

THE XERCES SOCIETY, INC.
FINANCIAL STATEMENTS
Year Ended December 31, 2010



THE XERCES SOCIETY
FOR INVERTEBRATE CONSERVATION

THE XERCES SOCIETY, INC.
FINANCIAL STATEMENTS
Year Ended December 31, 2010

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KERN & THOMPSON, LLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of The Xerces Society, Inc. (a not-for-profit organization) as of December 31, 2010, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Society'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 financial statements of The Xerces Society, Inc. as of December 31, 2009 and, in our report dated June 17, 2010, we expressed an unqualified opinion on these financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 The Xerces Society, Inc. at December 31, 2010, 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.

Kern & Thompson, LLC

Portland, Oregon
August 16, 2011

THE XERCES SOCIETY, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2010

(With Comparative Totals as of December 31, 2009)

ASSETS

	2010	2009
Cash and cash equivalents	\$ 348,522	\$ 306,841
Investments	134,593	122,898
Contracts receivable	175,775	145,558
Grants receivable	110,000	93,300
Inventory	2,086	13,658
Prepaid expenses	8,598	4,000
Property and equipment, net	14,255	12,377
Total assets	\$ 793,829	\$ 698,632

LIABILITIES AND NET ASSETS

Accounts payable	\$ 61,688	\$ 28,069
Accrued payroll and retirement payable	115,361	89,507
Deferred revenue	-	3,700
Total liabilities	177,049	121,276
Net assets		
Unrestricted	236,915	284,765
Temporarily restricted	379,865	292,591
Total net assets	616,780	577,356
Total liabilities and net assets	\$ 793,829	\$ 698,632

See notes to financial statements.

THE XERCES SOCIETY, INC.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2010

(With Comparative Totals for the Year Ended December 31, 2009)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	
			<u>2010</u>	<u>2009</u>
Revenues and other support				
Grants and contributions	\$ 257,154	\$ 448,720	\$ 705,874	\$ 642,930
Government contracts	516,556	-	516,556	281,799
Other income	72,820	-	72,820	72,408
Interest and dividends	4,906	4,992	9,898	9,068
Unrealized gain / (loss) on investments	56	5,445	5,501	2,341
	<u>851,492</u>	<u>459,157</u>	<u>1,310,649</u>	<u>1,008,546</u>
Net assets released from restriction	<u>371,883</u>	<u>(371,883)</u>	<u>-</u>	<u>-</u>
Total revenues and other support	<u>1,223,375</u>	<u>87,274</u>	<u>1,310,649</u>	<u>1,008,546</u>
Expenses				
Program services				
Pollinators	673,734	-	673,734	405,859
Aquatic	124,606	-	124,606	111,413
Endangered Species	184,902	-	184,902	188,887
Conservation and education	115,943	-	115,943	74,088
Total program services	<u>1,099,185</u>	<u>-</u>	<u>1,099,185</u>	<u>780,247</u>
Supporting services				
Management and general	37,295	-	37,295	20,710
Fund-raising	134,745	-	134,745	67,281
Total expenses	<u>1,271,225</u>	<u>-</u>	<u>1,271,225</u>	<u>868,238</u>
Change in net assets	<u>(47,850)</u>	<u>87,274</u>	<u>39,424</u>	<u>140,308</u>
Net assets, beginning of year	<u>284,765</u>	<u>292,591</u>	<u>577,356</u>	<u>437,048</u>
Net assets, end of year	<u>\$ 236,915</u>	<u>\$ 379,865</u>	<u>\$ 616,780</u>	<u>\$ 577,356</u>

See notes to financial statements.

THE XERCES SOCIETY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2010

(With Comparative Totals for the Year Ended December 31, 2009)

	PROGRAM SERVICES					SUPPORTING SERVICES		Total	
	Polli- nators	Aquatic	Endangered Species	Conservation and Education	Total Program	Management and General	Fund- Raising	2010	2009
Salaries	\$ 273,096	\$ 57,674	\$ 97,073	\$ 42,937	\$ 470,780	\$ 24,924	\$ 49,260	\$ 544,964	\$ 461,779
Payroll taxes	24,707	5,378	8,650	3,911	42,646	2,243	4,446	49,335	44,236
Benefits	48,043	7,945	14,249	6,839	77,076	4,316	8,727	90,119	64,975
Professional fees	186,262	36,333	27,400	729	250,724	467	4,741	255,932	88,053
Travel	50,847	7,352	23,908	2,361	84,468	876	432	85,776	49,331
Telephone	6,347	956	1,527	779	9,609	463	794	10,866	9,967
Postage	4,910	322	735	6,521	12,488	174	22,373	35,035	21,949
Supplies	27,661	2,744	1,675	431	32,511	738	770	34,019	13,500
Books and subscriptions	289	251	243	90	873	-	22	895	404
Rent	11,634	1,762	3,002	1,323	17,721	753	1,474	19,948	16,645
Publication design and printing	28,182	132	589	28,649	57,552	85	21,086	78,723	58,124
DeWind Education Award	-	-	-	7,500	7,500	-	-	7,500	7,500
Book stock and merchandise	-	-	-	11,572	11,572	-	13,028	24,600	9,866
Dues and fees	1,369	71	801	27	2,268	384	1,982	4,634	1,302
Insurance	797	228	341	160	1,526	69	195	1,790	1,664
Equipment rental and maintenance	9,427	3,458	4,692	2,041	19,618	1,683	2,154	23,455	16,087
Bank charges	163	-	17	73	253	120	3,261	3,634	2,753
Miscellaneous	-	-	-	-	-	-	-	-	103
	<u>\$ 673,734</u>	<u>\$ 124,606</u>	<u>\$ 184,902</u>	<u>\$ 115,943</u>	<u>\$ 1,099,185</u>	<u>\$ 37,295</u>	<u>\$ 134,745</u>	<u>\$ 1,271,225</u>	<u>\$ 868,238</u>

See notes to financial statements.

THE XERCES SOCIETY, INC.

STATEMENT OF CASH FLOWS

Year Ended December 31, 2010

(With Comparative Totals for the Year Ended December 31, 2009)

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Change in net assets	\$ 39,424	\$ 140,308
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Unrealized gains (losses) on investments	(5,445)	(2,341)
Depreciation	8,123	7,551
Changes in assets and liabilities:		
Contracts receivable	(30,217)	(37,222)
Grants receivable	(16,700)	(67,260)
Pledges receivable	-	28,485
Inventory	11,572	(11,624)
Prepaid expenses	(4,598)	7,200
Accounts payable	33,619	138
Accrued payroll and retirement payable	25,854	17,827
Deferred revenue	(3,700)	(7,435)
Net cash provided by (used in) operating activities	<u>57,932</u>	<u>75,627</u>
Cash flows from investing activities:		
Proceeds (purchase) of investments	(6,250)	(5,096)
Purchase of property and equipment	(10,001)	(5,496)
Net cash provided by (used in) investing activities	<u>(16,251)</u>	<u>(10,592)</u>
Net increase (decrease) in cash and cash equivalents	41,681	65,035
Cash and cash equivalents, beginning of year	<u>306,841</u>	<u>241,806</u>
Cash and cash equivalents, end of year	<u>\$ 348,522</u>	<u>\$ 306,841</u>

See notes to financial statements.

THE XERCES SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

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, and grants from foundations and other grant makers.

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

➤ **Pollinator Conservation**

Our Pollinator Conservation staff 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. In the last several years, we have directly reached over 10,000 agricultural professionals and farmers through trainings, workshops, and other outreach events across the United States. As a result of our work, native pollinators are now a key priority for agricultural conservation programs across the United States, and our efforts have led to over 60,000 acres of habitat improvements for these vital insects. We also developed a web-based Pollinator Conservation Resource Center that provides one-stop shopping for anyone attempting to implement pollinator conservation projects, and it regularly receives over 1,000 visitors a month.

➤ **Aquatic**

Our 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. The Society also works with watershed councils to assess the health of local watersheds and to analyze the success of restoration projects. Our current work includes efforts to protect dragonflies, damselflies, freshwater mussels, stoneflies and other aquatic invertebrates.

➤ **Endangered Species**

Our 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. Our current work includes efforts to protect endangered bumble bees, butterflies, freshwater mussels, tiger beetles and other invertebrates. We protect habitat on private and public lands for the most imperiled species, and regularly provide resources that help land managers conserve endangered insects and other wildlife.

THE XERCES SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2010

NOTE A – DESCRIPTION OF SOCIETY (CONTINUED)

➤ **Conservation and Education**

Through the Conservation and Education program, we undertake a variety of activities to raise awareness and appreciation of the valuable role of invertebrates. These include publication of our magazine **Wings: Essays on Invertebrate Conservation** which features the work of renowned wildlife photographers, scientists, and conservationists. We also provide dozens of publications for free download through our 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

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.

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).

THE XERCES SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2010

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contracts, Grants and Pledges Receivable

Receivables are recorded monthly 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, 2010.

Contributions

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

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.

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.

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, 2010.

THE XERCES SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2010

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:

Office equipment	3-5 years
Furniture	5 years

The Society capitalizes depreciable assets with a value of \$1,000 or more and having an anticipated life of two years or more.

Maintenance and repairs are expensed when incurred.

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 business income tax 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.

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, 2009, from which the summarized information was derived.

NOTE C – GRANTS RECEIVABLE

Grants receivable as of December 31 consist of the following:

Due in one year	\$ 60,000
Due beyond one year	<u>50,000</u>
	<u>\$ 110,000</u>

THE XERCES SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2010

NOTE D – PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following:

Artwork	\$ 620
Equipment	47,331
Office furniture and fixtures	<u>1,735</u>
	49,686
Less accumulated depreciation and amortization	<u>(35,431)</u>
	<u>\$ 14,255</u>

NOTE E – 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	\$ 74,748	\$ 74,748	\$ -	\$ -
Mutual funds, equity	27,418	27,418	-	-
Fixed annuity contract	<u>32,427</u>	<u>-</u>	<u>-</u>	<u>32,427</u>
	<u>\$ 134,593</u>	<u>\$ 102,166</u>	<u>\$ -</u>	<u>\$ 32,427</u>

The following table sets forth a summary of changes in the fair value of the Society's Plan 3 assets for the year ended December 31, 2010:

	<u>Beginning Balance</u>	<u>Total Gains/ Losses</u>	<u>Interest Earned</u>	<u>Purchases, Issuances, Settlements</u>	<u>Ending Balance</u>	<u>Unrealized Gains/ Losses</u>
Annuity contract	\$ <u>31,225</u>	\$ <u>-</u>	\$ <u>1,202</u>	\$ <u>-</u>	\$ <u>32,427</u>	\$ <u>-</u>

The Society is the beneficiary of an annuity contract purchased through Hartford Life Insurance Company (Hartford). The annuity pays interest at a guaranteed rate of 3.85% through June 25, 2013. At such time, the principal and interest will be 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.

THE XERCES SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2010

NOTE F – SCHEDULE OF TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of December 31, 2010 consist of grants restricted for the following purpose:

Pollinators	\$ 167,022
Endangered Species	120,393
Conservation and Education	82,450
Aquatics	<u>10,000</u>
	<u>\$ 379,865</u>

NOTE G – RETIREMENT PLAN

The Society maintains a SEP-IRA pension plan for its employees. The Society makes discretionary contributions not to exceed 8% of employee wages. Pension expense was \$38,457 for the year ended December 31, 2010.

NOTE H – OPERATING LEASE COMMITMENT

The Society had a lease agreement for its administrative office space in effect for \$1,400 per month. The lease expired in July 2011. Total rent expense for the year ended December 31, 2010 was \$19,948. As of August, 2011, the Society has entered a new lease for administrative and operations headquarters in a new location. The new lease's approximate rental commitment is as follows:

<u>Year Ending December 31,</u>	
2011	\$ 15,000
2012	36,450
2013	37,544
2014	38,670
2015	39,830
2016 and thereafter	<u>23,636</u>
	<u>\$ 191,130</u>

NOTE I – SUBSEQUENT EVENTS

Subsequent events have been evaluated through August 16, 2011, which is the date the financial statements were available to be issued.