ 9,532,840	\$ 9,664,567

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

NatureServe
STATEMENT OF ACTIVITIES
Year Ended June 30, 2018
With Summarized Financial Information for the Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2018	2017
REVENUES, GAINS AND OTHER SUPPORT					
Grants and contracts	\$ 5,934,916	\$ -	\$ -	\$ 5,934,916	\$ 5,952,720
Software support and services	1,276,011	-	-	1,276,011	1,190,201
Contributions	413,981	-	350	414,331	458,063
Data requests, products and services	105,264	-	-	105,264	139,149
Registration fees	63,820	-	-	63,820	118,475
Membership dues	60,850	-	-	60,850	61,350
Rental income	30,950	-	-	30,950	32,502
Conference sponsorship	11,325	-	-	11,325	64,662
Other income	1,457	-	-	1,457	4,157
Royalties and license fees	189	-	-	189	120
Investment income, gains and losses					
Realized gains	73,958	155,296	-	229,254	22,938
Investment income	21,834	169,943	-	191,777	166,190
Unrealized gains/(losses)	(50,289)	42,330	-	(7,959)	460,808
	7,944,266	367,569	350	8,312,185	8,671,335
Net assets released from restriction	1,233,564	(1,233,564)	-	-	-
Total revenues, gains and other support	9,177,830	(865,995)	350	8,312,185	8,671,335
EXPENSES					
Program activities	6,916,696	-	-	6,916,696	6,802,775
General and administrative	1,477,884	-	-	1,477,884	1,469,172
Fundraising	241,589	-	-	241,589	286,913
Total expenses	8,636,169	-	-	8,636,169	8,558,860
Change in net assets	541,661	(865,995)	350	(323,984)	112,475
NET ASSETS AT BEGINNING OF YEAR	313,684	1,075,447	5,961,008	7,350,139	7,237,664
NET ASSETS AT END OF YEAR	\$ 855,345	\$ 209,452	\$ 5,961,358	\$ 7,026,155	\$ 7,350,139

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

NatureServe
STATEMENT OF CASH FLOWS
Year Ended June 30, 2018

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (323,984)	\$ 112,475
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	203,486	275,921
Realized gain on investments	(229,254)	(22,938)
Unrealized (gain)/loss on investments	7,959	(460,808)
(Increase) decrease in operating assets:		
Accounts receivable	149,255	201,200
Prepaid expenses	26,492	(11,090)
Deposits	11,329	(2,696)
(Increase) decrease in operating liabilities:		
Accounts payable and accrued expenses	(49,272)	(27,857)
Accrued salaries and related liabilities	(31,559)	(203,761)
Refundable advances	350,819	117,429
Deposits	(2,056)	-
Deferred rent	(34,632)	(21,430)
Net cash provided / (used) by operating activities	78,583	(43,555)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments, including reinvestment of dividends	(216,909)	(205,304)
Proceeds from sale of investments	710,094	1,019,544
Purchase of property and equipment	(65,424)	(10,422)
Net cash provided by investing activities	427,761	803,818
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on capital lease obligations	(41,043)	(44,323)
Net cash used by financing activities	(41,043)	(44,323)
Net change in cash and cash equivalents	465,301	715,940
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,050,560	334,620
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 1,515,861	\$ 1,050,560
 SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the year for interest	\$ 593	\$ 10,344

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

NatureServe
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 1 - The Organization and 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, 2017, from which the summarized information was derived.

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.

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, 2018 and 2017 the balances in the allowance for doubtful accounts was \$7,225 and \$8,990, respectively.

NatureServe
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2018

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, 2015 remain subject to examination by federal and State authorities.

NatureServe
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2018

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.

NatureServe
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2018

Note 2 - Investments / Fair Value Measurements

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

	2018		2017	
	Cost	Market	Cost	Market
Public equity funds	\$ 2,697,680	\$ 3,356,420	\$ 3,387,075	\$ 3,987,283
Fixed income funds	3,151,711	3,074,900	2,770,042	2,758,202
Mixed allocation mutual funds	308,356	297,391	265,948	256,116
Money market funds	35,854	35,854	34,854	34,854
	\$ 6,193,601	\$ 6,764,565	\$ 6,457,919	\$ 7,036,455

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

	2018	2017
Interest, dividends and other income, net	\$ 191,777	\$ 166,190
Net realized and unrealized gains / losses on investments	221,295	483,746
	\$ 413,072	\$ 649,936

Interest and dividend income is reported net of related expenses of \$32,604 and \$32,492 for the years ended June 30, 2018 and 2017, respectively.

NatureServe
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2018

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

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.

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.

NatureServe
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2018

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

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, 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>
<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>

NatureServe
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2018

Note 3 - Accounts Receivable

Accounts receivable consisted of the following at June 30:

	<u>2018</u>	<u>2017</u>
Grants and contracts - unbilled, net of contract reserve	\$ 495,313	\$ 661,697
Grants and contracts - billed	444,535	424,448
Contributions receivable	31,365	23,588
Miscellaneous	12,500	25,000
Allowance for doubtful accounts	<u>(7,225)</u>	<u>(8,990)</u>
	<u>\$ 976,488</u>	<u>\$ 1,125,743</u>

Note 4 - Property and Equipment

Property and equipment consisted of the following at June 30:

	Estimated Lives	<u>2018</u>	<u>2017</u>
Software	3 - 5 years	\$ 944,444	\$ 919,690
Equipment	3 - 7 years	582,690	592,015
Leasehold improvements	10 years	45,091	49,924
Furniture and fixtures	7 years	<u>21,900</u>	<u>12,457</u>
		1,594,125	1,574,086
Less accumulated depreciation		<u>(1,393,600)</u>	<u>(1,235,499)</u>
Net property and equipment		<u>\$ 200,525</u>	<u>\$ 338,587</u>

Depreciation and amortization expense for the years ended June 30, 2018 and 2017 was \$203,486 and \$275,921, 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, 2018 and 2017, the Organization contributed \$241,338 and \$239,380, respectively to the Plan.

NatureServe
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2018

Note 6 - Compensated Absences and Severance Pay

As of June 30, 2018 and 2017, the Organization accrued \$225,467 and \$232,914, 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 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 2019. There were no amounts outstanding as of June 30, 2018 and 2017.

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, 2018 and 2017 is \$5,150 and \$36,047, respectively. Amortization of the office equipment is included in depreciation expense.

In February 2015, the Organization leased office equipment which was accounted for as a capital lease. The lease dictated 36 monthly payments of \$1,052 beginning on March 10, 2015 and terminated April 10, 2018. 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 was \$8,415, which was fully depreciated at the end of June 30, 2018. Amortization of the office equipment is included in depreciation expense.

NatureServe
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2018

Note 8 - Capital Leases Obligation (Cont.)

Future minimum lease payments under the lease are as follows:

Year Ending June 30:	
2019	\$ 2,759
Less payments representing interest	(7)
Present value of future lease payments (including current portion of \$2,752)	\$ 2,752

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 2022 and April 2020, respectively.

Rent expense is recognized on the straight line basis and amounts to \$573,343 and \$578,287 for the years ended June 30, 2018 and 2017, respectively. Actual cash paid for rent expense was \$607,975 and \$599,717 for the years ended June 30, 2018 and 2017, respectively. The Organization has recorded a liability for deferred rent amounting to \$232,379 and \$267,011 at June 30, 2018 and 2017, respectively which represents the future differences between actual rent paid and rent recorded on the straight-line basis.

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

Year Ending June 30:	
2019	\$ 581,740
2020	592,277
2021	581,237
2022	322,423
2023	11,964
	\$ 2,089,641

NatureServe
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2018

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 2018. 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 - Unrestricted Net Assets

Unrestricted net assets at June 30, 2018 and 2017 consisted of the following:

	2018	2017
Undesignated	\$ 168,103	\$ 301,684
Board designated for:		
Innovation Fund	675,242	-
Employee Training and Travel Costs	12,000	12,000
Total unrestricted net assets	\$ 855,345	\$ 313,684

The increase in unrestricted net assets at the end of June 30, 2018 is mainly the result of approximately \$850,000 from a grant from the MacArthur Foundation which was released from temporarily restricted net assets as the conditions on purpose and time imposed by the donor were satisfied.

Note 12 - Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2018 and 2017 consisted of the following:

	2018	2017
Unappropriated endowment earnings	\$ 209,452	\$ 220,622
Innovation Fund	-	854,825
Total temporarily restricted net assets	\$ 209,452	\$ 1,075,447

NatureServe
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2018

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 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 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.

On June 28, 2018, the Organization amended its investment and spending policy under which spending from the endowment for fiscal years beginning with fiscal year 2019 will be up to 5% of the most recent three-year average account balance.

NatureServe
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2018

Note 13 - Endowment Funds (Cont.)

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

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 209,452	\$ 5,961,358	\$ 6,170,810
	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 220,622	\$ 5,961,008	\$ 6,181,630
Innovation endowment funds	-	854,825	-	854,825
Total endowed net assets	\$ -	\$ 1,075,447	\$ 5,961,008	\$ 7,036,455

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

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	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	\$ -	\$ 209,452	\$ 5,961,358	\$ 6,170,810

NatureServe
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2018

Note 13 - Endowment Funds (Cont.)

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

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
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
Reclassification of unspent appropriations	-	(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>

Note 14 - Subsequent Events

The Organization has evaluated the impact of significant subsequent events. There have been no subsequent events through September 26, 2018, 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, 2018
With Summarized Financial Information for the Year Ended June 30, 2017

	Program Activities	General and Administrative	Fundraising	Total	
				2018	2017
Salaries and benefits	\$ 4,671,385	\$ 856,602	\$ 190,301	\$ 5,718,288	\$ 5,729,141
Internet, computer, and data expenses	576,831	100,742	1,523	679,096	545,665
Rent	420,653	134,441	18,249	573,343	578,287
Subagreements	501,532	-	-	501,532	554,629
Professional fees	210,158	133,262	-	343,420	113,284
Depreciation and amortization	113,574	89,912	-	203,486	275,921
Travel	175,804	16,292	9,715	201,811	257,285
In-kind expenses	109,775	10,044	2,231	122,050	121,550
Meetings and conferences	40,911	9,898	3,648	54,457	109,325
Telephone	37,358	8,224	1,383	46,965	49,744
Insurance	-	33,285	-	33,285	32,630
Equipment, rental, repairs & maint.	9,072	21,554	206	30,832	58,227
Dues and subscriptions	11,277	11,057	5,507	27,841	25,221
Office expense	10,162	9,251	730	20,143	20,565
Printing	13,655	2,785	2,956	19,396	21,660
Payroll fees	-	16,086	-	16,086	18,148
Postage and delivery	3,470	2,501	4,244	10,215	9,040
Miscellaneous	5,624	2,874	-	8,498	4,530
Taxes, licenses and permits	307	7,711	-	8,018	9,057
Bank fees	4,754	2,029	896	7,679	8,525
Advertising - recruiting	394	5,506	-	5,900	2,701
Bad debts	-	3,235	-	3,235	3,381
Interest expense	-	593	-	593	10,344
Total expenses	\$ 6,916,696	\$ 1,477,884	\$ 241,589	\$ 8,636,169	\$ 8,558,860