

**NATURESERVE
FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION
JUNE 30, 2015**



MULLEN SONDBERG WIMBISH & STONE, PA

CERTIFIED PUBLIC ACCOUNTANTS

TABLE OF CONTENTS

	<u>Page</u>
Independent auditor's report	1 – 2
Financial statements	
Statement of financial position	3
Statement of activities	4
Statement of cash flows	5
Notes to the financial statements	6 – 21
Additional information	
Schedule of functional expense	22



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
NatureServe
Arlington, Virginia

We have audited the accompanying financial statements of NatureServe (a non-profit Organization), which comprise the statement of financial position as of June 30, 2015, 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, 2015, 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 19, 2015, 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 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 24, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.



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

Annapolis, Maryland
November 19, 2015

NatureServe
STATEMENT OF FINANCIAL POSITION
June 30, 2015

ASSETS

	2015	2014
CURRENT ASSETS		
Cash and cash equivalents	\$ 318,649	\$ 434,668
Accounts receivable, net of allowance (Note 3)	1,282,142	1,455,240
Investments (Note 2)	1,238,573	1,477,796
Prepaid expenses	62,319	39,639
Total current assets	2,901,683	3,407,343
PROPERTY AND EQUIPMENT		
Net of accumulated depreciation (Note 4)	872,904	931,031
INVESTMENTS (Notes 2)	6,759,381	6,759,131
DEPOSITS	51,262	53,207
Total assets	\$ 10,585,230	\$ 11,150,712

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 211,684	\$ 179,617
Accrued salaries and related liabilities	434,428	439,989
Refundable advances	1,060,180	1,098,839
Deposits	2,056	5,462
Notes payable (Note 8)	36,034	34,619
Capital lease obligations (Note 9)	43,421	29,921
Deferred rent	8,581	-
Total current liabilities	1,796,384	1,788,447
LONG TERM LIABILITIES		
Notes payable (Note 8)	58,412	94,446
Capital leases obligations (Note 9)	88,117	97,880
Deferred rent	288,440	293,097
Total long term liabilities	434,969	485,423
Total liabilities	2,231,353	2,273,870
NET ASSETS		
Unrestricted	1,578,460	1,573,914
Unrestricted - board designated (Note 13)	12,000	12,000
Temporarily restricted (Note 14)	804,084	1,331,845
Permanently restricted (Note 15)	5,959,333	5,959,083
Total net assets	8,353,877	8,876,842
Total liabilities and net assets	\$ 10,585,230	\$ 11,150,712

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

NatureServe
STATEMENT OF ACTIVITIES
Year Ended June 30, 2015
With Summarized Financial Information for the Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	2015	2014
REVENUES, GAINS AND OTHER SUPPORT					
Grants and contracts	\$ 6,407,750	\$ -	\$ -	\$ 6,407,750	\$ 6,367,232
Software support	720,374	-	-	720,374	627,613
Contributions	478,595	-	250	478,845	1,203,025
Data requests and usage training	168,069	-	-	168,069	146,733
Endowment investment activity:					
Appropriated for current operations	660,780	-	-	660,780	383,593
Investment return, net of appropriations	-	(527,761)	-	(527,761)	460,035
Other investment income and gains	8,433	-	-	8,433	83,637
Registration fees	86,396	-	-	86,396	105,482
Conference sponsorship	73,829	-	-	73,829	47,000
Membership dues	60,208	-	-	60,208	60,950
Other income	35,969	-	-	35,969	42,456
Rental income	32,281	-	-	32,281	40,360
Royalties and license fees	655	-	-	655	123
	<u>8,733,339</u>	<u>(527,761)</u>	<u>250</u>	<u>8,205,828</u>	<u>9,568,239</u>
EXPENSES					
Program activities	6,655,745	-	-	6,655,745	6,418,673
General and administrative	1,746,070	-	-	1,746,070	1,594,063
Fundraising	326,978	-	-	326,978	275,486
	<u>8,728,793</u>	<u>-</u>	<u>-</u>	<u>8,728,793</u>	<u>8,288,222</u>
Change in net assets	4,546	(527,761)	250	(522,965)	1,280,017
NET ASSETS AT BEGINNING OF YEAR	<u>1,585,914</u>	<u>1,331,845</u>	<u>5,959,083</u>	<u>8,876,842</u>	<u>7,596,825</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,590,460</u>	<u>\$ 804,084</u>	<u>\$ 5,959,333</u>	<u>\$ 8,353,877</u>	<u>\$ 8,876,842</u>

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

NatureServe
STATEMENT OF CASH FLOWS
Year Ended June 30, 2015

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (522,965)	\$ 1,280,017
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	286,899	177,196
Loss on disposal of assets	(231)	-
Realized gain on investments	(235,683)	(350,024)
Unrealized (gain) / loss on investments	264,592	(405,540)
Contributions restricted for long-term purposes	(250)	(800,348)
(Increase) decrease in operating assets:		
Accounts receivable	173,098	156,199
Prepaid expenses	(22,680)	17,094
Deposits	1,945	(6,500)
(Increase) decrease in operating liabilities:		
Accounts payable and accrued expenses	32,067	(34,294)
Accrued salaries and related liabilities	(5,561)	(16,545)
Refundable advances	(38,659)	(45,539)
Deposits	(3,406)	4,312
Deferred rent	3,924	16,095
Net cash used by operating activities	(66,910)	(7,877)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments, including reinvestment of dividends	(220,135)	(1,018,296)
Proceeds from sale of investments	430,199	319,046
Purchase of property and equipment	(192,275)	(349,864)
Proceeds from sale of property and equipment	1,600	-
Net cash provided (used) by investing activities	19,389	(1,049,114)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on notes payable	(34,619)	(15,447)
Principal payments on capital lease obligations	(34,129)	(26,686)
Contributions restricted for long-term purposes	250	800,348
Net cash provided (used) by financing activities	(68,498)	758,215
Net change in cash and cash equivalents	(116,019)	(298,776)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	434,668	733,444
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 318,649	\$ 434,668
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the year for interest	\$ 12,548	\$ 11,170
Noncash investing and financing activities:		
Acquisition of property and equipment	\$ 230,141	\$ 648,863
Less amounts financed	(37,866)	(298,999)
Net cash paid for property and equipment	\$ 192,275	\$ 349,864

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

NatureServe
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

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, 2014, 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, 2015 and 2014 the balances in the allowance for doubtful accounts was \$9,086 and \$10,043, respectively.

NatureServe
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2015

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 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.

NatureServe
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2015

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

Concentration of Cash Balances

At June 30, 2015 and 2014 and at various times during the fiscal years then ended, NatureServe maintained cash balances in excess of the federally insured limit. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Amounts held in excess of FDIC insurance coverage as of June 30, 2015 and 2014 were approximately \$-0- and \$151,000, respectively.

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.

NatureServe
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2015

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

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:

	<u>2015</u>	<u>2014</u>
Investments reported as current assets	\$ 1,238,573	\$ 1,477,796
Investments held for long-term purposes	<u>6,759,381</u>	<u>6,759,131</u>
Total investments	<u>\$ 7,997,954</u>	<u>\$ 8,236,927</u>

The total investments of \$7,997,954 and \$8,236,927 at the end of June 30, 2015 and 2014, respectively, include \$1,059,428 and \$781,941, respectively that was appropriated from the endowment to support operations of the Organization but has not been transferred out of investments.

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

	<u>2015</u>		<u>2014</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Money market funds	\$ 66,333	\$ 66,333	\$ 230,230	\$ 230,230
Equity securities	1,818,260	2,061,629	1,568,734	1,890,318
Mutual funds	4,016,595	4,328,023	4,396,309	4,561,200
Exchange Traded Funds	<u>1,447,502</u>	<u>1,541,969</u>	<u>1,237,104</u>	<u>1,555,179</u>
	<u>\$7,348,690</u>	<u>\$7,997,954</u>	<u>\$7,432,377</u>	<u>\$8,236,927</u>

NatureServe
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2015

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

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

	2015	2014
Interest, dividends and other income, net	\$ 170,361	\$ 171,701
Net realized and unrealized gains / (losses) on investments	(28,909)	755,564
	\$ 141,452	\$ 927,265

Interest and dividend income is reported net of related expenses of \$46,906 and \$44,046 for the years ended June 30, 2015 and 2014, respectively.

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

- Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3: Inputs that are unobservable and supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

NatureServe
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2015

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.

NatureServe
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2015

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:

<u>June 30, 2015</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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

NatureServe
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2015

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

<u>June 30, 2014</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 230,230	\$ -	\$ -	\$ 230,230
Equity securities				
Consumer cyclical	396,659	-	-	396,659
Technology	303,986	-	-	303,986
Financial services	274,257	-	-	274,257
Healthcare	252,006	-	-	252,006
Energy	188,362	-	-	188,362
Communication services	151,144	-	-	151,144
Industrials	147,539	-	-	147,539
Consumer services	51,852	-	-	51,852
Basic material	38,728	-	-	38,728
Real estate	37,891	-	-	37,891
Consumer defensive	27,034	-	-	27,034
Utilities	20,860	-	-	20,860
Mutual funds				
Intermediate term bond	1,764,463	-	-	1,764,463
High yield bond	1,416,131	-	-	1,416,131
Foreign large value	330,980	-	-	330,980
Small blend	291,535	-	-	291,535
Real estate	254,694	-	-	254,694
Mid cap growth	239,666	-	-	239,666
Nontraditional bond	171,607	-	-	171,607
Emerging market bond	84,040	-	-	84,040
Bank loan	8,084	-	-	8,084
Exchange Traded Funds				
Foreign large blend	475,561	-	-	475,561
Large blend	369,911	-	-	369,911
Diversified emerging markets	312,434	-	-	312,434
Global real estate	238,217	-	-	238,217
Foreign large growth	159,056	-	-	159,056
Total	<u>\$ 8,236,927</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,236,927</u>

NatureServe
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2015

Note 3 - Accounts Receivable

Accounts receivable consisted of the following at June 30:

	2015	2014
Grants - billed	\$ 553,692	\$ 660,558
Grants - unbilled	665,861	781,077
Contributions receivable	69,121	18,539
Miscellaneous	2,554	5,109
Allowance for doubtful accounts	(9,086)	(10,043)
	\$ 1,282,142	\$ 1,455,240

Note 4 - Property and Equipment

Property and equipment consisted of the following at June 30:

	Estimated Lives	2015	2014
Leasehold improvements	10 years	\$ 44,624	\$ 44,624
Equipment	3 - 7 years	586,896	708,148
Software	3 - 5 years	925,293	785,425
Furniture and fixtures	7 years	12,457	12,457
		1,569,270	1,550,654
Less accumulated depreciation		(696,366)	(619,623)
Net property and equipment		\$ 872,904	\$ 931,031

Depreciation and amortization expense for the years ended June 30, 2015 and 2014 was \$286,899 and \$177,196, 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, 2015 and 2014, the Organization contributed \$227,941 and \$205,998, respectively to the Plan.

NatureServe
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2015

Note 6 - Compensated Absences

As of June 30, 2015 and 2014, the Organization accrued \$203,309 and \$201,795, 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.

Note 7 - Line of Credit

The Organization has an unsecured line of credit 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 2016. There were no amounts outstanding as of June 30, 2015 and 2014.

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 balance of these notes payable at June 30, 2015 and 2014 was \$94,446 and \$129,065, respectively.

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

- a. 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 year. Minimum Cash Flow equates to the change in net assets plus interest, taxes, depreciation and amortization. Debt Service equates to interest plus current portion of long term debt.

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

NatureServe
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2015

Note 8 - Notes Payable (Cont.)

Future maturities of the mortgage are as follows:

<u>Year Ending June 30:</u>	
2016	\$ 36,034
2017	35,650
2018	19,510
2019	<u>3,252</u>
	<u>\$ 94,446</u>

Interest expense for the year ended June 30, 2015 and 2014 was \$12,548 and \$11,170, 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, 2015 and 2014 is \$97,841 and \$128,736, 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, 2015 is \$33,659. Amortization of the office equipment is included in depreciation expense.

NatureServe
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2015

Note 9 - Capital Leases Obligation (Cont.)

Future minimum lease payments under the lease are as follows:

Year Ending June 30:	
2016	\$ 45,843
2017	45,843
2018	41,632
2019	2,768
	136,086
Less payments representing interest	(4,548)
Present value of future lease payments (including current portion of \$43,421)	\$ 131,538

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 2016, respectively.

Rent expense is recognized on the straight line basis and amounts to \$571,930 and \$566,453 for the years ended June 30, 2015 and 2014, respectively. Actual cash paid for rent expense was \$568,006 and \$550,358 for the years ended June 30, 2015 and 2014, respectively. The Organization has recorded a liability for deferred rent amounting to \$297,021 and \$293,097 at June 30, 2015 and 2014, 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:	
2016	\$ 536,701
2017	528,003
2018	505,434
2019	506,855
2020	520,794
Thereafter	810,031
	\$ 3,407,818

NatureServe
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2015

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 Circular A-133. 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 Circular A-133 have been completed for all required fiscal years through 2015. 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, 2015 and 2014 towards this purpose.

Note 13 - Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2015 and 2014 consisted of the following.

	<u>2015</u>	<u>2014</u>
Unappropriated endowment earnings	\$ 4,036	\$ 498,245
Innovation Fund	<u>800,048</u>	<u>833,600</u>
Total temporarily restricted net assets	<u>\$ 804,084</u>	<u>\$ 1,331,845</u>

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

NatureServe
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2015

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%.

NatureServe
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2015

Note 14 - Endowment Funds (Cont.)

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

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
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

	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ -	\$ 498,245	\$ 5,959,083	\$ 6,457,328
Innovation endowment funds	-	833,600	-	\$ 833,600
Total endowed net assets	\$ -	\$ 1,331,845	\$ 5,959,083	\$ 7,290,928

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

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of the year	\$ -	\$ 1,331,845	\$ 5,959,083	\$ 7,290,928
Contributions	-	-	250	250
Investment income	-	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

NatureServe
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2015

Note 14 - Endowment Funds (Cont.)

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of the year	\$ -	\$ 71,762	\$ 5,958,783	\$ 6,030,545
Contributions	-	800,048	300	800,348
Investment income	-	153,075	-	153,075
Net appreciation	-	357,853	-	357,853
Realized gains	-	332,700	-	332,700
Amounts appropriated for expenditure	-	(383,593)	-	(383,593)
Endowment net assets, end of year	\$ -	\$ 1,331,845	\$ 5,959,083	\$ 7,290,928

Note 15 - Subsequent Events

The Organization has evaluated the impact of significant subsequent events. There have been no subsequent events through November 19, 2015, 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, 2015
With Summarized Financial Information for the Year Ended June 30, 2014

	Program Activities	General and Administrative	Fundraising	Total	
				2015	2014
Salaries and benefits	\$ 4,723,087	\$ 964,360	\$ 252,995	\$ 5,940,442	\$ 5,863,808
Rent	378,598	193,332	-	571,930	566,453
Internet, computer, and data expenses	484,798	41,001	1,600	527,399	315,021
Subagreements	507,911	-	-	507,911	407,769
Travel	282,039	17,618	19,527	319,184	369,296
Depreciation and amortization	82,227	204,672	-	286,899	177,196
Professional fees	75,471	76,508	26,901	178,880	164,656
In-kind expenses	-	78,980	-	78,980	87,360
Telephone	36,345	25,778	1,631	63,754	64,671
Meetings and conferences	41,301	8,135	3,861	53,297	58,335
Equipment, rental, repairs & maint.	11,377	21,424	454	33,255	50,259
Insurance	-	31,598	-	31,598	28,713
Office expense	7,143	17,678	2,795	27,616	22,913
Dues and subscriptions	6,734	6,289	8,604	21,627	17,878
Payroll fees	-	17,045	-	17,045	22,168
Interest expense	-	12,548	-	12,548	11,170
Printing	8,245	335	3,091	11,671	20,607
Bank fees	3,377	4,662	1,383	9,422	11,752
Taxes, licenses and permits	-	8,982	-	8,982	7,537
Bad debts	-	8,582	-	8,582	3,544
Miscellaneous	4,247	540	1,847	6,634	2,965
Advertising - recruiting	-	5,662	-	5,662	4,702
Postage and delivery	2,845	341	2,289	5,475	9,449
Total expenses	\$ 6,655,745	\$ 1,746,070	\$ 326,978	\$ 8,728,793	\$ 8,288,222