

CALIFORNIA NATIVE PLANT SOCIETY

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March 31, 2017

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August 31, 2018

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
California Native Plant Society
Sacramento, California

We have audited the accompanying financial statements of California Native Plant Society (a nonprofit organization), which comprise the Statement of Financial Position as of March 31, 2017, and the related Statements of Activities, Functional Expenses and Cash Flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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.

To the Board of Directors
California Native Plant Society
August 31, 2018



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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 California Native Plant Society as of March 31, 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.

John Waddell & Co., CPAs

CALIFORNIA NATIVE PLANT SOCIETY

Statement of Financial Position March 31, 2017

ASSETS

| | |
|--|--------------|
| Cash and cash equivalents | \$ 2,329,727 |
| Contracts receivable | 99,511 |
| Other receivables | 21,474 |
| Prepaid expenses | 32,378 |
| Inventory | 16,342 |
| Investments | 941,442 |
| Deposits | 2,932 |
| Office equipment, net of accumulated depreciation of \$126,436 | 7,829 |
| Land | 4,200 |
| | <hr/> |
| | \$ 3,455,835 |

LIABILITIES AND NET ASSETS

| | |
|-------------------------|--------------|
| Liabilities | |
| Accounts payable | \$ 92,406 |
| Accrued expenses | 125,448 |
| Deferred revenue | 120,634 |
| Funds held for chapters | 72,592 |
| | <hr/> |
| Total Liabilities | 411,080 |
| Net assets | |
| Unrestricted | |
| Board-designated | 1,034,877 |
| Undesignated | 1,355,823 |
| Temporarily restricted | 407,178 |
| Permanently restricted | 246,877 |
| | <hr/> |
| Total Net Assets | 3,044,755 |
| | <hr/> |
| | \$ 3,455,835 |

See accompanying notes to financial statements.

CALIFORNIA NATIVE PLANT SOCIETY

Statement of Activities For the Year Ended March 31, 2017

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Revenue | | | | |
| Membership dues | \$ 472,610 | \$ - | \$ - | \$ 472,610 |
| Donations | 873,387 | 295,621 | - | 1,169,008 |
| Sales, net of cost of sales of \$41,025 | 47,113 | - | - | 47,113 |
| Contract income | 269,838 | - | - | 269,838 |
| Workshop income | 64,935 | - | - | 64,935 |
| Investment income | 34,605 | 22,074 | - | 56,679 |
| Other program income | 585 | - | - | 585 |
| Net assets released from restriction | 558,627 | (558,627) | - | - |
| Total Revenue | <u>2,321,700</u> | <u>(240,932)</u> | <u>-</u> | <u>2,080,768</u> |
| Expenses | | | | |
| Program services | | | | |
| Conservation | 147,583 | - | - | 147,583 |
| Engagement & outreach | 180,285 | - | - | 180,285 |
| Plant Scient | 661,740 | - | - | 661,740 |
| Publications | 130,543 | - | - | 130,543 |
| Member support | 209,631 | - | - | 209,631 |
| Total program services | <u>1,329,782</u> | <u>-</u> | <u>-</u> | <u>1,329,782</u> |
| Administration | 298,776 | - | - | 298,776 |
| Development | 252,272 | - | - | 252,272 |
| Total Expenses | <u>1,880,830</u> | <u>-</u> | <u>-</u> | <u>1,880,830</u> |
| Change in Net Assets | <u>440,870</u> | <u>(240,932)</u> | <u>-</u> | <u>199,938</u> |
| Net Assets, Beginning of Year | <u>1,949,830</u> | <u>648,110</u> | <u>246,877</u> | <u>2,844,817</u> |
| Net Assets, End of Year | <u>\$ 2,390,700</u> | <u>\$ 407,178</u> | <u>\$ 246,877</u> | <u>\$ 3,044,755</u> |

See accompanying notes to financial statements.

CALIFORNIA NATIVE PLANT SOCIETY

Statement of Functional Expenses For the Year Ended March 31, 2017

| | Administration | Development | Conservation | Engagement & Outreach | Plant Science | Publications | Member Support | Total |
|-------------------------------------|----------------|-------------|--------------|--------------------------|---------------|--------------|-------------------|--------------|
| Personnel Expenses | \$ 204,151 | \$ 146,689 | \$ 97,526 | \$ 74,382 | \$ 539,212 | \$ 40,227 | \$ 125,474 | \$ 1,227,661 |
| Professional Fees | 22,764 | 18,605 | 31,870 | 39,990 | 62,017 | 23,371 | 4,188 | 202,805 |
| Printing & Publications | - | 16,904 | 25 | 3,994 | 190 | 34,685 | 1,590 | 57,388 |
| Postage & Shipping | 755 | 26,846 | 12 | 136 | 146 | 18,817 | 915 | 47,627 |
| Supplies | 8,809 | 10,870 | 205 | 1,057 | 2,906 | 2,177 | - | 26,024 |
| Telephone & Communications | 3,384 | 611 | 611 | 1,552 | 5,700 | 992 | 3,061 | 15,911 |
| Travel Expenses | 12,493 | 1,669 | 7,745 | 11,003 | 33,388 | 205 | 23,432 | 89,935 |
| Conferences, Conventions & Meetings | - | - | 1,023 | - | 1,983 | - | - | 3,006 |
| Occupancy | 141 | 4,209 | 4,859 | 13,552 | 9,638 | 7,924 | 23,203 | 63,526 |
| Equipment Rental | 1,930 | 3,777 | 451 | 1,057 | 414 | 874 | 558 | 9,061 |
| Dues & Subscriptions | 5,326 | 11,216 | 196 | 61 | 1,629 | 54 | - | 18,482 |
| Insurance | 15,659 | - | - | - | 3,294 | 1,148 | 10,736 | 30,837 |
| CC Processing Fees | - | 7,654 | - | 2,332 | 249 | - | 254 | 10,489 |
| Subventions | - | - | - | - | - | - | 16,200 | 16,200 |
| Miscellaneous | 22,586 | 3,190 | 3,060 | 19,191 | 360 | 69 | 20 | 48,476 |
| Total expenses before depreciation | 297,998 | 252,240 | 147,583 | 168,307 | 661,126 | 130,543 | 209,631 | 1,867,428 |
| Depreciation | 778 | 32 | - | 11,978 | 614 | - | - | 13,402 |
| Total Expenses | \$ 298,776 | \$ 252,272 | \$ 147,583 | \$ 180,285 | \$ 661,740 | \$ 130,543 | \$ 209,631 | \$ 1,880,830 |

See accompanying notes to financial statements.

CALIFORNIA NATIVE PLANT SOCIETY

Statement of Cash Flows For the Year Ended March 31, 2017

| | |
|--|---------------------|
| Cash Flows from Operating Activities | |
| Change in net assets | \$ 199,938 |
| Adjustments to reconcile change in net assets to cash provided by operating activities: | |
| Depreciation | 13,402 |
| Unrealized gains on securities | (39,935) |
| Donated securities | (539,000) |
| Changes in operating assets and liabilities: | |
| Contracts and other receivables | 164,618 |
| Prepaid expenses | (17,935) |
| Inventory | 11,705 |
| Accounts payable | (4,441) |
| Accrued expenses | 27,304 |
| Deferred revenue | 32,020 |
| Funds held for chapters | 7,480 |
| Cash Used by Operating Activities | <u>(144,844)</u> |
| Cash Flows from Investing Activities | |
| Sales of investments | 487,698 |
| Purchases of investments | <u>(86,264)</u> |
| Cash Provided by Investing Activities | <u>401,434</u> |
| Net Increase in Cash | 256,590 |
| Cash and Cash Equivalents, Beginning of Year | <u>2,073,137</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 2,329,727</u> |

See accompanying notes to financial statements.

CALIFORNIA NATIVE PLANT SOCIETY

Notes to Financial Statements March 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The California Native Plant Society (CNPS) was founded in 1965 and incorporated as a California non-profit, public benefit corporation. CNPS grew into a federation consisting of a central office in Sacramento and numerous chapters located throughout the state. In 2001, CNPS adopted an organizational structure to implement governance values desired by the Society's membership: volunteer leadership, primacy of the chapters, decentralization, democratic process, openness and transparency, efficiency, accountability, and effectiveness. The organizational structure consists of local chapters and their members, the Chapter Council, the Board of Directors, the Executive Director, staff, and Program Committees. The Chapter Council is composed of a delegate from each chapter and elects the Board of Directors. The Board of Directors and Chapter Council collaborate on important projects with joint committees comprised of representatives of both bodies. These financial statements include the activities of the central office only and do not include the activities of the 35 chapters.

Mission and Activities

CNPS is dedicated to celebrating California's native plant heritage and preserving it for future generations. CNPS brings together science, education, conservation, and gardening to power the native plant movement. Key programs of the central office include the following:

Conservation

Through the Conservation Program, CNPS central office staff and volunteers promote scientifically based public policies, regulations and land management practices that protect native vegetation. With technical support from conservation staff, local chapters and volunteers actively monitor local projects for potential ecological threats. Activities include advocacy at state, regional and local levels, lectures, demonstrations and statewide conservation conferences.

Engagement & Outreach

The CNPS Education Program coordinates educational programs, workshops, and stewardship projects for all ages, levels of knowledge, and enthusiasm. Its mission is to provide people with opportunities to engage with nature and develop ecological awareness, to study native plant diversity, and to conserve California's native flora using sound scientific practices. The Plant Science Workshop Program provides training for professional and student botanists, ecologists, land managers, resource specialists, and conservationists. The program also awards educational grants to students working on projects leading to a better understanding of California's native flora.

CALIFORNIA NATIVE PLANT SOCIETY

Notes to Financial Statements

March 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Engagement & Outreach – Continued

The Horticulture and Native Garden Program is dedicated to promoting, supporting and encouraging the appropriate horticultural use of California native plants in gardens and landscapes including private homes, public spaces and commercial properties. The Program is run almost entirely by volunteers from CNPS chapters located across the state, who focus on ways to build outreach and communicate the benefits of growing native plants.

Plant Science

The Vegetation Science Program develops and disseminates quantifiable definitions of all types of vegetation in California. These definitions are used to promote science-based conservation at the natural community and ecosystem level throughout the State. Vegetation Science Program staff and volunteers collect and share data with public agencies, environmental groups, and universities throughout California. The principal goals of the program are to develop, promote, and maintain a uniform vegetation classification that will be adopted by private, state, and federal resource agencies with jurisdiction over land management, and to develop defensible definitions of the rare vegetation of the state. The Manual of California Vegetation, 2nd edition, embodies the vegetation classification system developed by CNPS and includes descriptions of over 450 vegetation types occurring in California.

The Rare Plant Program develops current, accurate information on the distribution, ecology, and conservation status of California's rare and endangered plants, and uses this information to promote science-based plant conservation in California. Since its inception in 1968, the Rare Plant Program has developed a reputation for scientific accuracy and integrity. The Program's data are widely accepted as the standard for information on the rarity and endangerment status of the California flora. For this reason, the Program's primary responsibility is the maintenance of the CNPS Inventory of Rare and Endangered Plants of California (the CNPS Inventory), which tracks the conservation status of hundreds of plant species.

Publications

The central office publishes *Fremontia*, a beautiful, thematic journal including in-depth articles and scientific perspectives from leading native plant experts, 3 times a year. The central office also publishes the Bulletin, a CNPS newsletter, quarterly. The Bulletin includes a calendar of selected chapter activities and articles written by staff and volunteers. An e-newsletter highlighting current issues, events, and other topics of interest to members is produced monthly. CNPS central office publishes books and reprints books under its imprimatur CNPS Press that focuses on California's native plants. CNPS central office also publishes six beautiful and educational full-size native plant posters that feature the native flora of different regions of the state.

CALIFORNIA NATIVE PLANT SOCIETY

Notes to Financial Statements March 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Member Support

The central office supports the CNPS local chapters, who carry out a variety of programs. Most chapters hold field trips, plant sales and speaker programs. In addition, Chapters may manage stewardship programs for local habitats, organize education programs in schools, monitor the health of local plant populations, and help shape regional habitat conservation programs. Overall, the 35 chapters contribute more than 90,000 volunteer hours each year.

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Basis of Accounting

CNPS central office records income and expenses on the accrual basis of accounting. Under this method, revenue is recognized when earned and costs are recorded when incurred.

Basis of Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets that are based upon the existence or absence of donor restrictions: permanently restricted, temporarily restricted and unrestricted. These audited financial statements reflect the activities and assets of the central office and do not reflect the finances of the individual chapters.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, CNPS central office considers all highly liquid investments with original maturities at date of purchase of three months or less to be cash equivalents unless designated or restricted for long term purposes. Cash in banks exceeds federally insured limits by approximately \$1,200,000 at March 31, 2017. In addition, cash includes money market funds not subject to FDIC insurance.

Accounts Receivable

Accounts receivable are stated at unpaid balances. Management believes all balances are collectible; accordingly, no allowance for doubtful accounts has been established. Receivables are determined to be past due based on contractual terms. Receivables are written off to bad debts when management has exhausted all collection efforts.

CALIFORNIA NATIVE PLANT SOCIETY

Notes to Financial Statements March 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Inventory

Inventory consists of books and posters and is stated at the lower of cost or market determined by the first-in, first-out method.

Investments

Investments are reported at fair value as determined by quoted prices in an active market for identical assets (Level One Inputs). Unrealized gains and losses are included in the change in net assets.

Office Equipment

Expenditures in excess of \$5,000 for equipment with a useful life of more than one year are capitalized at cost if purchased or fair value if contributed. Included are improvements that significantly add to productivity or extend the useful life of an asset. Costs of maintenance and repairs are charged to expense. Depreciation is provided using the straight-line method. The estimated useful lives for calculating depreciation for office equipment are three to seven years.

Land

The land, which holds one of California's rare and endangered plant species, was donated to CNPS in 1972. The land was recorded at market value on the date received.

Deferred Income

Deferred income represents unearned membership dues, deferred advertising income, and unearned workshop fees at March 31, 2017.

Contributions

CNPS reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restrictions are accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Donated Services

Donated services are recognized as contributions if the materials or services (a) create or enhance nonfinancial assets or (b) require specialized skills, and were performed by people with those skills and otherwise would have been purchased.

CALIFORNIA NATIVE PLANT SOCIETY

Notes to Financial Statements March 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Income Taxes

CNPS is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. The central office and the chapters file consolidated tax returns. CNPS is classified as other than a private foundation by the Internal Revenue Service. Accordingly, CNPS is subject to federal and state taxes only on non-exempt income earned. There was no such income during the year ended March 31, 2017. CNPS's federal and state tax returns are open for examination for three and four years, respectively, from when they were filed.

Concentrations

Approximately 30% of contracts receivable are due from one company, and approximately 27% of contract income is from the National Park Service.

Subsequent Events

Management has evaluated subsequent events through the date the financial statements were available to be issued, which was August 31, 2018.

NOTE 2 INVESTMENTS

Investments consist of the following:

| | | |
|-----------------------------|----|----------------|
| Cash and money market funds | \$ | 135,395 |
| Bond funds | | 337,332 |
| International bond funds | | 98,834 |
| Stock funds | | 131,743 |
| International stock funds | | 214,738 |
| REIT index fund | | 23,400 |
| | | <u>23,400</u> |
| | \$ | <u>941,442</u> |

The net investment income consisted of \$23,995 in interest and dividends, unrealized gains of \$39,935, and investment management fees of \$7,251.

CALIFORNIA NATIVE PLANT SOCIETY

Notes to Financial Statements March 31, 2017

NOTE 3 FAIR VALUE MEASUREMENTS

The following table sets forth by level within the fair value hierarchy the assets reported at fair value on a recurring basis at March 31, 2017:

| | Fair Value Measurements at March 31, 2017 | | | |
|--|--|--|--|------------|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Quoted Prices for similar assets in Inactive Markets (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| Investments at fair value: | | | | |
| Cash and money market funds | \$ 135,395 | \$ - | \$ - | \$ 135,395 |
| Bond funds | 337,332 | - | - | 337,332 |
| International bond funds | 98,834 | - | - | 98,834 |
| Stock funds | 131,743 | - | - | 131,743 |
| International stock funds | 214,738 | - | - | 214,738 |
| REIT index fund | 23,400 | - | - | 23,400 |
| | \$ 941,442 | \$ - | \$ - | \$ 941,442 |
| Total investments measured at fair value | \$ 941,442 | \$ - | \$ - | \$ 941,442 |

Following is a description of the valuation methodologies used for assets measured at fair value as of March 31, 2017:

Level 1: The fair value of money market funds and mutual funds are based on the closing price reported in the active market where the individual securities are traded.

NOTE 4 EMPLOYEE BENEFIT PLAN

Effective January 1, 2008, CNPS central office established a Savings Incentive Match Plan for Employees of Small Employers (the Plan). The Plan covers all employees. Under the terms of the Plan, CNPS central office matches employee contributions dollar for dollar up to a maximum of 3% of compensation. Total contributions for the year ended March 31, 2017 amounted to \$38,467.

CALIFORNIA NATIVE PLANT SOCIETY

Notes to Financial Statements March 31, 2017

NOTE 5 RELATED PARTY TRANSACTIONS

CNPS central office sells posters and books to its various chapters. Chapter poster and book sales amounted to \$16,113 during the year ended March 31, 2017.

On an annual basis, CNPS central office also makes subvention payments of \$600 to its chapters to help with their funding needs, and additional amounts to encourage membership retention and outreach. Some chapters (those that do not need extra financial support) decline to accept the subvention, or elect to re-contribute the subvention amount back to CNPS's central office. Subvention payments made by CNPS for the year ended March 31, 2017 totaled \$16,200.

Included in income is \$60,132 in reimbursements from chapters for use of central office staff. Total receivables from chapters amounted to \$10,816 at March 31, 2017, and total accounts payable to chapters amounted to \$17,027 at March 31, 2017.

NOTE 6 LEASE COMMITMENTS

CNPS central office leases office space under an office lease expiring August 2017. Subsequent to year end, the lease was extended to August 31, 2020. The central office also leases a storage unit under a lease expiring January 31, 2019, and another storage unit under a month-to-month lease.

Lease commitments as of March 31, 2017 are as follows:

| | | |
|------|----|----------------|
| 2018 | \$ | 50,420 |
| 2019 | | 51,779 |
| 2020 | | 50,860 |
| 2021 | | <u>21,452</u> |
| | \$ | <u>174,511</u> |

Rent expense was \$63,530 for the year ended March 31, 2017.

CALIFORNIA NATIVE PLANT SOCIETY

Notes to Financial Statements March 31, 2017

NOTE 7 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at March 31, 2017:

| | | |
|--|----|----------------|
| Horticultural programs | \$ | 65,630 |
| Nursery capacity building | | 46,032 |
| Botanical skills training | | 39,623 |
| Native gardens in Greater South Bay area | | 40,121 |
| Member database system | | 23,000 |
| Website upgrades | | 24,000 |
| Endowment earnings unappropriated | | 23,509 |
| Other programs | | <u>145,263</u> |
| | \$ | <u>407,178</u> |

Net assets were released from restrictions by incurring expenses satisfying the program restriction.

Permanently restricted net assets consist of contributions that must be held in perpetuity. Permanently restricted net assets consist of the following at March 31, 2017:

| | | |
|-------------------------------------|----|----------------|
| Conservation Fund | \$ | 4,500 |
| Hardman Education and Research Fund | | 20,500 |
| Natural Heritage Endowment Fund | | 171,777 |
| Hopkins Scholarship Fund | | <u>50,100</u> |
| | \$ | <u>246,877</u> |

Unrestricted net assets are designated by the Board of Directors at March 31, 2017 as follows:

| | | |
|------------------|----|------------------|
| Publication Fund | \$ | 67,522 |
| Conservation | | 27,986 |
| Bequests | | 848,004 |
| MCV Database | | 12,000 |
| Endowment | | <u>79,365</u> |
| | \$ | <u>1,034,877</u> |

CALIFORNIA NATIVE PLANT SOCIETY

Notes to Financial Statements March 31, 2017

NOTE 8 ENDOWMENT FUNDS

The Board of Directors of the California Native Plant Society (CNPS) believes that established endowment funds can, by generating annual income through appreciation, interest, and dividends, provide CNPS with an important and reliable source of income. This income can provide sustainable financial support for CNPS's conservation, scientific, and horticultural activities. CNPS's endowment consists of seven individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors 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.

Board-designated Endowment

Board-designated endowment funds currently consist of three funds established to support educational research grants. Since the funds resulted from an internal designation and are not donor-restricted, they are classified and reported as unrestricted net assets.

Donor-restricted Endowments

The CNPS donor-restricted endowment funds consist of four individual funds established for a variety of purposes: Conservation Fund for conservation, land stewardship, conservation science, and plant science; Hardman Education and Research Fund for native plant research awards; Natural Heritage Fund for organizational support; and the Natalie Hopkins Scholarship Fund for scholarships to women graduate students and researchers.

CNPS 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. CNPS considers the following 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 investment policies of the organization.

CALIFORNIA NATIVE PLANT SOCIETY

Notes to Financial Statements

March 31, 2017

NOTE 8 ENDOWMENT FUNDS – CONTINUED

Investment Policy

CNPS has adopted investment policies to prudently guide investment activities to provide short-term income, with long-term preservation or growth of principal and overall returns above the rate of inflation. Short to medium term operating funds are held in accounts providing frequent access, minimal to no risk and, as much as reasonable, interest income. Endowment assets and other funds held for medium to long terms can be invested for higher average returns. To balance risk and returns, these funds are invested in minimal risk accounts (for example longer term CD and US government securities) and other investments using a diversified asset allocation strategy. Decisions to rebalance, sell, liquidate, or merge investments shall be made prudently with a preference for low turnover in long term investments.

CNPS has a medium to low tolerance for investment risks. Principal fluctuations are expected in most long term investments providing higher returns; however, the portfolio is managed with investments covering multiple asset categories (i.e. stocks, bonds, REITs) to decrease overall risk and volatility. The strategy also recognizes allocations in sub-categories such as large vs. small cap and value vs. growth equities, and long vs. short-term bonds. Investments may be held in individual securities, but preference is given to mutual funds, including exchange traded funds, and especially to “asset allocation funds”. The asset allocated portfolio is managed to return less volatility than the benchmark S&P 500.

The investment strategy prefers readily marketable securities, readily ascertainable market values, widely recognized security categories, full disclosure, safety of principal, high returns, and decreased volatility. While no single category satisfies all preferences, the following categories of securities are approved for investment: Money Market Funds, Certificates of Deposit (CD), U.S. Government Securities, Corporate Bonds, Investment Grade Commercial Paper, Common and Preferred Stocks, Foreign Securities offered through US based exchanges or funds, Mutual Funds, Broadly-based Exchange Traded Funds (ETFs), and Broadly-based Real Estate Investment Trusts (REITs).

Investment decisions are made to minimize management fees and transaction costs. This strategy naturally prefers, but is not limited to, passively managed and no-load index funds. Average expense ratios for the entire portfolio shall not exceed 1%. The Board prefers “socially responsible” investments with an emphasis on “environmental responsibility”.

Use of alternative investment vehicles and strategies contrary to the Accepted Investment Categories and guidelines are prohibited. Examples of prohibited categories include, but are not limited to: narrow sector funds, hedge funds, managed futures, options, junk bonds, derivatives, short selling, market timing, buying on margin, limited partnerships, commodities, or precious metals. In addition, mutual funds that incorporate any significant use of these investment tools or practices are prohibited.

CALIFORNIA NATIVE PLANT SOCIETY

Notes to Financial Statements March 31, 2017

NOTE 8 ENDOWMENT FUNDS – CONTINUED

Spending Policy

The intent of the Board-designated and Donor-restricted endowment funds is to provide a permanent source of income to support the organization and the designated purposes specified in the endowment funds, on a long-term basis, spending only a portion of the earning of the Fund every year and adding the excess to principal for growth over time. Accordingly, each year, the Society may spend an amount (the “Annual Amount”) from the Fund equal to five percent (5%) of the average net fair market value of the Fund’s assets for the 36 calendar months ending December 31 of the previous year. If the Fund has not been in existence for 36 calendar months, the Annual Amount shall be equal to five percent (5%) of the average net fair market value of the Fund’s assets for as many complete calendar months as the Fund has been in existence.

A reconciliation of the beginning and ending balances in the endowment funds is as follows:

| | | |
|---|----|----------|
| Board-designated endowment, beginning of year | \$ | 73,721 |
| Investment income | | 3,145 |
| Net appreciation | | 6,385 |
| Amounts appropriated for expenditure | | (3,886) |
| | | 79,365 |
| Board-designated endowment, end of year | \$ | 79,365 |
| | | |
| Donor-restricted endowment, beginning of year | \$ | 262,154 |
| Investment income | | 7,284 |
| Net appreciation | | 14,790 |
| Amounts appropriated for expenditure | | (13,842) |
| | | 270,386 |
| Donor-restricted endowment, end of year | \$ | 270,386 |

| | | Temporarily Restricted | Permanently Restricted | Total Endowment Funds |
|----------------------------------|-----------|---------------------------|---------------------------|-----------------------------|
| | \$ | \$ | \$ | \$ |
| Donor-restricted endowment funds | - | 23,509 | 246,877 | 270,386 |
| Board-designated endowment funds | 79,365 | - | - | 79,365 |
| | | | | 79,365 |
| | | | | |
| Total funds | \$ 79,365 | \$ 23,509 | \$ 246,877 | \$ 349,751 |
| | | | | 349,751 |

CALIFORNIA NATIVE PLANT SOCIETY

Notes to Financial Statements March 31, 2017

NOTE 9 DONATED MATERIALS AND SERVICES

Approximately 645 volunteers have donated significant amounts of time to CNPS's program services that are not recognized as contributions in the financial statements since the recognition criteria was not met. However, CNPS recognizes these hours as a valuable contribution.

NOTE 10 COMMITMENTS AND CONTINGENCIES

The central office's workers compensation policy lapsed in December 2014 and was not renewed until June 2017. Consequently, CNPS is self-insured for worker compensation claims incurred from January 2015 to June 2017. Management is not aware of any claims incurred during this period. Several of the central office's grants and government contracts require CNPS to carry workers compensation of \$1,000,000, and workers compensation insurance is also required by state law. The Division of Labor Standards Enforcement can assess penalties of up to \$100,000 for failure to secure worker's compensation coverage. The possible loss or range of loss from the lapse in worker's compensation coverage, if any, cannot be determined.