

NATURESERVE, INC.
FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION
JUNE 30, 2013

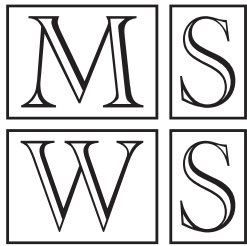


MULLEN SONDBERG WIMBISH & STONE, PA

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, Inc.
Arlington, Virginia

We have audited the accompanying financial statements of NatureServe, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013, 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NatureServe, Inc. as of June 30, 2013, 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 schedules of functional expense and net operating income are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also 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 June 30, 2013, on our consideration of NatureServe, Inc.'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, Inc.'s internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited NatureServe, Inc. 2012 financial statements, and our report dated October 22, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, 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
October 21, 2013

NatureServe, Inc.
STATEMENT OF FINANCIAL POSITION
June 30, 2013

ASSETS

	2013	2012
CURRENT ASSETS		
Cash and cash equivalents	\$ 733,444	\$ 1,005,120
Accounts receivable, net of allowance (Note 3)	1,611,439	2,958,211
Investments (Note 2)	823,330	206,141
Prepaid expenses	56,733	25,143
Total current assets	3,224,946	4,194,615
PROPERTY AND EQUIPMENT		
Net of accumulated depreciation (Note 4)	459,364	186,452
INVESTMENTS (Notes 2)	5,958,783	5,958,423
DEPOSITS	46,707	44,271
Total assets	\$ 9,689,800	\$ 10,383,761

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 213,911	\$ 409,260
Accrued salaries and related liabilities	456,534	492,661
Refundable advances	1,144,378	1,872,357
Deposits	1,150	1,150
Total current liabilities	1,815,973	2,775,428
LONG TERM LIABILITIES		
Deferred rent	277,002	249,062
Total liabilities	2,092,975	3,024,490
NET ASSETS		
Unrestricted, as restated	1,566,280	1,400,848
Temporarily restricted (Note 9)	71,762	-
Permanently restricted (Note 10)	5,958,783	5,958,423
Total net assets	7,596,825	7,359,271
Total liabilities and net assets	\$ 9,689,800	\$ 10,383,761

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

NatureServe, Inc.
STATEMENT OF ACTIVITIES
Year Ended June 30, 2013
With Summarized Financial Information for the Year Ended June 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2013</u>	<u>2012</u>
REVENUES, GAINS AND OTHER SUPPORT					
Grants and contracts	\$ 6,608,510	\$ -	\$ -	\$ 6,608,510	\$ 8,058,710
Endowment investment activity:					
Appropriated for current operations	345,890	-	-	345,890	198,581
Investment return (deficiency), net of appropriations	163,768	71,762	-	235,530	(162,933)
Other investment income, gains and losses	37,758	-	-	37,758	1,301
Software support	354,458	-	-	354,458	355,744
Contributions	305,000	-	360	305,360	233,024
Data requests and usage training	188,496	-	-	188,496	54,271
Registration fees	89,059	-	-	89,059	84,221
Membership dues	56,341	-	-	56,341	41,759
Conference sponsorship	45,850	-	-	45,850	32,900
Other income	34,778	-	-	34,778	9,421
Royalties and license fees	65	-	-	65	189
	<u>8,229,973</u>	<u>71,762</u>	<u>360</u>	<u>8,302,095</u>	<u>8,907,188</u>
EXPENSES					
Program activities	6,158,675	-	-	6,158,675	7,409,025
General and administrative	1,579,583	-	-	1,579,583	1,515,121
Fundraising	326,283	-	-	326,283	277,638
	<u>8,064,541</u>	<u>-</u>	<u>-</u>	<u>8,064,541</u>	<u>9,201,784</u>
Change in net assets	165,432	71,762	360	237,554	(294,596)
NET ASSETS AT BEGINNING OF YEAR, AS RESTATED					
	<u>1,400,848</u>	<u>-</u>	<u>5,958,423</u>	<u>7,359,271</u>	<u>7,653,867</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,566,280</u>	<u>\$ 71,762</u>	<u>\$ 5,958,783</u>	<u>\$ 7,596,825</u>	<u>\$ 7,359,271</u>

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

NatureServe, Inc.
STATEMENT OF CASH FLOWS
Year Ended June 30, 2013

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 237,554	\$ (294,596)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	57,583	85,333
Realized (gain) / loss on investments	(360,166)	(5,412)
Unrealized (gain) / loss on investments	(110,139)	101,119
Contributions restricted for long-term purposes	(360)	(860)
(Increase) decrease in operating assets:		
Accounts receivable	1,346,772	258,209
Prepaid expenses	(31,590)	25,725
Deposits	(2,436)	51,839
(Increase) decrease in operating liabilities:		
Accounts payable and accrued expenses	(195,349)	(447,257)
Accrued salaries and related liabilities	(36,127)	75,556
Refundable advances	(727,979)	(132,493)
Deposits	-	(4,050)
Deferred rent	27,940	249,062
	<u>205,703</u>	<u>(37,825)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments, including reinvestment of dividends	(190,539)	(238,184)
Proceeds from sale of investments	43,295	37,151
Purchase of property and equipment	(330,495)	(51,827)
	<u>(477,739)</u>	<u>(252,860)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions restricted for long-term purposes	360	860
	<u>360</u>	<u>860</u>
Net change in cash and cash equivalents	(271,676)	(289,825)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,005,120</u>	<u>1,294,945</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 733,444</u>	<u>\$ 1,005,120</u>

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

NatureServe, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 1 - Summary of Significant Accounting Policies

Nature and Organization

NatureServe, Inc. was incorporated in Washington, D.C. in 1994 as a non-profit organization. NatureServe, Inc.'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, 2012, 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.

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. Depreciation is provided over the estimated useful lives of the assets using the straight-line method.

NatureServe, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2013

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

Income Tax Status

NatureServe, Inc. 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, 2010 remain subject to examination by federal and state authorities.

Concentration of Cash Balances

At June 30, 2013 and 2012 and at various times during the fiscal years then ended, NatureServe, Inc. 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 non-interest-bearing transaction accounts from December 31, 2010 through December 31, 2012 are fully insured under the provisions of Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which provides unlimited deposit insurance coverage for non-interest-bearing transaction accounts. Amounts held in excess of FDIC insurance coverage as of June 30, 2013 and 2012 were approximately \$282,000 and \$276,000, 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.

NatureServe, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2013

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

Revenue Recognition (Cont.)

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.

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.

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, 2013 and 2012 the balances in the allowance for doubtful accounts was \$10,512 and \$4,191, respectively.

Pledges Receivable

Contributions are recognized when the donor makes a pledge to give to the Organization that is, in substance, unconditional.

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.

NatureServe, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2013

Note 2 - Investments / Fair Value Measurements

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

	2013	2012
Investments reported as current assets	\$ 823,330	\$ 206,141
Investments held for long-term purposes	5,958,783	5,958,423
 Total investments	 \$ 6,782,113	 \$ 6,164,564

The total investments of \$6,782,113 at the end of June 30, 2013 include \$826,423 that was appropriated from the endowment to support operations of the Organization but has not been transferred out of investments.

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

	2013	2012
Interest, dividends and other income, net	\$ 148,873	\$ 133,656
 Net realized and unrealized gains / (losses) on investments	 470,305	 (96,707)
	\$ 619,178	\$ 36,949

Interest and dividend income is reported net of related expenses of \$43,295 and \$37,151 for the years ended June 30, 2013 and 2012, respectively.

NatureServe, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2013

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

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

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

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the Organization. The Association 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, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2013

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, 2013</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 57,562	\$ -	\$ -	\$ 57,562
Equity securities				
Technology	294,103	-	-	294,103
Consumer cyclical	279,306	-	-	279,306
Financial services	265,458	-	-	265,458
Industrials	220,932	-	-	220,932
Healthcare	219,713	-	-	219,713
Energy	182,462	-	-	182,462
Consumer defensive	144,767	-	-	144,767
Communication services	109,399	-	-	109,399
Utilities	46,012	-	-	46,012
Real estate	43,981	-	-	43,981
Basic material	36,993	-	-	36,993
Mutual funds				
Intermediate term bond	2,065,428	-	-	2,065,428
High yield bond	497,347	-	-	497,347
Emerging market bond	312,367	-	-	312,367
Foreign large value	272,847	-	-	272,847
Real estate	204,257	-	-	204,257
Small blend	198,549	-	-	198,549
Mid cap growth	198,381	-	-	198,381
Nontraditional bond	66,341	-	-	66,341
Exchange Traded Funds				
Diversified emerging markets	409,287	-	-	409,287
Foreign large blend	293,834	-	-	293,834
Global real estate	192,171	-	-	192,171
Large blend	170,616	-	-	170,616
Total	<u>\$ 6,782,113</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,782,113</u>

NatureServe, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2013

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

<u>June 30, 2012</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 111,507	\$ -	\$ -	\$ 111,507
Equity securities				
Technology	386,949	-	-	386,949
Financial services	282,840	-	-	282,840
Consumer cyclical	257,663	-	-	257,663
Healthcare	205,934	-	-	205,934
Energy	195,476	-	-	195,476
Communication services	156,725	-	-	156,725
Consumer defensive	171,938	-	-	171,938
Industrials	153,434	-	-	153,434
Utilities	64,298	-	-	64,298
Real estate	42,766	-	-	42,766
Basic material	30,966	-	-	30,966
Mutual funds				
Intermediate term bond	2,156,407	-	-	2,156,407
Foreign large value	282,857	-	-	282,857
High yield bond	278,241	-	-	278,241
Real estate	223,435	-	-	223,435
Mid cap growth	187,946	-	-	187,946
Small blend	185,168	-	-	185,168
Emerging markets bond	160,809	-	-	160,809
Nontraditional bond	59,209	-	-	59,209
Exchange Traded Funds				
Foreign large blend	207,234	-	-	207,234
Large blend	129,300	-	-	129,300
Global real estate	129,245	-	-	129,245
Diversified emerging markets	104,217	-	-	104,217
 Total	 <u>\$ 6,164,564</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 6,164,564</u>

NatureServe, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2013

Note 3 - Accounts Receivable

Accounts receivable consisted of the following at June 30:

	2013	2012
Grants - billed	\$ 680,060	\$ 1,203,447
Grants - unbilled	941,891	1,758,955
Allowance for doubtful accounts	(10,512)	(4,191)
	\$ 1,611,439	\$ 2,958,211

Note 4 - Property and Equipment

Property and equipment consisted of the following at June 30:

	Estimated Lives	2013	2012
Leasehold improvements	10 years	\$ 40,535	\$ 29,112
Equipment	3 - 7 years	437,179	417,757
Software	3 - 5 years	411,619	117,090
Furniture and fixtures	7 years	12,457	7,336
		901,790	571,295
Less accumulated depreciation		(442,426)	(384,843)
Net Property and Equipment		\$ 459,364	\$ 186,452

Depreciation and amortization expense for the years ended June 30, 2013 and 2012 was \$57,583 and \$85,333, 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, 2013 and 2012, the Organization contributed \$271,419 and \$256,937, respectively to the plan.

NatureServe, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2013

Note 6 - Compensated Absences

As of June 30, 2013 and 2012, the Organization accrued \$210,050 and \$231,664, 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 - 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.

Additionally, the Organization has various non-cancellable operating leases for office equipment. The lease terms range from three to ten years.

Rent expense is recognized on the straight line basis and amounts to \$545,322 and \$606,286 for the years ended June 30, 2013 and 2012, respectively. Actual cash paid for rent expense was \$517,382 and \$375,224 for the years ended June 30, 2013 and 2012, respectively. The Organization has recorded a liability for deferred rent amounting to \$277,002 and \$249,062 at June 30, 2013 and 2012, 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:

<u>Year Ending June 30:</u>	
2014	\$ 510,281
2015	525,795
2016	536,701
2017	528,003
2018	<u>505,434</u>
	<u>\$ 2,606,214</u>

NatureServe, Inc.
 NOTES TO FINANCIAL STATEMENTS (Cont.)
 June 30, 2013

Note 8 - 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 2013. 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 9 - Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2013 and 2012 consisted of the following.

	2013	2012
Unappropriated endowment earnings	\$ 71,762	\$ -

Note 10 - Endowment Funds

The Organization has established an endowment fund. Management follows the Uniform 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.

NatureServe, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2013

Note 10 - Endowment Funds (Cont.)

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.

Endowment net asset consist of the following for the year ended June 30, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 71,762	\$ 5,958,783	\$ 6,030,545

Changes in endowment net assets for the year ended June 30, 2013 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of the year	\$ (163,768)	\$ -	\$ 5,958,423	\$ 5,794,655
Contributions	-	-	360	360
Investment income	138,153	-	-	138,153
Net appreciation	-	117,375	-	117,375
Realized gains	25,615	300,277	-	325,892
Amounts appropriated for expenditure	-	(345,890)	-	(345,890)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 71,762</u>	<u>\$ 5,958,783</u>	<u>\$ 6,030,545</u>

NatureServe, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2013

Note 11 - Restatement of Unrestricted Net Assets

Total net assets at July 1, 2011 as previously reported	\$ 7,803,867
Restating net assets due to the incorrect recording of revenue on the first cash receipt from a 2009 grant	<u>(150,000)</u>
Total net assets July 1, 2011 as restated	<u>\$ 7,653,867</u>
Total net assets July 1, 2012 as previously reported	\$ 7,528,234
Restating net assets due to the incorrect recording of revenue on the first cash receipt from a 2009 grant	(150,000)
Restating net assets due to incorrect calculation of the straight line portion of deferred rent.	<u>(18,963)</u>
Total net assets July 1, 2012 as restated	<u>\$ 7,359,271</u>

Note 12 - Subsequent Events

The Organization has evaluated the impact of significant subsequent events. Except for the following, there have been no subsequent events through October 21, 2013, the date the financial statements were available to be issued, that require recognition or disclosure.

In August 2013 the Organization entered into an agreement to lease office equipment which will be accounted for as a capital lease. The lease is for 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.

On August 12, 2013 the Organization entered into an agreement to purchase office equipment financed through a note obtained from a local bank. The note is for 60 monthly payments of \$1,672 beginning on September 12, 2013. The note incurs interest at 3.99% and has a original balance of \$90,668.

NatureServe, Inc.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2013

Federal Grantor/Pass-Through Grantor/Program Title *	CFDA or Award #	Program	Federal Expenditures
U.S. Department of Interior			
U.S. Geological Survey	G12AC20126	Vegetation Mapping	157,645
Bureau of Land Management	L07AC14909	Assessing Vulnerability of Common Plant Species	99,892
U.S. Fish and Wildlife Service	98210-9-J110	FWS Refuges Climate Change	78,152
U.S. Fish and Wildlife Service	98210-A-J013	FWS Refuges Climate Change	10,895
National Park Service	H8530-05-0050	Vegetation Classification	42,719
National Park Service	H2340-06-0010	Vegetation Mapping	4,397
National Park Service	H3992070002	Vegetation Mapping	376,979
National Park Service	H2113090004	Vegetation Monitoring	274,068
National Park Service	P12AC31174	NCR Field Guide Continuation	24,205
National Park Service	P11AC26468	Grand Canyon Close-Out Mtg	5,933
National Park Service	P12AC30588	NPS Great Basin NP NRCA	36,122
National Park Service	P12AC30778	NPS LandScope Chesapeake	25,014
National Fish and Wildlife Foundation	0308-13-039208	NOAA MPA Center Webinars	5,169
National Science Foundation	WD-83543901	Develop Programmatic Capacity for Wetland Ref Networks	13,730
National Science Foundation	DEB1136586	NSF Dimensions of Biodiversity	200,282
U.S. Department of Agriculture			
U.S. Forest Service	08-JV-11242305-029	Implementation of National Vegetation Classification in FIA Database	3,274
U.S. Forest Service	10-CS-11132421-057	Rare Plant and Invertebrate Status Ranks	57,622
U.S. Forest Service	12-CS-11132421-064	Review and update globally imperiled and imperiled (G1T1/G2T2) plant	217,608
U.S. Forest Service	09-JV-11242305-029	Implementation of National Vegetation Classification in FIA Database	23,596
Total direct programs			\$ 1,657,302

NatureServe, Inc.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Cont.)
Year Ended June 30, 2013

Federal Grantor/Pass-Through Grantor/Program Title *	CFDA or Award #	Program	Expenditures
Pass-Through Programs:			
U.S. Department of Transportation			
Pikes Peak Area Council of Governments	PPACG-SHRP2	SHRP2 Capacity Pilot Test Projects	\$ 4,727
Oregon State University	DOT7555-002	Eco-Logical: An Ecosystem Approach to Developing Infrastructure	24,550
US Department of the Interior			
US Fish and Wildlife			
Wildlife Management Institute	50170BJ100	Use of Vulnerability Index to Assess Species Most Likely to be Impacted by Climate Change	142,825
The Nature Conservancy, South Carolina Operating Unit	F12AC01253	South Atlantic Landscape Conservation Cooperative	7,531
US Geological Survey			
California Native Plant Society	G12AC20142	Integrating the FGDC National Vegetation Classification	5,648
North Carolina State University	2012-2946-01	Assessing Climate-Sensitive Ecosystems in the SE US	6,403
The Curators of the University of Missouri	G12AC20514	Support for Scientific Activities for the DOI Climate Science Center	8,426
Bureau of Ocean Energy Management			
University of Rhode Island	M10PC00097	Develop Environmental Protocol to Support Ocean Renewal	9,876
US Department of Agriculture			
The Ecological Society of America	10DG11242305015	ESA Vegetation Classification	16,482
National Park Service			
California Native Plant Society	H2128090514	CNPS Mojave Network Vegetation Classification	22,651
National Science Foundation			
National Ecological Observatory Network, Inc. (NEON, Inc.)	1010-0191-000	Site Characterization for 2013 Ops	38,852
National Ecological Observatory Network, Inc. (NEON, Inc.)	1010-0197-000	Site Characterization for 2013 Ops	25,298
Total Pass-Through Programs			<u>313,269</u>
Total Expenditures of Federal Awards			<u>\$ 1,970,571</u>

NatureServe, Inc.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Cont.)
Year Ended June 30, 2013

* The schedule of expenditures of federal awards includes the federal grant activity of the Organization and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



2553 Housley Road • Suite 200 • Annapolis Maryland 21401

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
NatureServe, Inc.
Arlington, Virginia

We have audited, in accordance with the 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, the financial statements of NatureServe, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 21, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered NatureServe, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NatureServe, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

To the Board of Directors of
NatureServe, Inc.
Page 2

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether NatureServe, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of NatureServe, Inc. in a separate letter dated October 21, 2013.

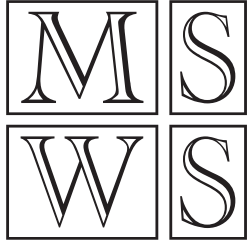
Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



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

Annapolis, Maryland
October 21, 2013



MULLEN & SONDBERG
WIMBISH & STONE, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

2553 Housley Road • Suite 200 • Annapolis, Maryland 21401

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors of
NatureServe, Inc.
Arlington, Virginia

Report on Compliance for Each Major Federal Program

We have audited NatureServe, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of NatureServe, Inc.'s major federal programs for the year ended June 30, 2013. NatureServe, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of NatureServe, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about NatureServe, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of NatureServe, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, NatureServe, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

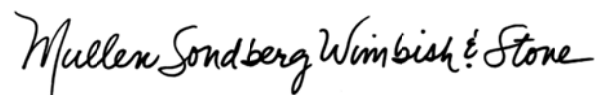
Report on Internal Control over Compliance

Management of NatureServe, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered NatureServe, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of NatureServe, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



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

NatureServe, Inc.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013

SUMMARY OF AUDIT RESULTS:

1. The auditor's report expresses an unmodified opinion on the financial statements of NatureServe, Inc.
2. No significant deficiencies relating to the audit of the financial statements are reported in this report.
3. No instances of noncompliance material to the financial statements of NatureServe, Inc. were disclosed during the audit.
4. No significant deficiency relating to the audit of the major federal award programs are reported in the Independent Auditor's Report on Compliance with Requirements that could have a Direct and Material Effect on each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs expresses an unmodified opinion on all major federal programs.
6. There are no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs include: National Park Service award H2113-09-0004, National Science Foundation award DEB1136586 and U.S. Forest Service award 12-CS-11132421-064.
8. The threshold used for distinguishing between Type A and Type B programs was \$300,000.
9. NatureServe, Inc. qualified as a low-risk auditee.

FINDINGS – FINANCIAL STATEMENT AUDIT

NONE

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT:

NONE

NatureServe, Inc.
SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2013

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT:

None

ADDITIONAL INFORMATION

NatureServe, Inc.
SCHEDULE OF FUNCTIONAL EXPENSES
Year Ended June 30, 2013
With Summarized Financial Information for the Year Ended June 30, 2012

	Program Activities	General and Administrative	Fundraising	Total	
				2013	2012
Salaries and benefits	\$ 4,527,308	\$ 995,031	\$ 251,458	\$ 5,773,797	\$ 5,941,160
Rent	354,639	190,683	-	545,322	606,286
Subagreements	517,549	-	-	517,549	1,445,840
Internet and computer expenses	397,240	73,750	5,608	476,598	257,045
Travel	181,661	32,082	26,787	240,530	362,119
Professional fees	45,930	29,355	22,508	97,793	193,944
Meetings	63,876	3,349	2,194	69,419	76,617
In-kind expenses	1,370	63,704	-	65,074	42,575
Depreciation and amortization	-	57,583	-	57,583	85,333
Telephone	16,668	26,552	821	44,041	46,779
Office expense	4,684	30,635	262	35,581	18,266
Printing	19,579	1,177	5,041	25,797	18,878
Payroll fees	-	23,248	-	23,248	19,509
Dues and subscriptions	10,052	4,506	6,842	21,400	20,588
Equipment, rental, repairs and maintenance	6,990	12,013	499	19,502	17,820
Insurance	633	17,478	284	18,395	14,474
Bank fees	2,586	7,124	707	10,417	13,063
Postage and delivery	3,413	713	3,272	7,398	8,758
Bad debts	-	6,321	-	6,321	138
Advertising - recruiting	1,400	3,555	-	4,955	3,231
Miscellaneous	3,097	724	-	3,821	1,694
Taxes, licenses and permits	-	-	-	-	7,667
Total expenses	\$ 6,158,675	\$ 1,579,583	\$ 326,283	\$ 8,064,541	\$ 9,201,784

NatureServe, Inc.
 SCHEDULE OF NET OPERATING INCOME
 Year Ended June 30, 2013

	2013	2012
Total change in unrestricted net assets	\$ 165,432	\$ (272,204)
Plus:		
Unrealized loss on investments	7,236	5,124
Net investment income from endowment	-	91,583
Amounts appropriated from endowment	-	198,581
Less:		
Endowment released from restriction	(163,768)	-
Net operating income	\$ 8,900	\$ 23,084