

THE XERCES SOCIETY, INC.
FINANCIAL STATEMENTS
Year Ended December 31, 2013



THE XERCES SOCIETY
FOR INVERTEBRATE CONSERVATION

THE XERCES SOCIETY, INC.
FINANCIAL STATEMENTS
Year Ended December 31, 2013

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INDEPENDENT AUDITORS' REPORT

Board of Directors
The Xerces Society, Inc.
Portland, Oregon

Report on the Financial Statements

We have audited the accompanying financial statements of The Xerces Society, Inc. (a non-profit organization), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

The Organization's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Xerces Society, Inc. as of December 31, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Board of Directors
The Xerces Society, Inc.

Other Matters

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2014, on our consideration of The Xerces Society, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Xerces Society, Inc.'s internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited The Xerces Society, Inc.'s 2012 financial statements, and our report dated July 27, 2013, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Portland, Oregon
June 19, 2014

THE XERCES SOCIETY, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2013

(With Comparative Totals as of December 31, 2012)

ASSETS

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 980,648	\$ 569,784
Contracts receivable	303,974	343,938
Grants and contributions receivable	257,992	5,810
Investments	109,858	127,023
Inventory	46,399	29,817
Prepaid expenses	14,689	23,191
Property and equipment, net	<u>20,315</u>	<u>25,156</u>
Total assets	\$ <u>1,733,875</u>	\$ <u>1,124,719</u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 125,738	\$ 60,380
Accrued payroll and related expenses	105,226	117,974
Accrued retirement payable	70,004	-
Deferred contract revenue	<u>42,370</u>	<u>33,000</u>
Total liabilities	<u>343,338</u>	<u>211,354</u>
Net assets		
Unrestricted	958,011	474,559
Temporarily restricted	<u>432,526</u>	<u>438,806</u>
Total net assets	<u>1,390,537</u>	<u>913,365</u>
Total liabilities and net assets	\$ <u>1,733,875</u>	\$ <u>1,124,719</u>

See notes to financial statements.

THE XERCES SOCIETY, INC.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2013

(With Comparative Totals for the Year Ended December 31, 2012)

	Unrestricted	Temporarily Restricted	Total	
			2013	2012
Revenues and other support				
Grants and contributions	\$ 878,634	\$ 633,042	\$ 1,511,676	\$ 1,049,213
Government contracts	903,269	-	903,269	863,680
Merchandise revenue	53,409	-	53,409	70,307
Program revenue	43,025	-	43,025	55,214
Interest and dividends	3,067	2,994	6,061	7,612
Unrealized gain (loss) on investments	-	1,836	1,836	6,560
	1,881,404	637,872	2,519,276	2,052,586
Net assets released from restriction	644,152	(644,152)	-	-
Total revenues and other support	2,525,556	(6,280)	2,519,276	2,052,586
Expenses				
Program services				
Pollinator Conservation	1,108,458	-	1,108,458	944,290
Aquatic Conservation	232,160	-	232,160	262,413
Endangered Species	274,905	-	274,905	306,875
Other conservation	106,376	-	106,376	68,921
Total program services	1,721,899	-	1,721,899	1,582,499
Supporting services				
Management and general	57,680	-	57,680	56,691
Fund-raising	262,525	-	262,525	220,843
Total expenses	2,042,104	-	2,042,104	1,860,033
Change in net assets	483,452	(6,280)	477,172	192,553
Net assets, beginning of year	474,559	438,806	913,365	720,812
Net assets, end of year	\$ 958,011	\$ 432,526	\$ 1,390,537	\$ 913,365

See notes to financial statements.

THE XERCES SOCIETY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2013

(With Comparative Totals for the Year Ended December 31, 2012)

	PROGRAM SERVICES					SUPPORTING SERVICES		Total	
	Pollinator Conservation	Aquatic Conservation	Endangered Species	Other Conservation	Total Program	Management and General	Fund- Raising	2013	2012
Compensation and related expenses									
Salaries	\$ 547,584	\$ 103,035	\$ 175,803	\$ 43,765	\$ 870,187	\$ 39,573	\$ 106,632	\$ 1,016,392	\$ 932,582
Payroll taxes	54,441	10,432	18,164	4,305	87,342	3,970	10,546	101,858	90,141
Benefits	96,522	19,983	33,436	8,311	158,252	7,395	17,385	183,032	153,376
Contract services	149,642	56,195	4,915	11	210,763	5	24	210,792	143,809
Professional fees	16,186	3,197	5,555	1,214	26,152	1,144	10,088	37,384	29,728
Total compensation and related expenses	864,375	192,842	237,873	57,606	1,352,696	52,087	144,675	1,549,458	1,349,636
Occupancy									
Telephone	10,107	1,275	2,043	548	13,973	482	1,255	15,710	14,904
Insurance	883	191	295	45	1,414	55	149	1,618	848
Rent and utilities	27,792	5,339	8,637	2,179	43,947	2,001	5,197	51,145	52,033
Bank charges	542	75	155	-	772	264	6,470	7,506	5,508
Equipment and maintenance	17,428	3,697	6,743	1,669	29,537	677	2,230	32,444	62,069
Total occupancy	56,752	10,577	17,873	4,441	89,643	3,479	15,301	108,423	135,362
Other									
Postage	9,303	672	328	2,309	12,612	55	29,948	42,615	39,625
Supplies	30,146	1,815	1,573	165	33,699	465	1,945	36,109	34,017
Travel	81,733	22,468	13,278	22	117,501	961	79	118,541	119,913
Books and subscriptions	519	123	377	-	1,019	44	94	1,157	816
Publication design and printing	39,591	1,534	2,262	34,058	77,445	122	34,405	111,972	108,622
Dues and fees	8,074	1,085	1,184	275	10,618	336	4,884	15,838	13,897
Mailing list rental	-	-	-	-	-	-	5,350	5,350	5,487
DeWind Education Award	-	-	-	7,500	7,500	-	-	7,500	7,500
Book stock and merchandise	17,965	1,044	157	-	19,166	131	25,844	45,141	45,158
Total other	187,331	28,741	19,159	44,329	279,560	2,114	102,549	384,223	375,035
	\$ 1,108,458	\$ 232,160	\$ 274,905	\$ 106,376	\$ 1,721,899	\$ 57,680	\$ 262,525	\$ 2,042,104	\$ 1,860,033

See notes to financial statements.

THE XERCES SOCIETY, INC.

STATEMENT OF CASH FLOWS

Year Ended December 31, 2013

(With Comparative Totals for the Year Ended December 31, 2012)

	2013	2012
Cash flows from operating activities:		
Change in net assets	\$ 477,172	\$ 192,553
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Unrealized (gains) losses on investments	(1,836)	(6,560)
Depreciation	12,750	13,955
Changes in assets and liabilities:		
Contracts receivable	39,964	(50,349)
Grants and contributions receivable	(252,182)	178,690
Inventory	(16,582)	(16,653)
Prepaid expenses	8,503	(7,824)
Accounts payable	65,358	(40,734)
Accrued payroll and related expenses	(12,747)	13,369
Accrued retirement payable	70,004	(47,063)
Deferred contract revenue	9,369	33,000
Net cash provided by (used in) operating activities	399,773	262,384
Cash flows from investing activities:		
Proceeds from sale of investments	44,163	9,199
Purchase of investments	(25,162)	(4,295)
Purchase of property and equipment	(7,910)	-
Net cash provided by (used in) investing activities	11,091	4,904
Net increase (decrease) in cash and cash equivalents	410,864	267,288
Cash and cash equivalents, beginning of year	569,784	302,496
Cash and cash equivalents, end of year	\$ 980,648	\$ 569,784

See notes to financial statements.

THE XERCES SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE A – DESCRIPTION OF SOCIETY

The Xerces Society, Inc. (the Society) is a not-for-profit organization founded in 1971 dedicated to protecting the diversity of life through the conservation of invertebrates. The Society was named after the extinct Xerces blue butterfly (*Glaucopsyche xerces*). It advocates for invertebrates and their habitats by working with scientists, land managers, educators, and citizens on conservation and education projects. Its core programs focus on endangered species, native pollinators, and watershed health. Funding comes from membership dues and donations, merchandise sales, government contracts, corporate contributions, foundation grants and other program revenue.

The Society incurs program service expenses in the following major categories:

➤ **Pollinator Conservation**

The Society's Pollinator Conservation Program works across the United States to educate farmers, land managers, and the public about the importance of pollinating insects and to establish habitat protection and management as keys to their conservation. It directly reaches agricultural professionals and farmers through trainings, workshops, and other outreach events across the United States. It also works to educate farmers, agency staff, and citizens on responsible pesticide use and regulation. As a result of the Society's work, native pollinators are now a key priority for agricultural conservation programs across the United States, and its efforts have led to thousands of acres of habitat improvements for these vital insects.

➤ **Aquatic Conservation**

The Society's Aquatic Conservation Program conducts applied research and provides advice and resources to scientists, land managers, and watershed stewards for monitoring the health of streams, rivers, and wetlands. It also works with watershed councils to assess the health of local watersheds and to analyze the success of restoration projects. The Society's current work includes efforts to protect dragonflies, damselflies, freshwater mussels, and other aquatic invertebrates as well as provide ecologically-sound mosquito management.

➤ **Endangered Species**

The Society's Endangered Species Program advocates on behalf of threatened, endangered, and at-risk invertebrates and their habitats and works with agency staff to provide resources and training for their conservation. Its current work includes efforts to protect endangered bumble bees, butterflies, freshwater mussels, tiger beetles and other invertebrates. The Society protects habitat on private and public lands for the most imperiled species and regularly provides resources that help land managers conserve endangered insects and other wildlife.

THE XERCES SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2013

NOTE A – DESCRIPTION OF SOCIETY (CONTINUED)

➤ **Other Conservation**

Through the Conservation and Education Program, the Society also undertakes a variety of other activities to raise awareness and appreciation of the valuable role of invertebrates. These include publication of its magazine *Wings: Essays on Invertebrate Conservation*, which features the work of renowned wildlife photographers, scientists, and conservationists. The Society also provides dozens of publications for free download through its website, including guidelines to help farmers and gardeners conserve pollinators, guides to identifying endangered bumble bees, tools for monitoring stream health using aquatic insects, and many more. Another aspect of this program is the Joan M. DeWind award. Each year, two graduate or undergraduate students receive an award of \$3,750 each for Lepidoptera research/conservation projects.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Net assets and all balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets and changes therein are classified and reported as follows:

- **Unrestricted net assets** – Net assets not subject to donor-imposed stipulations.
- **Temporarily restricted net assets** – Net assets subject to donor-imposed stipulations that will be met either by actions of the Society, and/or passage of time.

Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For financial statement purposes, the Society considers all highly liquid investments with a maturity date of three months or less to be cash equivalents.

THE XERCES SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2013

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions

Contributions are recognized when the donor makes a promise to give to the Society that is, in substance, unconditional. Grants and contributions are reported at fair value at the date the Society is notified of receipt of a grant or pledge of a contribution. Contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Contracts Receivable

Receivables are recorded as the related services are provided and billed. Management periodically assesses the need for an allowance for doubtful accounts based on historical experience and existing conditions affecting probable collection. Receivables are considered impaired if unpaid balances are not received in accordance with the contractual terms. It is the Society's policy to charge off uncollectible receivables when management determines the receivable will not be collected. Management has determined that an allowance for doubtful accounts was not necessary as of December 31, 2013.

Investments and Fair Value Measurements

Investments are the only assets measured at fair value on a recurring basis. Valuation techniques used to measure fair value are prioritized into the following hierarchy:

- | | |
|----------------|--|
| Level 1 | Quoted prices in active markets for identical assets |
| Level 2 | Quoted prices for similar assets in active or inactive markets, or inputs derived from observable market data by correlation such as appraisals or other means such as calculations based on contractual rates and published tables. |
| Level 3 | Unobservable inputs that reflect management's assumptions and best estimates based on available data. |

Investments in bond mutual funds and equity mutual funds are carried at fair market value based on quoted prices in active markets (Level 1 measurements) in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities. Investments in annuity contracts are carried at the fair value determined by an insurance company (Level 3 measurements).

Inventory

The Society maintains an inventory of publications made available to the public for direct purchase and through bookstores. The publications are recorded at the lower of cost or market.

THE XERCES SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2013

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment is recorded at cost when purchased or at fair market value when donated. Depreciation is computed on the estimated useful lives of the assets using the straight-line method as follows:

Equipment	5 years
Office furniture and fixtures	5 years

The Society capitalizes depreciable assets with a value of \$3,000 or more and having an anticipated life of five years or more.

Maintenance and repairs are expensed when incurred.

Concentrations of Credit Risk

Financial instruments that potentially subject the Society to concentrations of credit risk consist principally of cash and receivables.

The Society places its cash with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). Amounts in excess of FDIC coverage are not insured.

The Society's grants and contracts receivable consist primarily of reimbursement requests to government agencies and are unsecured. Such receivables are generally due within 30 days. The Society has not experienced any losses on these accounts. There were no grants and contracts receivable older than 90 days as of December 31, 2013.

Income Taxes

The Society has been approved as a tax exempt organization under the Internal Revenue Code Section 501(c)(3) and applicable state laws. Accordingly, no provision for income taxes is included in the accompanying financial statements. The Society does not believe it has unrelated trade or business income in excess of \$1,000.

The Society's federal exempt organization information returns are subject to examination by the Internal Revenue Service, generally for three years after they are filed.

Allocation of Functional Expenses

The costs of providing the various programs and other activities have been summarized in the Statement of Activities. Certain costs, including salaries, occupancy, equipment rental and depreciation, have been allocated among the programs and supporting services benefited.

THE XERCES SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2013

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Prior Year Summarized Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class or natural expense classification by function. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Society's financial statements for the year ended December 31, 2012, from which the summarized information was derived.

NOTE C – PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following:

Equipment	\$	65,951
Office furniture and fixtures		<u>28,821</u>
		94,772
Less accumulated depreciation and amortization		<u>(74,457)</u>
	\$	<u><u>20,315</u></u>

Depreciation expense for the year ended December 31, 2013 amounted to \$12,750.

NOTE D – INVESTMENTS

Investments are stated at fair value and consist of the following:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Mutual funds, bonds	\$ 45,784	\$ 45,784	\$ -	\$ -
Mutual funds, equity	<u>64,074</u>	<u>64,074</u>	<u>-</u>	<u>-</u>
	<u>\$ 109,858</u>	<u>\$ 109,858</u>	<u>\$ -</u>	<u>\$ -</u>

THE XERCES SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2013

NOTE D – INVESTMENTS (CONTINUED)

The following table sets forth a summary of changes in the fair value of the Society's Level 3 assets for the year ended December 31, 2013:

	Beginning Balance	Total Gains/ Losses	Interest Earned	Purchases, Issuances, Settlements	Ending Balance
Annuity contract	\$ <u>34,972</u>	\$ <u>-</u>	\$ <u>343</u>	\$ <u>(35,315)</u>	\$ <u>-</u>

The Society was the beneficiary of an annuity contract purchased through Hartford Life Insurance Company (Hartford). The annuity paid interest at a guaranteed rate of 3.85% through April 23, 2013. At such time, the principal and interest was distributed to the Society. Contract value represents principal and interest earned to date, which approximates fair market value. There has been no change to the valuation technique. Investments in corporate stock mutual funds and corporate bond mutual funds have been valued using a market approach. There have been no changes in valuation techniques and related inputs.

NOTE E – SCHEDULE OF TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of December 31, 2013 consist of grants restricted for the following purpose:

Pollinator Conservation	\$ 224,754
Aquatic Conservation	17,113
Endangered Species	55,578
Other Conservation	<u>135,081</u>
	<u>\$ 432,526</u>

NOTE F – RETIREMENT PLAN

The Society maintains a simplified employee pension plan (SEP) for its employees. The Society makes discretionary contributions not to exceed 8% of employee wages. Pension expense was \$70,004, which was 8% of qualifying compensation for the year ended December 31, 2013.

THE XERCES SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2013

NOTE G – OPERATING LEASE COMMITMENT

The Society leases office space under an agreement that expires July 31, 2016. For the year ended December 31, 2013, total rent expense under the lease was \$42,830. Future minimum rental payments under the lease are as follows:

<u>Year Ending December 31,</u>	
2014	\$ 39,365
2015	40,528
2016	<u>20,559</u>
	<u>\$ 100,452</u>

NOTE H – SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 19, 2014, which is the date the financial statements were available to be issued.