NATURESERVE

FINANCIAL STATEMENTS

AND ADDITIONAL INFORMATION

JUNE 30, 2016

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, 2016, 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, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2016, 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 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 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 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 19, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Mullen Sondberg Wimbish & Stone

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

Annapolis, Maryland
November 15, 2016

NatureServe
STATEMENT OF FINANCIAL POSITION
June 30, 2016

ASSETS

	2016	2015
CURRENT ASSETS		
Cash and cash equivalents	$ 334,620	$ 318,649
Accounts receivable, net of allowance (Note 3)	1,326,943	1,282,142
Investments (Note 2)	542,336	1,238,573
Prepaid expenses	50,624	62,319
Total current assets	2,254,523	2,901,683
PROPERTY AND EQUIPMENT		
Net of accumulated depreciation (Note 4)	604,086	872,904
INVESTMENTS (Note 2)	6,824,613	6,759,381
DEPOSITS	48,812	51,262
Total assets	$ 9,732,034	$ 10,585,230

LIABILITIES AND NET ASSETS

	2016	2015
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 299,273	$ 211,684
Accrued salaries and related liabilities	680,278	434,428
Refundable advances	1,136,204	1,060,180
Deposits	2,056	2,056
Notes payable (Note 8)	-	36,034
Capital lease obligations (Note 9)	44,323	43,421
Deferred rent	21,430	8,581
Total current liabilities	2,183,564	1,796,384
LONG TERM LIABILITIES		
Notes payable (Note 8)	-	58,412
Capital leases obligations (Note 9)	43,795	88,117
Deferred rent	267,011	288,440
Total long term liabilities	310,806	434,969
Total liabilities	2,494,370	2,231,353
NET ASSETS		
Unrestricted	401,051	1,578,460
Unrestricted - Board designated (Note 12)	12,000	12,000
Temporarily restricted (Note 13)	864,105	804,084
Permanently restricted (Note 14)	5,960,508	5,959,333
Total net assets	7,237,664	8,353,877
Total liabilities and net assets	$ 9,732,034	$ 10,585,230

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

NatureServe
STATEMENT OF ACTIVITIES
Year Ended June 30, 2016
With Summarized Financial Information for the Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016	2015
REVENUES, GAINS AND OTHER SUPPORT					
Grants and contracts	$ 6,613,975	$ -	$ -	$ 6,613,975	$ 6,407,750
Software support	773,505	-	-	773,505	720,374
Contributions	471,269	-	1,175	472,444	478,845
Data requests, products and services	147,686	-	-	147,686	198,477
Registration fees	93,117	-	-	93,117	86,396
Conference sponsorship	70,174	-	-	70,174	73,829
Membership dues	60,894	-	-	60,894	60,208
Rental income	26,499	-	-	26,499	32,281
Other income	1,954	-	-	1,954	5,561
Royalties and license fees	32	-	-	32	655
Investment income, gains and losses					
Realized gains	18,723	241,712	-	260,435	235,683
Investment income	17,928	165,408	-	183,336	170,361
Unrealized losses	(32,454)	(453,961)	-	(486,415)	(264,592)
	8,263,302	(46,841)	1,175	8,217,636	8,205,828
Reclassifications of endowment funds	(106,862)	106,862	-	-	-
Total revenues, gains and other support	8,156,440	60,021	1,175	8,217,636	8,205,828
EXPENSES					
Program activities	7,042,797	-	-	7,042,797	6,655,745
General and administrative	1,907,292	-	-	1,907,292	1,746,070
Fundraising	383,760	-	-	383,760	326,978
Total expenses	9,333,849	-	-	9,333,849	8,728,793
Change in net assets	(1,177,409)	60,021	1,175	(1,116,213)	(522,965)
NET ASSETS AT BEGINNING OF YEAR	1,590,460	804,084	5,959,333	8,353,877	8,876,842
NET ASSETS AT END OF YEAR	$ 413,051	$ 864,105	$ 5,960,508	$ 7,237,664	$ 8,353,877

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

NatureServe
STATEMENT OF CASH FLOWS
Year Ended June 30, 2016

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (1,116,213)	$ (522,965)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	308,811	286,899
Loss/(gain) on disposal of assets	1,497	(231)
Realized gain on investments	(260,435)	(235,683)
Unrealized loss on investments	486,415	264,592
Contributions restricted for long-term purposes	(1,175)	(250)
(Increase) decrease in operating assets:		
Accounts receivable	(44,801)	173,098
Prepaid expenses	11,695	(22,680)
Deposits	2,450	1,945
(Increase) decrease in operating liabilities:		
Accounts payable and accrued expenses	87,589	32,067
Accrued salaries and related liabilities	245,850	(5,561)
Refundable advances	76,024	(38,659)
Deposits	-	(3,406)
Deferred rent	(8,580)	3,924
Net cash used by operating activities	(210,873)	(66,910)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments, including reinvestment of dividends	(241,356)	(220,135)
Proceeds from sale of investments	646,381	430,199
Purchase of property and equipment	(41,490)	(192,275)
Proceeds from sale of property and equipment	-	1,600
Net cash provided by investing activities	363,535	19,389
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on notes payable	(94,446)	(34,619)
Principal payments on capital lease obligations	(43,420)	(34,129)
Contributions restricted for long-term purposes	1,175	250
Net cash used by financing activities	(136,691)	(68,498)
Net change in cash and cash equivalents	15,971	(116,019)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	318,649	434,668
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 334,620	$ 318,649
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the year for interest	$ 11,215	$ 12,548
Noncash investing and financing activities:		
Acquisition of property and equipment	$ 41,490	$ 230,141
Less amounts financed	-	(37,866)
Net cash paid for property and equipment	$ 41,490	$ 192,275

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

Note 1 - Summary of Significant Accounting Policies

Nature and Organization

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

Basis of Accounting

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

Basis of Presentation

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

Cash and Cash Equivalents

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

Accounts Receivable

Accounts receivable consists of amounts due from government and other funding agencies and amounts due from customers for services provided. The allowance for doubtful accounts is determined by management based on their periodic review of individual account balances. As of June 30, 2016 and 2015 the balances in the allowance for doubtful accounts was $8,512 and $9,086, respectively.

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, 2012 remain subject to examination by federal and State authorities.

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

Functional Expenses

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the statement of financial position date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

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

Note 2 - Investments / Fair Value Measurements

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

	2016	2015
Investments reported as current assets	$ 542,336	$ 1,238,573
Investments held for long-term purposes	6,824,613	6,759,381
Total investments	$ 7,366,949	$ 7,997,954

As of June 30, 2016 and 2015, total investments of $7,366,949 and $7,997,954 include $-0- and $1,059,428, respectively that was appropriated from the endowment to support operations of the Organization.

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

	2016		2015	
	Cost	Market	Cost	Market
Fixed Income	$3,238,163	$3,235,795	$ -	$ -
Exchange Traded Funds	2,980,435	2,959,146	1,447,502	1,541,969
Mutual funds	890,690	1,078,882	4,016,595	4,328,023
Money market funds	93,126	93,126	66,333	66,333
Equity securities	-	-	1,818,260	2,061,629
	$7,202,414	$7,366,949	$7,348,690	$7,997,954

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

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

	2016	2015
Interest, dividends and other income, net	$ 183,336	$ 170,361
Net realized and unrealized gains / (losses) on investments	(225,980)	(28,909)
	$ (42,644)	$ 141,452

Interest and dividend income is reported net of related expenses of $44,262 and $46,906 for the years ended June 30, 2016 and 2015, respectively.

ASC 820, Fair Value Measurements and Disclosures, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The Organization measures fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Organization also prioritizes, within the measurement of fair value, the use of market-based information over entity-specific information and establishes a three-level hierarchy for fair value measurements based on the transparency of information used in the valuation of an asset or liability at the measurement date. The three levels of the fair value hierarchy are as follows:

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

Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.

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

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

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

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

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

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

June 30, 2016	Level 1	Level 2	Level 3	Total
Money market funds	$ 93,126	$ -	$ -	$ 93,126
Fixed Income	3,235,795	-	-	3,235,795
Mutual funds				
Nontraditional bond	244,795	-	-	244,795
Real estate	222,795	-	-	222,795
Mid cap growth	174,769	-	-	174,769
Small blend	172,441	-	-	172,441
Foreign large growth	139,230	-	-	139,230
Foreign large blend	124,852	-	-	124,852
Exchange Traded Funds				
Large blend	1,907,824	-	-	1,907,824
Foreign large blend	549,481	-	-	549,481
Diversified emerging markets	246,751	-	-	246,751
Global real estate	210,363	-	-	210,363
Small blend	44,727	-	-	44,727
Total	$ 7,366,949	$ -	$ -	$ 7,366,949

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

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

June 30, 2015	Level 1	Level 2	Level 3	Total
Money market funds	$ 66,333	$ -	$ -	$ 66,333
Equity securities				
Consumer cyclical	448,543	-	-	448,543
Financial services	370,296	-	-	370,296
Technology	297,972	-	-	297,972
Healthcare	243,001	-	-	243,001
Communication services	178,300	-	-	178,300
Energy	163,295	-	-	163,295
Industrials	159,400	-	-	159,400
Consumer defensive	98,247	-	-	98,247
Other	44,894	-	-	44,894
Basic material	30,359	-	-	30,359
Utilities	27,322	-	-	27,322
Mutual funds				
Intermediate term bond	1,752,107	-	-	1,752,107
Ultrashort bond	836,638	-	-	836,638
High yield bond	527,281	-	-	527,281
Real estate	261,408	-	-	261,408
Mid cap growth	193,862	-	-	193,862
Small blend	177,648	-	-	177,648
Nontraditional bond	168,661	-	-	168,661
Foreign large growth	157,985	-	-	157,985
Foreign large blend	152,733	-	-	152,733
Bank loan	99,700	-	-	99,700
Exchange Traded Funds				
Foreign large blend	580,092	-	-	580,092
Large blend	389,141	-	-	389,141
Diversified emerging markets	298,931	-	-	298,931
Global real estate	225,234	-	-	225,234
Small blend	48,571	-	-	48,571
Total	$ 7,997,954	$ -	$ -	$ 7,997,954

Note 3 - Accounts Receivable

Accounts receivable consisted of the following at June 30:

	2016	2015
Grants - billed	$ 492,372	$ 553,692
Grants - unbilled	723,150	665,861
Contributions receivable	82,433	69,121
Miscellaneous	37,500	2,554
Allowance for doubtful accounts	(8,512)	(9,086)
	$ 1,326,943	$ 1,282,142

Note 4 - Property and Equipment

Property and equipment consisted of the following at June 30:

	Estimated Lives	2016	2015
Leasehold improvements	10 years	$ 44,624	$ 44,624
Equipment	3 - 7 years	586,894	586,896
Software	3 - 5 years	919,690	925,293
Furniture and fixtures	7 years	12,457	12,457
		1,563,665	1,569,270
Less accumulated depreciation		(959,579)	(696,366)
Net property and equipment		$ 604,086	$ 872,904

Depreciation and amortization expense for the years ended June 30, 2016 and 2015 was $308,811 and $286,899, 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 one month 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, 2016 and 2015, the Organization contributed $255,595 and $227,941, respectively to the Plan.

Note 6 - Compensated Absences and Severance Pay

As of June 30, 2016 and 2015, the Organization accrued $194,237 and $203,309, respectively, in compensated absences. Employees accrue leave based on years of service. Leave may be accumulated up to a maximum of one hundred forty hours after which remaining days will be forfeited. Sick leave is not payable upon termination of employment. Therefore, no provision for unused sick leave has been made.

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

Note 7 - Line of Credit

The Organization has a line of credit, secured by all of the Organization's inventory and equipment, with a bank with a maximum borrowing potential of $500,000. The line bears interest at the bank's prime lending rate and expires in March 2017. There were no amounts outstanding as of June 30, 2016 and 2015.

The Organization must maintain a ratio of Minimum Cash Flow to Debt Service ratio in excess of 1.25 to 1.00, which shall be evaluated at the end of each fiscal year. The ratio is defined as the change in net assets plus interest, plus depreciation and amortization plus or minus unrealized losses/gains divided by interest expense.

Note 8 - Notes Payable

During 2014 the Organization purchased several pieces of office equipment financed through a note obtained from a local bank. The notes are for 36 to 60 months expiring in 2017 to 2019. Aggregate monthly payments are $3,255, including principal and interest at rates ranging from 3.66% to 3.99%. The Organization paid off all notes during the fiscal year ended June 30, 2016. The balance of these notes payable at June 30, 2016 and 2015 was $-0- and $94,446, respectively.

Among other restrictions, the aforementioned agreements list certain financial covenants, which must be maintained by the Organization.

For the year ended June 30, 2015, the Organization did not meet the debt covenant. The bank waived this covenant requirement for June 30, 2015.

Interest expense for the year ended June 30, 2016 and 2015 was $11,215 and $12,548, respectively.

Note 9 - Capital Leases Obligation

In August 2013 the Organization leased office equipment which is accounted for as a capital lease. The lease dictates 60 monthly payments of $2,768 beginning on September 20, 2013. The capital lease obligation is discounted at a 2.89% interest rate and has a capitalized cost of $154,487. The remaining book value of the office equipment at June 30, 2016 and 2015 is $66,944 and $97,841, respectively. Amortization of the office equipment is included in depreciation expense.

In February 2015 the Organization leased office equipment which is accounted for as a capital lease. The lease dictates 36 monthly payments of $1,052 beginning on March 10, 2015. The capital lease obligation is discounted at a 0% interest rate and has a capitalized cost of $37,866. The remaining book value of the office equipment at June 30, 2016 and 2015 is $21,037 and $33,659, respectively. Amortization of the office equipment is included in depreciation expense.

Future minimum lease payments under the lease are as follows:

Year Ending June 30:	
2017	$ 45,843
2018	41,632
2019	2,768
	90,243
Less payments representing interest	(2,125)
Present value of future lease payments (including current portion of $44,323)	$ 88,118

Note 10 - Operating Leases

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

Rent expense is recognized on the straight line basis and amounts to $590,245 and $571,930 for the years ended June 30, 2016 and 2015, respectively. Actual cash paid for rent expense was $598,826 and $568,006 for the years ended June 30, 2016 and 2015, respectively. The Organization has recorded a liability for deferred rent amounting to $288,441 and $297,021 at June 30, 2016 and 2015, respectively which represents the future differences between actual rent paid and rent recorded on the straight-line basis.

Note 10 - Operating Leases (Cont.)

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

Year Ending June 30:	
2017	$ 528,003
2018	505,434
2019	506,855
2020	520,794
2021	535,115
Thereafter	274,916
	$ 2,871,117

Note 11 - Contingency

The Organization receives grants from various agencies of the United States Government. Such grants are subject to audit under the provisions of OMB Uniform Guidance. The ultimate determination of amounts received under the United States Government grants is based upon the allowance of costs reported to and accepted by the United States Government as a result of the audits. Audits in accordance with the provisions of OMB Uniform Guidance have been completed for all required fiscal years through 2016. Until such audits have been accepted by the United States Government, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

Note 12 - Board Designated Net Assets

The Board of Directors has designated funds in the year ended June 30, 2014 towards future employee training and travel costs. The Organization maintained $12,000 as of June 30, 2016 and 2015 towards this purpose.

Note 13 - Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2016 and 2015 consisted of the following.

	2016	2015
Unappropriated endowment earnings	$ 41,849	$ 4,036
Innovation Fund	822,256	800,048
Total temporarily restricted net assets	$ 864,105	$ 804,084

The Innovation Endowment Fund is restricted for a specific purpose until December 31, 2017. Thereafter, the funds will be used as directed by the Board of Directors.

Note 14 - Endowment Funds

The Organization has established an endowment fund. Management follows the Uniform Prudent Management of Institutional Funds Act (UPMIFA) of Virginia. As a result, the Organization classifies as 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. During the year ended June 30, 2015 the Board of Director's approved a pay out of additional accumulated earnings above 6%. The Board resolved that any prior endowment appropriations that were not drawn from investment accounts as of June 30, 2016 were to be voided. This resolution resulted in a reclassification of $106,862 from unrestricted net assets to temporarily restricted net assets during the year ended June 30, 2016.

Note 14 - Endowment Funds (Cont.)

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

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

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 4,036	$ 5,959,333	$ 5,963,369
Innovation endowment funds	-	800,048	-	800,048
Total endowed net assets	$ -	$ 804,084	$ 5,959,333	$ 6,763,417

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

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

Note 14 - Endowment Funds (Cont.)

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

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of the year	$ -	$ 1,331,845	$ 5,959,083	$ 7,290,928
Contributions	-	-	250	250
Investment income, net	-	152,669	-	152,669
Net depreciation	-	(253,999)	-	(253,999)
Realized gains	-	234,349	-	234,349
Amounts appropriated for expenditure	-	(660,780)	-	(660,780)
Endowment net assets, end of year	$ -	$ 804,084	$ 5,959,333	$ 6,763,417

Note 15 - Subsequent Events

The Organization has evaluated the impact of significant subsequent events. There have been no subsequent events through November 15, 2016, 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, 2016
With Summarized Financial Information for the Year Ended June 30, 2015

	Program Activities	General and Administrative	Fundraising	Total 2016	Total 2015
Salaries and benefits	$ 4,912,575	$ 1,197,380	$ 296,641	$ 6,406,596	$ 5,940,442
Rent	445,666	126,576	18,003	590,245	571,930
Internet, computer, and data expenses	480,970	95,183	1,695	577,848	527,399
Subagreements	506,834	-	-	506,834	507,911
Travel	294,485	24,532	24,959	343,976	319,184
Depreciation and amortization	102,067	206,744	-	308,811	286,899
Professional fees	57,691	87,742	11,935	157,368	159,006
Meetings and conferences	79,543	9,030	5,024	93,597	73,171
In-kind expenses	52,190	12,721	3,151	68,062	78,980
Equipment, rental, repairs & maint.	35,300	27,225	477	63,002	33,255
Telephone	44,993	10,923	2,352	58,268	63,754
Insurance	-	30,796	-	30,796	31,598
Office expense	3,604	17,372	483	21,459	27,616
Payroll fees	-	17,546	-	17,546	17,045
Dues and subscriptions	3,543	6,794	5,621	15,958	21,627
Printing	7,354	901	4,896	13,151	11,671
Interest expense	-	11,215	-	11,215	12,548
Postage and delivery	6,390	912	3,664	10,966	5,475
Bank fees	2,835	4,644	2,254	9,733	9,422
Miscellaneous	6,624	502	2,605	9,731	6,634
Taxes, licenses and permits	-	9,676	-	9,676	8,982
Bad debts	-	6,175	-	6,175	8,582
Advertising - recruiting	133	2,703	-	2,836	5,662
Total expenses	$ 7,042,797	$ 1,907,292	$ 383,760	$ 9,333,849	$ 8,728,793

Included in salaries and benefits for the year ended June 30, 2016 is a one-time severance payment to a former executive in the amount of $232,502.