

THE XERCES SOCIETY, INC.
FINANCIAL STATEMENTS
Year Ended December 31, 2011



THE XERCES SOCIETY
FOR INVERTEBRATE CONSERVATION

THE XERCES SOCIETY, INC.
FINANCIAL STATEMENTS
Year Ended December 31, 2011

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6-11



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 corporation) as of December 31, 2011, and the related statements of activities, functional expenses, 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 financial statements of The Xerces Society, Inc. as of and for the year ended December 31, 2010 and, in our report dated August 16, 2011, we expressed an unqualified opinion on those financial statements.

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 The Xerces Society, Inc. as of December 31, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2011, 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 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.

Kern & Thompson, LLC

Portland, Oregon
July 27, 2012

THE XERCES SOCIETY, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2011

(With Comparative Totals as of December 31, 2010)

ASSETS

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 302,496	\$ 348,522
Contracts receivable	293,589	175,775
Grants and contributions receivable	184,500	110,000
Investments	125,367	134,593
Inventory	13,164	2,086
Prepaid expenses	15,367	8,598
Property and equipment, net	<u>39,111</u>	<u>14,255</u>
Total assets	<u>\$ 973,594</u>	<u>\$ 793,829</u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 101,114	\$ 61,688
Accrued payroll and related expenses	104,605	76,904
Accrued retirement payable	<u>47,063</u>	<u>38,457</u>
Total liabilities	<u>252,782</u>	<u>177,049</u>
Net assets		
Unrestricted	180,943	236,915
Temporarily restricted	<u>539,869</u>	<u>379,865</u>
Total net assets	<u>720,812</u>	<u>616,780</u>
Total liabilities and net assets	<u>\$ 973,594</u>	<u>\$ 793,829</u>

See notes to financial statements.

THE XERCES SOCIETY, INC.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2011

(With Comparative Totals for the Year Ended December 31, 2010)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	
			<u>2011</u>	<u>2010</u>
Revenues and other support				
Grants and contributions	\$ 287,992	\$ 560,044	\$ 848,036	\$ 705,874
Government contracts	760,844	-	760,844	516,556
Merchandise revenue	61,870	-	61,870	57,104
Program revenue	35,074	-	35,074	15,716
Interest and dividends	5,000	4,113	9,113	9,898
Unrealized gain (loss) on investments	(304)	12,406	12,102	5,501
	<u>1,150,476</u>	<u>576,563</u>	<u>1,727,039</u>	<u>1,310,649</u>
Net assets released from restriction	416,559	(416,559)	-	-
Total revenues and other support	<u>1,567,035</u>	<u>160,004</u>	<u>1,727,039</u>	<u>1,310,649</u>
Expenses				
Program services				
Pollinator Conservation	879,394	-	879,394	673,734
Aquatic	153,863	-	153,863	124,606
Endangered Species	205,008	-	205,008	184,902
Conservation and education	100,898	-	100,898	115,943
Total program services	<u>1,339,163</u>	<u>-</u>	<u>1,339,163</u>	<u>1,099,185</u>
Supporting services				
Management and general	78,682	-	78,682	37,295
Fund-raising	205,162	-	205,162	134,745
Total expenses	<u>1,623,007</u>	<u>-</u>	<u>1,623,007</u>	<u>1,271,225</u>
Change in net assets	(55,972)	160,004	104,032	39,424
Net assets, beginning of year	<u>236,915</u>	<u>379,865</u>	<u>616,780</u>	<u>577,356</u>
Net assets, end of year	<u>\$ 180,943</u>	<u>\$ 539,869</u>	<u>\$ 720,812</u>	<u>\$ 616,780</u>

See notes to financial statements.

THE XERCES SOCIETY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2011

(With Comparative Totals for the Year Ended December 31, 2010)

	PROGRAM SERVICES					SUPPORTING SERVICES		Total	
	Polli- nators	Aquatic	Endangered Species	Conservation and Education	Total Program	Management and General	Fund- Raising	2011	2010
Compensation and related expenses									
Salaries	\$ 386,873	\$ 60,100	\$ 124,275	\$ 37,250	\$ 608,498	\$ 43,213	\$ 72,369	\$ 724,080	\$ 544,964
Payroll taxes	38,573	5,700	12,761	3,971	61,005	4,276	7,188	72,469	49,335
Benefits	63,755	9,182	20,209	5,631	98,777	6,685	12,492	117,954	90,119
Contract services	123,938	53,604	7,714	2,638	187,894	3,174	1,164	192,232	243,206
Professional fees	7,223	1,143	2,429	740	11,535	1,091	10,660	23,286	9,332
Total compensation and related expenses	620,362	129,729	167,388	50,230	967,709	58,439	103,873	1,130,021	936,956
Occupancy									
Telephone	7,747	826	1,650	456	10,679	652	898	12,229	10,866
Insurance	990	233	299	44	1,566	87	180	1,833	1,790
Occupancy	19,311	3,245	5,750	1,312	29,618	1,973	3,146	34,737	19,948
Bank charges	381	75	233	-	689	146	3,852	4,687	3,634
Equipment rental and maintenance	17,319	3,902	6,523	2,202	29,946	13,893	1,894	45,733	23,455
Total occupancy	45,748	8,281	14,455	4,014	72,498	16,751	9,970	99,219	59,693
Other									
Postage	10,552	213	567	5,432	16,764	218	15,527	32,509	35,035
Supplies	32,032	1,918	2,726	384	37,060	1,046	1,044	39,150	34,019
Travel	75,303	11,748	17,501	194	104,746	1,611	2,623	108,980	85,776
Books and subscriptions	154	-	202	85	441	30	-	471	895
Publication design and printing	49,412	441	1,826	30,881	82,560	225	28,326	111,111	78,723
Dues and fees	3,967	93	343	92	4,495	362	17,155	22,012	4,634
Mailing list rental	-	-	-	-	-	-	3,082	3,082	3,394
DeWind Education Award	-	-	-	7,500	7,500	-	-	7,500	7,500
Book stock and merchandise	41,864	1,440	-	2,086	45,390	-	23,562	68,952	24,600
Total other	213,284	15,853	23,165	46,654	298,956	3,492	91,319	393,767	274,576
	\$ 879,394	\$ 153,863	\$ 205,008	\$ 100,898	\$ 1,339,163	\$ 78,682	\$ 205,162	\$ 1,623,007	\$ 1,271,225

See notes to financial statements.

THE XERCES SOCIETY, INC.

STATEMENT OF CASH FLOWS

Year Ended December 31, 2011

(With Comparative Totals for the Year Ended December 31, 2010)

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Change in net assets	\$ 104,032	\$ 39,424
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Unrealized gains (losses) on investments	(12,102)	(5,445)
Depreciation	12,320	8,123
Changes in assets and liabilities:		
Contracts receivable	(117,814)	(30,217)
Grants receivable	(74,500)	(16,700)
Inventory	(11,078)	11,572
Prepaid expenses	(6,769)	(4,598)
Accounts payable	39,426	33,619
Accrued payroll	27,701	16,792
Accrued retirement payable	8,606	9,062
Deferred revenue	-	(3,700)
Net cash provided by (used in) operating activities	<u>(30,178)</u>	<u>57,932</u>
Cash flows from investing activities:		
Proceeds from sale of investments	26,686	-
Purchase of investments	(5,358)	(6,250)
Purchase of property and equipment	(37,176)	(10,001)
Net cash provided by (used in) investing activities	<u>(15,848)</u>	<u>(16,251)</u>
Net increase (decrease) in cash and cash equivalents	(46,026)	41,681
Cash and cash equivalents, beginning of year	<u>348,522</u>	<u>306,841</u>
Cash and cash equivalents, end of year	<u>\$ 302,496</u>	<u>\$ 348,522</u>

See notes to financial statements.

THE XERCES SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS

December 31, 2011

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 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. We directly reach 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 thousands of acres of habitat improvements for these vital insects.

➤ **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, 2011

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

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, 2011

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, 2011.

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, 2011

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 three 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, 2011.

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, 2011

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, 2010, from which the summarized information was derived.

NOTE C – PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following:

Equipment	\$ 61,417
Office furniture and fixtures	25,445
	<u>86,862</u>
Less accumulated depreciation and amortization	<u>(47,751)</u>
	<u>\$ 39,111</u>

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	\$ 64,023	\$ 64,023	\$ -	\$ -
Mutual funds, equity	27,672	27,672	-	-
Fixed annuity contract	<u>33,672</u>	<u>-</u>	<u>-</u>	<u>33,672</u>
	<u>\$ 125,367</u>	<u>\$ 91,695</u>	<u>\$ -</u>	<u>\$ 33,672</u>

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, 2011:

	<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>32,427</u>	\$ <u>-</u>	\$ <u>1,245</u>	\$ <u>-</u>	\$ <u>33,672</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.

THE XERCES SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2011

NOTE D – INVESTMENTS (CONTINUED)

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, 2011 consist of grants restricted for the following purpose:

Pollinator Conservation	\$ 320,643
Endangered Species	89,743
Conservation and Education	82,154
Aquatics	<u>47,329</u>
	\$ <u>539,869</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 \$47,063, which was 8% of qualifying compensation for the year ended December 31, 2011.

NOTE G – OPERATING LEASE COMMITMENT

The Society leases office space under an agreement that expires July 31, 2016. For the year ended December 31, 2011, total rent expense was \$30,750. Future minimum rental payments under the lease are as follows:

<u>Year Ending</u> <u>December 31,</u>	
2012	\$ 36,450
2013	37,544
2014	38,670
2015	39,830
2016	<u>23,636</u>
	\$ <u>176,130</u>

NOTE H – SUBSEQUENT EVENTS

Subsequent events have been evaluated through July 27, 2012, which is the date the financial statements were available to be issued.