

NATURESERVE, INC.
FINANCIAL STATEMENTS
JUNE 30, 2012

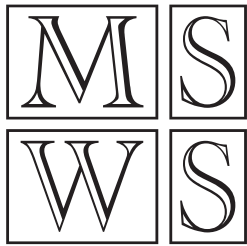


MULLEN SONDBERG WIMBISH & STONE, PA

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 statement of financial position of NatureServe, Inc. (a non-profit organization) as of June 30, 2012, and the related statements of activities, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2011 financial statements and in our report dated October 19, 2011, we expressed an unqualified opinion.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors of
NatureServe, Inc.
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In accordance with *Government Auditing Standards*, we have also issued our report, dated October 22, 2012, 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 25 is presented for purposes of additional analysis and is 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 basic 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 basic financial statements and in our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



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

Annapolis, Maryland
October 22, 2012

NatureServe, Inc.
STATEMENT OF FINANCIAL POSITION
June 30, 2012

ASSETS

	2012	2011
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,005,120	\$ 1,294,945
Accounts receivable, net of allowance (Note 3)	2,958,211	3,216,420
Investments (Note 2)	206,141	101,675
Prepaid expenses	25,143	50,868
Total current assets	4,194,615	4,663,908
PROPERTY AND EQUIPMENT		
Net of accumulated depreciation (Note 4)	186,452	219,958
INVESTMENTS (Notes 2)		
	5,958,423	5,957,563
DEPOSITS		
	44,271	96,110
Total assets	\$ 10,383,761	\$ 10,937,539

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 409,260	\$ 856,517
Accrued salaries and related liabilities	492,661	417,105
Refundable advances	1,722,357	1,854,850
Deposits	1,150	5,200
Total current liabilities	2,625,428	3,133,672
LONG TERM LIABILITIES		
Deferred rent	230,099	-
Total liabilities	2,855,527	3,133,672
NET ASSETS		
Unrestricted	1,569,811	1,842,015
Temporarily restricted (Note 9)	-	4,289
Permanently restricted (Note 10)	5,958,423	5,957,563
Total net assets	7,528,234	7,803,867
Total liabilities and net assets	\$ 10,383,761	\$ 10,937,539

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

NatureServe, Inc.
STATEMENT OF ACTIVITIES
Year Ended June 30, 2012
With Summarized Financial Information for the Year Ended June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2012</u>	<u>2011</u>
REVENUES, GAINS AND OTHER SUPPORT					
Grants and contracts	\$ 8,058,710	\$ -	\$ -	\$ 8,058,710	\$ 7,932,133
Software support	355,744	-	-	355,744	194,624
Contributions	232,164	-	860	233,024	187,140
Investment income	133,656	-	-	133,656	100,603
Registration fees	84,221	-	-	84,221	71,238
Data requests and usage training	54,271	-	-	54,271	66,571
Membership dues	41,759	-	-	41,759	56,470
Conference sponsorship	32,900	-	-	32,900	22,500
Royalties and license fees	189	-	-	189	8,981
Loss on disposal of property and equipment	-	-	-	-	(1,647)
Other income	9,421	-	-	9,421	97,073
Realized and unrealized gain / (loss) on investments	(96,707)	-	-	(96,707)	765,754
	8,906,328	-	860	8,907,188	9,501,440
Net assets released from restriction	4,289	(4,289)	-	-	-
Total revenues, gains and other support	<u>8,910,617</u>	<u>(4,289)</u>	<u>860</u>	<u>8,907,188</u>	<u>9,501,440</u>
EXPENSES					
Program activities	7,397,027	-	-	7,397,027	7,004,810
General and administrative	1,508,156	-	-	1,508,156	1,692,266
Fundraising	277,638	-	-	277,638	216,062
Total expenses	<u>9,182,821</u>	<u>-</u>	<u>-</u>	<u>9,182,821</u>	<u>8,913,138</u>
Change in net assets	(272,204)	(4,289)	860	(275,633)	588,302
NET ASSETS AT BEGINNING OF YEAR	<u>1,842,015</u>	<u>4,289</u>	<u>5,957,563</u>	<u>7,803,867</u>	<u>7,215,565</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,569,811</u>	<u>\$ -</u>	<u>\$ 5,958,423</u>	<u>\$ 7,528,234</u>	<u>\$ 7,803,867</u>

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

NatureServe, Inc.
STATEMENT OF CASH FLOWS
Year Ended June 30, 2012

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (275,633)	\$ 588,302
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	85,333	116,034
Realized (gain) / loss on investments	(5,412)	34,339
Unrealized (gain) / loss on investments	101,119	(800,093)
Contributions restricted for long-term purposes	(860)	(850)
Loss on disposal of equipment	-	1,647
(Increase) decrease in operating assets:		
Accounts receivable	258,209	(1,091,845)
Pledges receivable	-	3,000
Prepaid expenses	25,725	72,006
Deposits	51,839	(36,353)
(Increase) decrease in operating liabilities:		
Accounts payable and accrued expenses	(447,257)	607,635
Accrued salaries and related liabilities	75,556	12,950
Refundable advances	(132,493)	499,940
Deposits	(4,050)	-
Deferred rent	230,099	-
Net cash provided (used) by operating activities	(37,825)	6,712
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments, including reinvestment of dividends	(238,184)	(1,944,938)
Proceeds from sale of investments	37,151	1,927,584
Purchase of property and equipment	(51,827)	(165,199)
Net cash used by investing activities	(252,860)	(182,553)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions restricted for long-term purposes	860	850
Net change in cash and cash equivalents	(289,825)	(174,991)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,294,945	1,469,936
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 1,005,120	\$ 1,294,945

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

NatureServe, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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, 2011, 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, 2012

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, 2009 remain subject to examination by federal and state authorities.

Concentration of Cash Balances

At June 30, 2012 and 2011 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, 2012 and 2011 were approximately \$276,000 and \$438,000, 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, 2012

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, 2012 and 2011 the balances in the allowance for doubtful accounts was \$4,191 and \$13,206, 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, 2012

Note 2 - Investments

Investments are reported at fair value. Net realized and unrealized losses on investments for the year ended June 30, 2012 amounted to \$96,707. Net realized and unrealized gains on investments for the year ended June 30, 2011 amounted to \$765,754. Investments at June 30 are reported in the statement of financial position as follows:

	2012	2011
Investments reported as current assets	\$ 206,141	\$ 101,675
Investments held for long-term purposes	5,958,423	5,957,563
 Total investments	 \$ 6,164,564	 \$ 6,059,238

FASB ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are as follows:

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data such as interest rates.
- Level 3: Unobservable inputs that are not corroborated by market data.

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, 2012

Note 2 - Investments (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, 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				
Domestic Corporations				
Technology	351,196	-	-	351,196
Financial Services	253,049	-	-	253,049
Consumer Cyclical	198,823	-	-	198,823
Healthcare	179,973	-	-	179,973
Energy	175,874	-	-	175,874
Communication Services	150,761	-	-	150,761
Consumer Defensive	149,210	-	-	149,210
Industrials	123,457	-	-	123,457
Utilities	64,298	-	-	64,298
Real Estate	40,030	-	-	40,030
Basic Material	17,234	-	-	17,234
International Corporations				
Consumer Cyclical	58,840	-	-	58,840
Technology	35,753	-	-	35,753
Industrials	29,977	-	-	29,977
Financial Services	29,791	-	-	29,791
Healthcare	25,961	-	-	25,961
Consumer Defensive	22,728	-	-	22,728
Energy	19,602	-	-	19,602
Basic Material	13,732	-	-	13,732
Communication Services	5,694	-	-	5,694
Real Estate	2,736	-	-	2,736
Mutual funds				
Investment Grade Debt Funds	2,156,407	-	-	2,156,407
Equity - Small Capitalized Companies Funds	373,114	-	-	373,114
Equity - International Companies Funds	283,127	-	-	283,127
High yield Debt Funds	278,241	-	-	278,241
Real Estate Funds	223,435	-	-	223,435
Emerging Market Debt Funds	160,809	-	-	160,809
S&P 500 Index Fund	129,300	-	-	129,300
Other unrestricted debt funds	59,209	-	-	59,209
Exchange Traded Funds				
Equity - International Companies funds	207,234	-	-	207,234
International Real Estate Funds	129,245	-	-	129,245
Equity - Emerging Markets Funds	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, 2012

Note 2 - Investments (Cont.)

<u>June 30, 2011</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 63,561	\$ -	\$ -	\$ 63,561
Equity securities				
Domestic Corporations				
Financial Services	325,863	-	-	325,863
Technology	304,478	-	-	304,478
Energy	208,434	-	-	208,434
Healthcare	201,762	-	-	201,762
Consumer Defensive	166,528	-	-	166,528
Industrials	153,781	-	-	153,781
Communication Services	151,018	-	-	151,018
Consumer Cyclical	134,114	-	-	134,114
Utilities	53,854	-	-	53,854
Real Estate	23,503	-	-	23,503
Basic Material	19,199	-	-	19,199
International Corporations				
Consumer Cyclical	52,271	-	-	52,271
Industrials	40,348	-	-	40,348
Healthcare	36,403	-	-	36,403
Consumer Defensive	36,002	-	-	36,002
Financial Services	35,341	-	-	35,341
Technology	33,625	-	-	33,625
Energy	28,721	-	-	28,721
Basic Material	16,147	-	-	16,147
Communication Services	9,680	-	-	9,680
Real Estate	3,321	-	-	3,321
Mutual funds				
Investment Grade Debt Funds	2,048,121	-	-	2,048,121
Equity - Small Capitalized Companies Funds	368,931	-	-	368,931
Equity - International Companies Funds	280,211	-	-	280,211
High yield Debt Funds	287,470	-	-	287,470
Real Estate Funds	198,885	-	-	198,885
S&P 500 Index Fund	163,427	-	-	163,427
Other unrestricted debt funds	58,245	-	-	58,245
Exchange Traded Funds				
Equity - International Companies funds	267,623	-	-	267,623
International Real Estate Funds	152,233	-	-	152,233
Equity - Emerging Markets Companies Funds	136,136	-	-	136,136
 Total	 <u>\$ 6,059,238</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 6,059,238</u>

NatureServe, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2012

Note 2 - Investments (Cont.)

The total investments of \$6,164,564 at the end of June 30, 2012 include \$618,686 that was appropriated from the endowment to support operations of the Organization but has not been transferred out of investments.

Note 3 - Accounts Receivable

Accounts receivable consisted of the following at June 30:

	2012	2011
Grants - billed	\$ 1,203,447	\$ 965,776
Grants - unbilled	1,758,955	2,263,850
Allowance for doubtful accounts	(4,191)	(13,206)
	\$ 2,958,211	\$ 3,216,420

Note 4 - Property and Equipment

Property and equipment consisted of the following at June 30:

	Estimated Lives	2012	2011
Leasehold improvements	10 years	\$ 29,112	\$ 29,113
Equipment	3 - 7 years	534,847	483,019
Furniture and fixtures	7 years	7,336	7,336
		571,295	519,468
Less accumulated depreciation		(384,843)	(299,510)
Net Property and Equipment		\$ 186,452	\$ 219,958

Depreciation and amortization expense for the years ended June 30, 2012 and 2011 was \$85,333 and \$116,034, respectively.

NatureServe, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2012

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, 2012 and 2011, the Organization contributed \$256,937 and \$212,179, respectively to the plan.

Note 6 - Compensated Absences

As of June 30, 2012 and 2011, the Organization accrued \$231,664 and \$208,927, 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 new lease agreement for its current premises in Arlington, Virginia. The lease was signed during 2011 and terminates on December 31, 2021. The Organization is also obligated under a long term lease for office space in Boulder, Colorado which expires August 31, 2012.

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 \$587,323 and \$803,039 for the years ended June 30, 2012 and 2011, respectively. Actual cash paid for rent expense was \$357,224 and \$803,039 for the years ended June 30, 2012 and 2011, respectively. The Organization has recorded a liability for deferred rent amounting to \$230,099 and \$-0- at June 30, 2012 and 2011, 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>	
2013	\$ 430,718
2014	442,562
2015	454,733
2016	467,238
2017	<u>480,087</u>
	<u>\$ 2,275,338</u>

NatureServe, Inc.
 NOTES TO FINANCIAL STATEMENTS (Cont.)
 June 30, 2012

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 2012. 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, 2012 and 2011 consisted of the following.

	2012	2011
Unappropriated endowment earnings	\$ -	\$ 4,289

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, 2012

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 composition by type as of June 30, 2012 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ (163,768)</u>	<u>\$ -</u>	<u>\$ 5,958,423</u>	<u>\$ 5,794,655</u>

Changes in endowment net assets for the year ended June 30, 2012 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of the year	\$ -	\$ 4,289	\$ 5,957,563	\$ 5,961,852
Contributions	-	-	860	860
Investment income	127,231	-	-	127,231
Net depreciation	(101,035)	-	-	(101,035)
Realized gains	4,328	-	-	4,328
Amounts appropriated for expenditure	<u>(194,292)</u>	<u>(4,289)</u>	<u>-</u>	<u>(198,581)</u>
Endowment net assets, end of year	<u>\$ (163,768)</u>	<u>\$ -</u>	<u>\$ 5,958,423</u>	<u>\$ 5,794,655</u>

From time to time the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Organization to retain as a fund of perpetual duration. After current year appropriations deficiencies of this nature that are reported in unrestricted net assets were \$163,768 as of June 30, 2012.

NatureServe, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2012

Note 11 - Changes in Unrestricted Net Assets

Net operating income is calculated as follows for the year ended June 30:

	2012	2011
Total change in unrestricted net assets	\$ (272,204)	\$ 586,163
Plus:		
Realized loss on endowments	-	34,339
Unrealized loss on endowments	95,911	-
Amounts appropriated from endowment	198,581	180,000
Less:		
Realized gain on endowments	(4,328)	-
Unrealized gain on endowments	-	(800,093)
Net operating income	\$ 17,960	\$ 409

Note 12 - Subsequent Events

The Organization has evaluated the impact of significant subsequent events. There have been no subsequent events through October 22, 2012, the date the financial statements were available to be issued, that require recognition or disclosure.

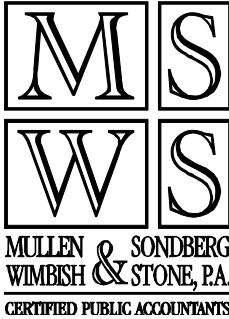
NatureServe, Inc.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title *	CFDA or Award #	Program	Federal Expenditures
U.S. Department of Defense	W9132T-10-2-0039	Species at Risk on DOD Lands	\$ 3,805
U.S. Department of Interior			
U.S. Geological Survey	G12AC20126	Vegetation Mapping	27,133
Bureau of Land Management	L07AC14909	Assessing Vulnerability of Common Plant Species	315,576
U.S. Fish and Wildlife Service	98210-9-J110	FWS Refuges Climate Change	151,307
U.S. Fish and Wildlife Service	98210-A-J013	FWS Refuges Climate Change	16,530
National Park Service	H8530-05-0050	Vegetation Classification	108,107
National Park Service	H2340-06-0010	Vegetation Mapping	319,320
National Park Service	H3097020001	Vegetation Mapping 4	12,406
National Park Service	H3992070002	Vegetation Mapping 5	722,767
National Park Service	H2113090004	Vegetation Monitoring	249,820
National Park Service	H2146050001	Vegetation Mapping	2,911
National Oceanic and Atmospheric Administration	NA10NOS4730039	Water Column Classification	25,430
National Science Foundation	DBIO547630	Improving Geospatial Data Capture of Biological Features: Development of a Handheld Tool for Field Inventory and Mapping	15,028
National Science Foundation	DEB1136586	Dimensions: Collaborative Research: Integrating genetic, taxonomic, and functional diversity of tetrapods across the Americas and through extinction risk	83,767
U.S. Department of Agriculture			
U.S. Forest Service	08-JV-11242305-029	Implementation of National Vegetation Classification in FIA Database	36,247
U.S. Forest Service	10-CS-11132421-057	Plants and Seeds	43,057
U.S. Forest Service	09-CS-11132421-282	Plant & Bombus Assessment	29,313
U.S. Forest Service	12-CS-11132421-064	Review and update globally imperiled and imperiled (G1T1/G2T2) plant	6,058
U.S. Forest Service	09-JV-11242305-029	Implementation of revised National Vegetation Classification Standard if FIA databases	6,910
Pikes Peak Area Council of Governments	PPACG SHARP2	Eco-Logical: An Ecosystem Approach to Developing Infrastructure	33,089
Total direct programs			<u>\$ 2,208,578</u>

NatureServe, Inc.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Cont.)
Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title *	CFDA or Award #	Program	Federal Expenditures
Pass-Through Programs:			
U.S. Fish and Wildlife Service	50170BJ100	Use of a Vulnerability Index to Assess Species Most Likely to be Impacted by Climate Change	\$ 27,785
National Fish and Wildlife Foundation	2011-0906-000	Investment for Biodiversity Conservation	7,502
Bureau of Ocean Energy Management, Regulation and Enforcement	M10PC00097	Develop Environ Protocol to Support Ocean Renew	46,749
U.S. Department of Transportation	DOT7555-002	Eco-Logical: An Ecosystem Approach to Developing Infrastructure	67,855
Total Pass-Through Programs			<u>149,891</u>
Total Expenditures of Federal Awards			<u>\$ 2,358,469</u>

* 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

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 the financial statements of NatureServe, Inc. as of and for the year ended June 30, 2012, and have issued our report thereon dated October 22, 2012. 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.

Internal Control Over Financial Reporting

Management of NatureServe, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered NatureServe, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Organization's financial statement will not be prevented, or detected and corrected on a timely basis.

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

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether NatureServe, Inc.'s financial statements are free of 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*.

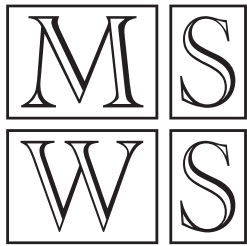
We noted certain other matters that we reported to management of NatureServe, Inc. in a separate letter dated October 22, 2012.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



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

Annapolis, Maryland
October 22, 2012



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

2553 Housley Road • Suite 200 • Annapolis, Maryland 21401

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

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

Compliance

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, 2012. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of NatureServe, Inc.'s management. Our responsibility is to express an opinion on NatureServe, Inc.'s compliance based on our audit.

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. Our audit does not provide a legal determination of NatureServe, Inc.'s compliance with those requirements.

In our opinion, NatureServe, Inc. complied in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each major federal program for the year ended June 30, 2012.

Internal Control over Compliance

Management of NatureServe, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered NatureServe, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, others within the Organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



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

Annapolis, Maryland
October 22, 2012

NatureServe, Inc.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

SUMMARY OF AUDIT RESULTS:

1. The auditor's report expresses an unqualified 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 unqualified 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 H2340-06-0010, National Park Service award H3992-07-0002 and Bureau of Land Management award L07AC14909.
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, 2012

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT:

None

SUPPLEMENTAL INFORMATION

NatureServe, Inc.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2012
With Summarized Financial Information for the Year Ended June 30, 2011

	Program Activities	General and Administrative	Fundraising	Total	
				2012	2011
Salaries and benefits	\$ 4,857,369	\$ 861,331	\$ 238,813	\$ 5,957,513	\$ 5,501,160
Subagreements	1,445,840	-	-	1,445,840	1,605,371
Rent	371,606	215,717	-	587,323	803,039
Travel	330,745	16,782	14,592	362,119	223,450
Internet and computer expenses	182,295	72,069	2,681	257,045	275,247
Professional fees	83,370	98,406	12,168	193,944	87,840
Depreciation and amortization	-	85,333	-	85,333	116,034
Meetings	57,062	3,028	174	60,264	55,736
Telephone	15,560	30,447	772	46,779	78,434
In-kind expenses	-	42,575	-	42,575	6,384
Dues and subscriptions	14,000	3,318	3,270	20,588	24,837
Payroll fees	-	19,509	-	19,509	15,981
Printing	14,928	427	3,523	18,878	5,061
Office expense	4,253	13,933	43	18,229	19,148
Equipment, rental, repairs and maintenance	6,668	10,398	40	17,106	21,806
Insurance	284	14,190	-	14,474	17,868
Bank fees	3,385	9,339	339	13,063	11,118
Postage and delivery	7,079	456	1,223	8,758	8,314
Taxes, licenses and permits	-	7,667	-	7,667	8,905
Advertising - recruiting	-	3,231	-	3,231	2,755
Miscellaneous	2,445	-	-	2,445	23,390
Bad debts	138	-	-	138	1,260
Total expenses	\$ 7,397,027	\$ 1,508,156	\$ 277,638	\$ 9,182,821	\$ 8,913,138