

**THE XERCES SOCIETY, INC.**  
**FINANCIAL STATEMENTS**  
**Year Ended December 31, 2014**



**THE XERCES SOCIETY**  
**FOR INVERTEBRATE CONSERVATION**

**THE XERCES SOCIETY, INC.**  
**FINANCIAL STATEMENTS**  
**Year Ended December 31, 2014**

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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, 2014, 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, 2014, 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 15, 2015, 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 2013 financial statements, and our report dated June 19, 2014, 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, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Kern & Thompson, LLC*

Portland, Oregon  
June 15, 2015

THE XERCES SOCIETY, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2014

(With Comparative Totals as of December 31, 2013)

ASSETS

	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 1,493,856	\$ 980,648
Contracts receivable	440,004	303,974
Grants and contributions receivable	222,490	257,992
Investments	93,127	109,858
Inventory	77,391	46,399
Prepaid expenses	16,626	14,689
Property and equipment, net	<u>18,490</u>	<u>20,315</u>
<b>Total assets</b>	<b><u>\$ 2,361,984</u></b>	<b><u>\$ 1,733,875</u></b>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 136,250	\$ 174,763
Accrued payroll and related expenses	111,709	105,226
Accrued retirement payable	84,272	70,004
Deferred contract revenue	<u>16,873</u>	<u>42,370</u>
<b>Total liabilities</b>	<b><u>349,104</u></b>	<b><u>392,363</u></b>
<b>Net assets</b>		
Unrestricted	1,362,232	908,986
Temporarily restricted	650,648	432,526
<b>Total net assets</b>	<b><u>2,012,880</u></b>	<b><u>1,341,512</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 2,361,984</u></b>	<b><u>\$ 1,733,875</u></b>

See notes to financial statements.

**THE XERCES SOCIETY, INC.**

**STATEMENT OF ACTIVITIES**

**Year Ended December 31, 2014**

(With Comparative Totals for the Year Ended December 31, 2013)

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>	
			<b>2014</b>	<b>2013</b>
<b>Revenues and other support</b>				
Grants and contributions	\$ 954,266	\$ 904,270	\$ 1,858,536	\$ 1,511,676
Government contracts	880,984	-	880,984	903,269
Program revenue	330,669	-	330,669	43,025
Merchandise revenue	62,341	-	62,341	53,409
Interest and dividends	2,775	5,067	7,842	6,061
Unrealized gain (loss) on investments	(164)	9,474	9,310	1,836
	2,230,871	918,811	3,149,682	2,519,276
Net assets released from restriction	700,689	(700,689)	-	-
<b>Total revenues and other support</b>	<b>2,931,560</b>	<b>218,122</b>	<b>3,149,682</b>	<b>2,519,276</b>
<b>Expenses</b>				
Program services				
Pollinator Conservation	1,325,824	-	1,325,824	1,130,494
Aquatic Conservation	259,544	-	259,544	236,776
Endangered Species	401,281	-	401,281	280,368
Other conservation	72,399	-	72,399	108,490
Total program services	2,059,048	-	2,059,048	1,756,128
Supporting services				
Management and general	89,167	-	89,167	67,257
Fund-raising	330,099	-	330,099	267,744
<b>Total expenses</b>	<b>2,478,314</b>	<b>-</b>	<b>2,478,314</b>	<b>2,091,129</b>
<b>Change in net assets</b>	<b>453,246</b>	<b>218,122</b>	<b>671,368</b>	<b>428,147</b>
Net assets, beginning of year - restated	908,986	432,526	1,341,512	913,365
<b>Net assets, end of year</b>	<b>\$ 1,362,232</b>	<b>\$ 650,648</b>	<b>\$ 2,012,880</b>	<b>\$ 1,341,512</b>

See notes to financial statements.

THE XERCES SOCIETY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2014

(With Comparative Totals for the Year Ended December 31, 2013)

	PROGRAM SERVICES					SUPPORTING SERVICES		Total	
	Pollinator Conservation	Aquatic Conservation	Endangered Species	Other Conservation	Total Program	Management and General	Fund- Raising	2014	2013
<b>Compensation and related expenses</b>									
Salaries	\$ 647,299	\$ 130,636	\$ 251,736	\$ 19,093	\$ 1,048,764	\$ 59,699	\$ 143,584	\$ 1,252,047	\$ 1,016,392
Payroll taxes	61,592	12,286	23,031	1,819	98,728	5,636	14,246	118,610	101,858
Benefits	116,128	26,401	47,317	3,186	193,032	11,778	23,279	228,089	232,057
Contract services	183,491	41,971	11,392	14	236,868	152	33	237,053	210,792
Professional fees	21,313	3,040	6,010	303	30,666	1,506	10,677	42,849	37,384
<b>Total compensation and related expenses</b>	<b>1,029,823</b>	<b>214,334</b>	<b>339,486</b>	<b>24,415</b>	<b>1,608,058</b>	<b>78,771</b>	<b>191,819</b>	<b>1,878,648</b>	<b>1,598,483</b>
<b>Occupancy</b>									
Telephone	11,585	1,844	3,740	290	17,459	761	1,694	19,914	15,710
Insurance	5,239	1,083	2,037	151	8,510	493	1,154	10,157	1,618
Rent and utilities	28,929	5,830	10,845	834	46,438	2,661	6,166	55,265	51,145
Bank charges	1,413	115	694	-	2,222	148	10,666	13,036	7,506
Equipment and maintenance	27,322	6,426	10,722	653	45,123	2,429	3,382	50,934	32,444
<b>Total occupancy</b>	<b>74,488</b>	<b>15,298</b>	<b>28,038</b>	<b>1,928</b>	<b>119,752</b>	<b>6,492</b>	<b>23,062</b>	<b>149,306</b>	<b>108,423</b>
<b>Other</b>									
Postage	13,657	549	904	3,504	18,614	62	38,934	57,610	42,615
Supplies	40,014	1,477	1,637	98	43,226	1,249	2,400	46,875	36,109
Travel	85,783	23,947	26,359	610	136,699	1,348	531	138,578	118,541
Books and subscriptions	122	-	230	-	352	225	-	577	1,157
Publication design and printing	48,654	3,103	1,558	34,270	87,585	453	32,290	120,328	111,972
Dues and fees	8,649	817	1,892	74	11,432	567	6,691	18,690	15,838
Mailing list rental	-	-	-	-	-	-	6,125	6,125	5,350
DeWind Education Award	-	-	-	7,500	7,500	-	-	7,500	7,500
Book stock and merchandise	24,634	19	1,177	-	25,830	-	28,247	54,077	45,141
<b>Total other</b>	<b>221,513</b>	<b>29,912</b>	<b>33,757</b>	<b>46,056</b>	<b>331,238</b>	<b>3,904</b>	<b>115,218</b>	<b>450,360</b>	<b>384,223</b>
	<b>\$ 1,325,824</b>	<b>\$ 259,544</b>	<b>\$ 401,281</b>	<b>\$ 72,399</b>	<b>\$ 2,059,048</b>	<b>\$ 89,167</b>	<b>\$ 330,099</b>	<b>\$ 2,478,314</b>	<b>\$ 2,091,129</b>

See notes to financial statements.

**THE XERCES SOCIETY, INC.**

**STATEMENT OF CASH FLOWS**

**Year Ended December 31, 2014**

(With Comparative Totals for the Year Ended December 31, 2013)

	<b>2014</b>	<b>2013</b>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 671,368	\$ 428,147
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Unrealized (gains) losses on investments	(9,310)	(1,836)
Depreciation	9,677	12,750
Changes in assets and liabilities:		
Contracts receivable	(136,031)	39,964
Grants and contributions receivable	35,502	(252,182)
Inventory	(30,991)	(16,582)
Prepaid expenses	(1,938)	8,503
Accounts payable	(38,513)	114,383
Accrued payroll and related expenses	6,483	(12,747)
Accrued retirement payable	14,268	70,004
Deferred contract revenue	(25,497)	9,369
<b>Net cash provided by (used in) operating activities</b>	<b>495,018</b>	<b>399,773</b>
<b>Cash flows from investing activities:</b>		
Proceeds from sale of investments	31,153	44,163
Purchase of investments	(5,111)	(25,162)
Purchase of property and equipment	(7,852)	(7,910)
<b>Net cash provided by (used in) investing activities</b>	<b>18,190</b>	<b>11,091</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>513,208</b>	<b>410,864</b>
Cash and cash equivalents, beginning of year	980,648	569,784
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,493,856</b>	<b>\$ 980,648</b>

See notes to financial statements.



## THE XERCES SOCIETY, INC.

### NOTES TO FINANCIAL STATEMENTS

December 31, 2014

#### 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 and to promote 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, 2014**

**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, 2014**

**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, 2014.

**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:

- |                |  |
|----------------|--|
| <b>Level 1</b> | Quoted prices in active markets for identical assets   |
| <b>Level 2</b> | 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. |
| <b>Level 3</b> | 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, 2014**

**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, 2014.

**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'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, 2014**

**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, 2013, from which the summarized information was derived.

**NOTE C – PROPERTY AND EQUIPMENT**

Property and equipment is comprised of the following:

Equipment	\$	73,803
Office furniture and fixtures		28,821
		<u>102,624</u>
Less accumulated depreciation and amortization		<u>(84,134)</u>
	\$	<u><u>18,490</u></u>

Depreciation expense for the year ended December 31, 2014 amounted to \$9,677.

**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	\$ 45,504	\$ 45,504	\$ -	\$ -
Mutual funds, equity	<u>47,623</u>	<u>47,623</u>	<u>-</u>	<u>-</u>
	<u><u>\$ 93,127</u></u>	<u><u>\$ 93,127</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

**NOTE E – SCHEDULE OF TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets as of December 31, 2014 consist of grants restricted for the following purpose:

Pollinator Conservation	\$	461,778
Endangered Species		60,302
Other Conservation		<u>128,568</u>
	\$	<u><u>650,648</u></u>

**THE XERCES SOCIETY, INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**December 31, 2014**

**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 \$84,272, which was 8% of qualifying compensation for the year ended December 31, 2014.

**NOTE G – OPERATING LEASE COMMITMENT**

The Society leases office space under an agreement that expires July 31, 2016. For the year ended December 31, 2014, total rent expense under the lease was \$46,040. Future minimum rental payments under the lease are as follows:

Year Ending December 31,		
2015	\$	40,528
2016		20,559
	\$	61,087

**NOTE H – RESTATEMENT**

Net assets as of December 31, 2013 have been restated due to a change in management's interpretation of qualified wages used in the calculation of the Organization's SEP contributions. The cumulative effect of the restatement on the beginning net assets and the effect on the financial statements for the year ended December 31, 2013 are as follows:

	Accounts Payable	Total Expense	Unrestricted Net Assets
Balances as of December 31, 2013 as previously reported	\$ 125,738	\$ 2,042,104	\$ 958,011
Increase to accounts payable and benefits expense due to change in interpretation of qualifying wages	49,025	49,025	(49,025)
Balances as of December 31, 2013 as restated	\$ 174,763	\$ 2,091,129	\$ 908,986

**NOTE I – SUBSEQUENT EVENTS**

Subsequent events have been evaluated through June 15, 2015, which is the date the financial statements were available to be issued.