

NATURESERVE, INC.
FINANCIAL STATEMENTS
JUNE 30, 2011

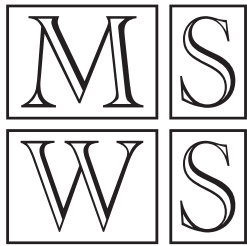


MULLEN SONDBERG WIMBISH & STONE, PA

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, 2011, 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 2010 financial statements and in our report dated October 26, 2010, 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, 2011, 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 19, 2011, 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 19, 2011

NatureServe, Inc.
STATEMENT OF FINANCIAL POSITION
June 30, 2011

ASSETS

	2011	2010
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,294,945	\$ 1,469,936
Accounts receivable, net of allowance (Note 4)	3,216,420	2,124,575
Investments (Note 2)	101,675	-
Pledges receivable	-	3,000
Prepaid expenses	50,868	122,874
Total current assets	4,663,908	3,720,385
PROPERTY AND EQUIPMENT		
Net of accumulated depreciation (Note 5)	219,958	172,440
INVESTMENTS (Notes 2)	5,957,563	5,276,130
DEPOSITS	96,110	59,757
Total assets	\$ 10,937,539	\$ 9,228,712

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 853,541	\$ 245,906
Accrued salaries and related liabilities	420,081	407,131
Refundable advances	1,854,850	1,354,910
Deposits	5,200	5,200
Total current liabilities	3,133,672	2,013,147
NET ASSETS		
Unrestricted	1,842,015	1,255,852
Temporarily restricted (Note 11)	4,289	3,000
Permanently restricted (Note 12)	5,957,563	5,956,713
Total net assets	7,803,867	7,215,565
Total liabilities and net assets	\$ 10,937,539	\$ 9,228,712

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

NatureServe, Inc.
STATEMENT OF ACTIVITIES
Year Ended June 30, 2011
With Summarized Financial Information for the Year Ended June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2011</u>	<u>2010</u>
REVENUES, GAINS AND OTHER SUPPORT					
Grants and contracts	\$ 7,932,133	\$ -	\$ -	\$ 7,932,133	\$ 6,768,985
Unrealized gain on investments	795,804	4,289	-	800,093	377,107
Software support	194,624	-	-	194,624	249,661
Contributions	186,290	-	850	187,140	303,668
Investment income	100,603	-	-	100,603	83,552
Other income	97,073	-	-	97,073	47,419
Registration fees	71,238	-	-	71,238	97,346
Data requests and usage training	66,571	-	-	66,571	83,531
Membership dues	56,470	-	-	56,470	55,500
Conference sponsorship	22,500	-	-	22,500	38,224
Royalties and license fees	8,981	-	-	8,981	5,096
Loss on disposal of property and equipment	(1,647)	-	-	(1,647)	-
Realized loss on investments	(34,339)	-	-	(34,339)	(25,448)
	<u>9,496,301</u>	<u>4,289</u>	<u>850</u>	<u>9,501,440</u>	<u>8,084,641</u>
Net assets released from restriction	<u>3,000</u>	<u>(3,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues, gains and other support	<u>9,499,301</u>	<u>1,289</u>	<u>850</u>	<u>9,501,440</u>	<u>8,084,641</u>
EXPENSES					
Program activities	7,004,810	-	-	7,004,810	6,270,655
General and administrative	1,692,266	-	-	1,692,266	1,863,324
Fundraising	216,062	-	-	216,062	259,940
Total expenses	<u>8,913,138</u>	<u>-</u>	<u>-</u>	<u>8,913,138</u>	<u>8,393,919</u>
Change in net assets	586,163	1,289	850	588,302	(309,278)
NET ASSETS AT BEGINNING OF YEAR	<u>1,255,852</u>	<u>3,000</u>	<u>5,956,713</u>	<u>7,215,565</u>	<u>7,524,843</u>
NET ASSETS AT END 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>

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

NatureServe, Inc.
STATEMENT OF CASH FLOWS
Year Ended June 30, 2011

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 588,302	\$ (309,278)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	116,034	133,070
Realized loss on investments	34,339	25,448
Unrealized gain on investments	(800,093)	(377,107)
Contributions restricted for long-term purposes	(850)	(69,800)
Loss on disposal of equipment	1,647	-
(Increase) decrease in operating assets:		
Accounts receivable	(1,091,845)	(317,864)
Pledges receivable	3,000	14,700
Prepaid expenses	72,006	(50,886)
Deposits	(36,353)	-
(Increase) decrease in operating liabilities:		
Accounts payable and accrued expenses	607,635	(8,234)
Accrued salaries and related liabilities	12,950	(54,166)
Refundable advances	499,940	236,465
Deposits	-	5,200
Net cash provided (used) by operating activities	6,712	(772,452)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments, including reinvestment of dividends	(1,944,938)	(2,651,617)
Proceeds from sale of investments	1,927,584	2,742,215
Purchase of property and equipment	(165,199)	(90,715)
Net cash used by investing activities	(182,553)	(117)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions restricted for long-term purposes	850	69,800
Net change in cash and cash equivalents	(174,991)	(702,769)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,469,936	2,172,705
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 1,294,945	\$ 1,469,936

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

NatureServe, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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, 2010, 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.

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.

NatureServe, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2011

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

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 Maryland state 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, 2008 remain subject to examination by federal and state authorities.

Concentration of Cash Balances

At June 30, 2011 and 2010 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, 2011 and 2010 were approximately \$438,000 and \$1,198,000, respectively.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor-imposed restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

NatureServe, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2011

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

Revenue Recognition (Cont.)

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, 2011 and 2010 the balances in the allowance for doubtful accounts was \$13,376 and \$46,710, 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, 2011

Note 2 - Investments

Investments are reported at fair value. Net realized and unrealized gains on investments for the years ended June 30, 2011 and 2010 amounted to \$765,754 and \$351,659. Investments at June 30 are reported in the statement of financial position as follows:

	2011	2010
Investments reported as current assets	\$ 101,675	\$ -
Investments held for long-term purposes	5,957,563	5,276,130
 Total investments	 \$ 6,059,238	 5,276,130

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.

NatureServe, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2011

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, 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	1,742,534	-	-	1,742,534
International corporations	291,861	-	-	291,861
Exchange traded funds				
International companies equity funds	267,623	-	-	267,623
International real estate funds	152,233	-	-	152,233
Emerging market equity funds	136,136	-	-	136,136
Mutual funds				
Investment grade debt funds	2,048,121	-	-	2,048,121
Small capitalized companies equity funds	368,931	-	-	368,931
High yield debt funds	287,470	-	-	287,470
International companies equity funds	280,211	-	-	280,211
Real estate funds	198,885	-	-	198,885
Emerging market debt funds	163,427	-	-	163,427
Other debt funds	58,245	-	-	58,245
Total	<u>\$ 6,059,238</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,059,238</u>
<u>June 30, 2010</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 163,938	\$ -	\$ -	\$ 163,938
Equity securities				
Domestic corporations	1,375,649	-	-	1,375,649
International corporations	443,568	-	-	443,568
Mutual funds				
Investment grade debt funds	2,204,627	-	-	2,204,627
Small capitalized companies equity funds	278,133	-	-	278,133
High yield debt funds	217,837	-	-	217,837
International companies equity funds	211,932	-	-	211,932
Real estate funds	151,392	-	-	151,392
Emerging markets companies equity funds	109,367	-	-	109,367
International real estate funds	119,687	-	-	119,687
Total	<u>\$ 5,276,130</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,276,130</u>

The total investments of \$6,059,238 at the end of June 30, 2011 include \$420,105 that was appropriated from the endowment to support operations of the organization but has not been transferred out of investments.

NatureServe, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2011

Note 3 - Accounts Receivable

Accounts receivable consisted of the following at June 30:

	<u>2011</u>	<u>2010</u>
Grants - billed	\$ 965,776	\$ 854,628
Grants - unbilled	2,263,850	1,316,445
Other	-	212
Allowance for doubtful accounts	<u>(13,206)</u>	<u>(46,710)</u>
	<u>\$3,216,420</u>	<u>\$2,124,575</u>

Note 4 - Property and Equipment

Property and equipment consisted of the following at June 30:

	Estimated Lives	<u>2011</u>	<u>2010</u>
Leasehold improvements	10 years	\$ 29,113	\$ 81,588
Equipment	3 - 7 years	483,019	1,018,661
Furniture and fixtures	7 years	<u>7,336</u>	<u>318,122</u>
		519,468	1,418,371
Less accumulated depreciation		<u>(299,510)</u>	<u>(1,245,931)</u>
Net Property and Equipment		<u>\$ 219,958</u>	<u>\$ 172,440</u>

Depreciation and amortization expense for the years ended June 30, 2011 and 2010 was \$116,034 and \$133,070, respectively.

Note 5 - Defined Contribution Retirement Plan

On February 1, 2000, the Organization established a 401(k) retirement plan. All full-time employees with at least one month of service are eligible to participate in the plan. The Plan was amended in 2010 to a safe harbor plan. The Organization matches up to six percent of the participant's eligible contributions. Additional employer contributions may be made at the sole discretion of the Organization's Board of Directors. During the year ended June 30, 2011 and 2010, the Organization contributed \$212,179 and \$213,580, respectively to the plan.

NatureServe, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2011

Note 6 - Line of Credit

The Organization had an unsecured line of credit with a bank in the amount of \$500,000 that expired May 2011. Interest accrues on the outstanding balance at a rate equal to the bank's prime rate. At June 30, 2011 and 2010 there were no outstanding draws under the line of credit.

Note 7 - Compensated Absences

As of June 30, 2011 and 2010, the Organization accrued \$208,927 and \$198,915, 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 may be accumulated up to a maximum of eighty days but is not payable upon termination of employment. Therefore, no provision for unused sick leave has been made.

Note 8 - 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 for the years ended June 30, 2011 and 2010 was \$803,039 and \$823,952, respectively.

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

<u>Year Ending June 30:</u>	
2012	\$ 478,170
2013	440,548
2014	442,562
2015	454,733
2016	<u>467,238</u>
	<u>\$ 2,283,251</u>

NatureServe, Inc.
 NOTES TO FINANCIAL STATEMENTS (Cont.)
 June 30, 2011

Note 9 - 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 2011. 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 10 - Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2011 and 2010 consisted of the following.

	2011	2010
Unappropriated endowment earnings	\$ 4,289	\$ -
Pledges receivable - time restriction	-	3,000
	\$ 4,289	\$ 3,000

Note 11 - 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.

NatureServe, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2011

Note 11 - Endowment Funds (Cont.)

Investment Return Objectives, Risk Parameters and Strategies: The Organization has adopted investment and spending policies, approved by the Board of Trustees, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term.

Spending Policy: The payout rate from the Organization's endowment should provide a stable, predictable level of spending for the endowed purposes, and should achieve a proper balance between present and future needs. The amount available for payout each fiscal year will be up to a maximum of 6% of the average of the market value of the endowment on December 31st of the current fiscal year, and the end of each quarter of the three years immediately preceding that date. The amount available for payout each fiscal year shall not exceed the actual value of any income, dividend, interest and capital appreciation, both realized and unrealized, in excess of the administrative fee. In the event that the endowment sustains unrealized losses resulting from a drop in market value, the Organization may continue to pay out income from dividends, interest and realized gains earned each quarter. A decision to pay out additional funds beyond dividends and interest up to 6% in periods of market decline may be made by the Board of Directors, as long as they feel it is prudent, in the long-term interest of the Organization, and the rationale for the Board of Director's decision is properly documented.

Endowment net asset composition by type as of June 30, 2011 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 4,289</u>	<u>\$ 5,957,563</u>	<u>\$ 5,961,852</u>

NatureServe, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2011

Note 11 - Endowment Funds (Cont.)

Changes in endowment net assets for the year ended June 30, 2011 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of the year	\$ (680,583)	\$ -	\$ 5,956,713	\$ 5,276,130
Contributions	-	-	850	850
Investment income	99,118	-	-	99,118
Net appreciation (depreciation)	795,804	4,289	-	800,093
Realized losses	(34,339)	-	-	(34,339)
Amounts appropriated for expenditure	(180,000)	-	-	(180,000)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 4,289</u>	<u>\$ 5,957,563</u>	<u>\$ 5,961,852</u>

Note 12 - Changes in Unrestricted Net Assets

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

	<u>2011</u>	<u>2010</u>
Total change in unrestricted net assets	\$ 586,163	\$ (364,378)
Plus:		
Realized loss on endowments	34,339	25,448
Amounts appropriated from endowment	180,000	240,000
Less:		
Unrealized gain on endowments	<u>(800,093)</u>	<u>(377,107)</u>
Net operating income (loss)	<u>\$ 409</u>	<u>\$ (476,037)</u>

Note 13 - Subsequent Events

The Organization has evaluated the impact of significant subsequent events. There have been no subsequent events through October 19, 2011, the date the financial statements were available to be issued, that require recognition or disclosure.

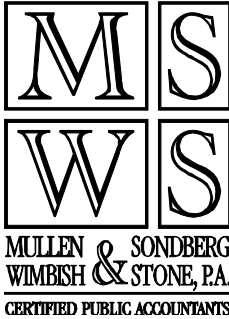
NatureServe, Inc.
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended June 30, 2011

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	\$ 27,845
U.S. Department of Interior			
U.S. Fish and Wildlife Service	98210-8-J104	Carolina SAR	7,710
U.S. Geological Survey	G11AC20044	Costal & Marine Ecological Classification	5,215
Bureau of Land Management	PAA-07-0005	Endangered Species	202,521
U.S. Fish and Wildlife Service	98210-9-J110	FWS Refuges Climate Change	195,843
U.S. Fish and Wildlife Service	98210-A-J013	FWS Refuges Climate Change	7,777
National Park Services	H8530-05-0050	Vegetation Classification	100,532
National Park Services	H2146-05-0001	Vegetation Mapping	27,650
National Park Services	H2105-05-0011	Vegetation Mapping	4
National Park Services	H2340-06-0010	Vegetation Mapping	704,498
National Park Services	H3097020001	Vegetation Mapping 4	112,031
National Park Services	H3992070002	Vegetation Mapping 5	359,629
National Park Services	H5028 01 0435	Vegetation Mapping System	88,079
National Park Services	H2113090004	Vegetation Monitoring	170,363
Environmental Protection Agency	MX-96473607-0	Coastal Data for Gulf of Mexico	72,314
Environmental Protection Agency	RM-83377501-0	Sampling Design and Protocols for Assessment of Wetland Conditions	181,925
National Fish and Wildlife Foundation	2011-0906-000	Investment for Biodiversity Conservation	95,522
National Oceanic and Atomospheric Administration	NA10NOS4730039	Water Column Classification	12,418
National Science Foundation	08-CS-11132421-182	Handheld Data Tool	207,888
United States Department of Agriculture	09-CS-11132421-162	Data Development Rare Plants & Bombus	15,178
United States Department of Agriculture	08-DG-11242305-137	Implementation of 2008 FDGC National Vegetation Classification	45
United States Department of Agriculture	08-JV-11242305-029	Implementation of National Vegetation Classification in FIA Database	35,999
United States Department of Agriculture	10-CS-11083150-056	Longleaf Pine Rapid Assessment	32,666
United States Department of Agriculture	09-CS-11132421-282	Plant & Bombus Assessment	12,693
United States Department of Agriculture	10-CS-11132421-256	Plants & Seeds	30,088
United States Department of Agriculture	10-CS-11132421-262	Plants & Seeds	11,798
United States Department of Agriculture	10-CS-110520007-106	Vulnerability of CA Endemic Plants	6,689
Total direct programs			<u>\$ 2,724,921</u>

NatureServe, Inc.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Cont.)
Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor/Program Title *	CFDA or Award #	Program	Federal Expenditures
Pass-Through Programs:			
U.S. Fish and Wildlife Services	N/A	Vegetation Mapping of Monomoy & Nomans Island	\$ 15,793
National Science Foundation	BCS-0814366	Assigning Species to Macrogroups	8,024
National Academy of Science	CS# 7308 T.O.# 067	Optimizing Conservation & Improving Mitigation	16,523
National Academy of Science/ DOT	J1283A-C	SHRP CO6B-OR Univ-NAS	43,681
Bureau of Ocean Energy Management, Regulation and Enforcement	022111_0002761	Develop Environ Protocol to Support Ocean Renew	3,680
USFWS/DOT	5018AY106	Patuxent Vegetation Mapping	10,213
Total Pass-Through Programs			<u>97,916</u>
Total Expenditures of Federal Awards			<u><u>\$ 2,822,837</u></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, 2011, and have issued our report thereon dated October 19, 2011. 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

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*.

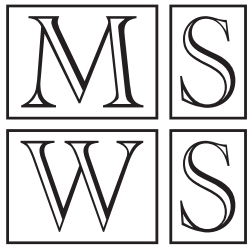
We noted certain other matters that we reported to management of NatureServe, Inc. in a separate letter dated October 19, 2011.

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 19, 2011



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, 2011. 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, 2011.

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 19, 2011

NatureServe, Inc.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

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 deficiencies relating to the audit of the major federal award programs are reported in this report.
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.
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.

NatureServe, Inc.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (cont.)
Year Ended June 30, 2011

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT:

None

NatureServe, Inc.
SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2011

<u>Program</u>	<u>Finding/Noncompliance</u>
All	NONE

ADDITIONAL INFORMATION

NatureServe, Inc.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2011
With Summarized Financial Information for the Year Ended June 30, 2010

	Program Activities	General and Administrative	Fundraising	Total	
				2011	2010
Salaries and benefits	\$ 4,378,584	\$ 918,270	\$ 204,306	\$ 5,501,160	\$ 5,613,273
Subagreements	1,605,371	-	-	1,605,371	729,253
Rent	393,489	409,550	-	803,039	823,952
Internet and computer expenses	264,338	9,825	1,084	275,247	290,933
Travel	195,161	25,756	2,533	223,450	288,377
Depreciation and amortization	-	116,034	-	116,034	133,070
Professional fees	37,956	49,884	-	87,840	142,596
Equipment, rental, repairs and maintenance	2,560	65,662	53	68,275	64,521
Meetings	49,414	2,913	3,409	55,736	77,784
Telephone	14,850	17,058	57	31,965	45,206
Dues and subscriptions	19,319	3,174	2,344	24,837	38,714
Miscellaneous	15,658	7,732	-	23,390	33,739
Office expense	10,647	8,132	369	19,148	21,704
Insurance	-	17,868	-	17,868	10,917
Payroll fees	-	15,981	-	15,981	19,893
Bank fees	3,734	7,384	-	11,118	12,184
Taxes, licenses and permits	-	8,905	-	8,905	6,026
Postage and delivery	3,813	3,185	1,316	8,314	9,938
In-kind expenses	6,384	-	-	6,384	6,888
Printing	2,272	2,198	591	5,061	8,843
Advertising - recruiting	-	2,755	-	2,755	1,408
Bad debts	1,260	-	-	1,260	14,700
Total expenses	\$ 7,004,810	\$ 1,692,266	\$ 216,062	\$ 8,913,138	\$ 8,393,919