



Gary McGee & Co. LLP
CERTIFIED PUBLIC ACCOUNTANTS



Financial Statements and Other Information as of and for the Year
Ended December 31, 2020 and Report of Independent Accountants

THE XERCES SOCIETY, INC.

TABLE OF CONTENTS

	Page
Report of Independent Accountants	3
Financial Statements:	
Statement of Financial Position	5
Statement of Activities	6
Statement of Cash Flows	7
Statement of Functional Expenses	8
Notes to the Financial Statements	10
Other Information:	
Governing Board and Management	20
Inquiries and Other Information	21

REPORT OF INDEPENDENT ACCOUNTANTS

*The Board of Directors
The Xerces Society, Inc.:*

Report on the Financial Statements

We have audited the accompanying financial statements of The Xerces Society, Inc., which comprise the statement of financial position as of December 31, 2020, and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; 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.

Auditor's 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 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 auditor's 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 organization'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 organization'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, 2020, 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.

Other Matters

Supplementary Information

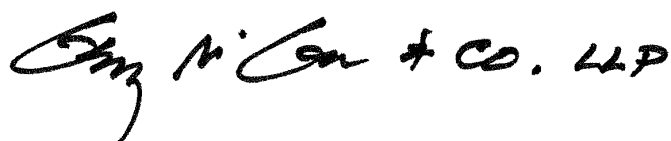
Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards on pages 20 and 21, as required by Title 2, *U.S. Code of Federal Regulations* (CFR), Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Summarized Comparative Information

We have previously audited The Xerces Society, Inc.'s 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 28, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2021 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 solely 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 effectiveness of The Xerces Society, Inc.'s 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.

Handwritten signature of Amy McGee in black ink, followed by the text "Amy McGee & Co. LLP".

August 19, 2021

THE XERCES SOCIETY, INC.

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2020

(WITH COMPARATIVE AMOUNTS FOR 2019)

	2020	2019
Assets:		
Cash and cash equivalents	\$ 2,825,023	1,825,633
Government grants, contracts, and other receivables (<i>note 4</i>)	627,864	723,655
Private grants and contributions receivable (<i>note 5</i>)	112,619	190,975
Investments (<i>note 6</i>)	6,642,542	5,098,914
Inventories	118,795	130,535
Prepaid expenses	71,033	43,529
Property and equipment (<i>note 7</i>)	21,386	10,364
Total assets	\$ 10,419,262	8,023,605
Liabilities:		
Accounts payable and accrued expenses	80,553	49,938
Accrued payroll and related expenses	400,968	368,079
Deferred revenue (<i>note 12</i>)	1,290,355	868,631
Note payable (<i>note 8</i>)	713,211	—
Total liabilities	2,485,087	1,286,648
Net assets:		
Without donor restrictions:		
Available for programs and general operations	5,876,540	4,678,357
Board-designated reserve (<i>note 9</i>)	281,741	253,487
Net investment in capital assets	21,386	10,364
Total without donor restrictions	6,179,667	4,942,208
With donor restrictions (<i>note 10</i>)	1,754,508	1,794,749
Total net assets	7,934,175	6,736,957
Commitments and contingencies (<i>notes 4, 5, 14, 15, and 19</i>)		
Total liabilities and net assets	\$ 10,419,262	8,023,605

See accompanying notes to financial statements.

THE XERCES SOCIETY, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2020
(WITH COMPARATIVE TOTALS FOR 2019)

	2020			
	Without donor restrictions	With donor restrictions	Total	2019
Revenues, gains, and other support:				
Private grants and contributions	\$ 2,554,460	1,315,046	3,869,506	4,115,523
Government grants and contracts	—	1,342,418	1,342,418	1,304,459
Program revenue	757,473	—	757,473	779,011
Interest income	1,063	—	1,063	2,471
Investment return, net (<i>note 6</i>)	128,075	11,210	139,285	177,508
Other income	57,045	—	57,045	—
Total revenues and gains	3,498,116	2,668,674	6,166,790	6,378,972
Net assets released from restrictions and other reclassifications (<i>note 11</i>)	2,708,915	(2,708,915)	—	—
Total revenues, gains, and other support	6,207,031	(40,241)	6,166,790	6,378,972
Expenses (<i>note 13</i>):				
Program services	3,781,366	—	3,781,366	3,852,715
Management and general	448,810	—	448,810	403,420
Fundraising	739,396	—	739,396	747,572
Total expenses	4,969,572	—	4,969,572	5,003,707
Increase (decrease) in net assets	1,237,459	(40,241)	1,197,218	1,375,265
Net assets at beginning of year	4,942,208	1,794,749	6,736,957	5,361,692
Net assets at end of year	\$ 6,179,667	1,754,508	7,934,175	6,736,957

See accompanying notes to financial statements.

THE XERCES SOCIETY, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2020
(WITH COMPARATIVE TOTALS FOR 2019)

	2020	2019
Cash flows from operating activities:		
Cash received from grants, contributions, contracts, and other sources	\$ 6,622,313	6,274,013
Cash received for dividends and interest	102,970	112,051
Cash paid to grantees	(38,752)	(7,500)
Cash paid to employees, suppliers, and contractors	(4,878,644)	(5,045,998)
Net cash provided by operating activities	1,807,887	1,332,566
Cash flows from investing activities:		
Purchase of investments	(7,412,076)	(5,351,433)
Proceeds from sale or maturity of investments	5,913,651	4,101,541
Reinvestment of dividend and interest income	(7,825)	(7,707)
Capital expenditures	(15,458)	—
Net cash used in investing activities	(1,521,708)	(1,257,599)
Cash flows from financing activities:		
Proceeds from issuance of debt	713,211	—
Net cash provided by financing activities	713,211	—
Net increase in cash and cash equivalents	999,390	74,967
Cash and cash equivalents at beginning of year	1,825,633	1,750,666
Cash and cash equivalents at end of year	\$ 2,825,023	1,825,633

See accompanying notes to financial statements.

THE XERCES SOCIETY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2020
(WITH COMPARATIVE TOTALS FOR 2019)

	2020											2019
	Program services						Supporting services					
	Pollinator conservation	Endangered species conservation	Community engagement	Pesticide reduction	Other conservation	Total	Management and general	Fundraising	Shared costs	Total		
Salaries and related expenses	\$ 1,635,639	751,459	222,402	191,718	155,578	2,956,796	293,971	383,191	383,991	1,061,153	4,017,949	3,805,129
Contract services and subrecipient awards	7,310	53,405	—	—	—	60,715	—	1,200	—	1,200	61,915	60,880
Professional services	4,995	—	1,684	—	—	6,679	77,206	77,939	4,886	160,031	166,710	183,441
Telephone	8,014	4,257	353	2,339	—	14,963	—	—	12,956	12,956	27,919	31,188
Insurance	—	—	—	—	—	—	14,979	—	—	14,979	14,979	16,505
Rent and utilities	—	—	—	—	—	—	—	—	103,562	103,562	103,562	100,621
Bank fees	—	274	565	—	80	919	196	30,275	—	30,471	31,390	24,516
Equipment and maintenance	3,197	885	3,220	—	148	7,450	5,675	5,347	68,626	79,648	87,098	81,975
Postage	1,482	375	426	—	515	2,798	175	63,147	2,795	66,117	68,915	79,871
Supplies	92,274	32,628	2,996	29	8,046	135,973	300	1,421	3,846	5,567	141,540	162,932
Travel	35,160	23,096	2,390	521	579	61,746	849	—	—	849	62,595	212,729
Publication design and printing	10,067	7,450	4,813	—	11,365	33,695	172	80,513	682	81,367	115,062	189,254
Dues and fees	9,467	1,953	70	—	1,423	12,913	1,499	8,097	4,049	13,645	26,558	37,693
Mailing list rental	—	—	—	—	—	—	—	192	—	192	192	5,498
Grants and awards	—	25,000	—	—	13,752	38,752	—	—	—	—	38,752	7,500
Depreciation	—	—	—	—	—	—	—	—	4,436	4,436	4,436	3,975
Total expenses before allocation of shared costs	1,807,605	900,782	238,919	194,607	191,486	3,333,399	395,022	651,322	589,829	1,636,173	4,969,572	5,003,707
Allocation of shared costs	244,981	119,464	32,725	26,143	24,654	447,967	53,788	88,074	(589,829)	(447,967)	—	—
Total expenses	\$ 2,052,586	1,020,246	271,644	220,750	216,140	3,781,366	448,810	739,396	—	1,188,206	4,969,572	5,003,707

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2020

1. Organization

The Xerces Society, Inc. is a nonprofit organization, founded in 1971, that protects the natural world by conserving invertebrates and their habitat. Named after the extinct Xerces blue butterfly, *Glaucopsyche xerces*, The Xerces Society, Inc. (“Xerces”) advocates for invertebrates and their habitats by working with diverse partners that include scientists, land managers, educators, policymakers, farmers, and communities. Its core programs focus on native pollinators, endangered species, pesticide reduction, and community engagement. Within all these programs, Xerces focuses on advancing climate-resilient habitat for invertebrates and seeks to establish and maintain a diverse and inclusive community that collectively supports Xerces’ mission. Xerces’ work has led to the restoration and protection of millions of acres of habitat for invertebrates. Funding comes from membership donations, government grants and contracts, corporate support, foundation grants, and other program revenue.

2. Program Services

During the year ended December 31, 2020, Xerces incurred program service expenses in the following major categories:

Pollinator Conservation – Xerces’ Pollinator Conservation program works across the United States to educate farmers, land managers, and the public about the importance of pollinators and other beneficial insects, and to establish habitat protection and management as keys to their conservation. As a leading voice in pollinator conservation, Xerces promotes practical solutions that address the root causes of pollinator declines: habitat loss, pesticide use, unsustainable farming practices, disease, and climate change. It directly reaches agricultural professionals and farmers as well as other land managers through trainings, workshops, and other outreach events. In addition, Xerces manages the only third-party certified pollinator conservation program to help farmers to

protect and restore habitat for pollinators. As a result of Xerces’ work, native pollinators are now a key priority for agricultural conservation programs across the United States, and over a million of acres of habitat improvements have been made for these vital insects.

Endangered Species Conservation – To conserve and restore the diversity of life on earth, Xerces’ Endangered Species Conservation program engages in education, research, community science, conservation planning, and advocacy to protect at-risk species and their habitats. The program collaborates with scientists and land managers to raise awareness about the plight of invertebrates and to gain protection for the most vulnerable species before they decline to a level at which recovery is impossible. It also works with federal, state, and local agencies to promote climate-resilient restoration and best practices for habitat management. Its current work includes efforts to protect bumble bees, monarchs and other butterflies, freshwater mussels, fireflies, snails, and other invertebrates. Through community science projects, which include Bumble Bee Watch, the Western Monarch Counts, and the Western Monarch Milkweed Mapper, Xerces engages thousands of individuals who gather data to inform conservation efforts.

Community Engagement – The Community Engagement program provides resources on invertebrate conservation to all age groups. It provides expertise on habitat for pollinators and other invertebrates to community and school gardens, cities, and college campuses, and it offers conservation workshops for urban and suburban audiences, reaching hundreds of thousands of people each year. By engaging volunteers, or Xerces Ambassadors, Xerces educates and inspires individuals and communities to take action to conserve invertebrates.

Pesticide Reduction – Xerces’ Pesticide Reduction program reduces reliance on pesticides by supporting the diverse natural systems that reduce pest problems. It provides scientific resources for farmers, backyard gardeners, urban foresters, agency staff, and policy makers so that they can make informed decisions about pesticide use and regulation. By providing on-the-ground technical support, Xerces increases the adoption of ecologically sound pest management practices everywhere.

Other Conservation – Xerces undertakes a variety of other conservation activities to raise awareness and appreciation of the valuable role of invertebrates, and their role in protecting the natural world. These include the publication of its magazine *Wings: Essays on Invertebrate Conservation*, which features the work of renowned wildlife photographers, scientists, and conservationists. Xerces 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, which is open to graduate and undergraduate students. Each year, chosen applicants receive financial support from Xerces for Lepidoptera research and conservation projects.

3. Summary of Significant Accounting Policies

The significant accounting policies followed by Xerces are described below to enhance the usefulness of the financial statements to the reader.

Basis of Accounting – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles and the principles of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by donors.

Basis of Presentation – Net assets, revenues, gains and losses are presented based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of Xerces and changes therein are classified and reported as follows:

- *Net assets without donor restrictions* – Net assets available for use in general operations and not subject to donor-imposed stipulations. From time to time, the Xerces Board of Directors may designate a portion of these net assets for particular purposes and objectives.
- *Net assets with donor restrictions* – Net assets subject to donor-imposed stipulations that will be met either by actions of Xerces and/or the passage of time. These balances represent the unexpended portion of donor-restricted contributions and investment return to be used for specific programs and activities as directed by the donor.

Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor-imposed 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.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In the opinion of management, such differences, if any, would not be significant.

Cash Equivalents – For purposes of the financial statements, Xerces considers all liquid investments having initial maturities of three months or less to be cash equivalents.

Investments – Investments in marketable securities with readily determinable fair values and all investments in debt securities are carried at their fair value in the statement of financial position. Whenever available, quotations from organized securities exchanges are used as the basis for fair value. For investments not traded on organized exchanges, fair value estimates are provided by investment managers.

Net investment return, which includes both current yield (interest and dividend income) and net appreciation (decline) in the fair value of investments (both the realized gains or losses and the unrealized appreciation (decline) of those investments), is reported in the statement of activities, net of investment expenses. Interest income is accrued as earned. All security transactions are recorded on a trade date basis.

Xerces has some exposure to investment risks, including interest rate, market, and credit risks, for both marketable and non-marketable securities. Due to the level of risk exposure, it is possible that near-term valuation changes for investment securities may occur to an extent that could materially affect the amounts reported in the accompanying financial statements.

Inventories – Inventories, which consist primarily of publications and other literature held for sale and for use in Xerces' educational programs, are carried at the lower of cost or fair value. Cost is determined using the first-in, first-out method.

Capital Assets and Depreciation – Property and equipment are carried at cost, and initially at fair value when acquired by gift. Xerces capitalizes depreciable assets with a value of \$5,000 or more that have a useful life of five years or more. Depreciation and amortization are provided on a straight-line basis over the estimated useful lives of the respective assets, which is generally five years.

Revenue Recognition – With regard to revenues, Xerces evaluates whether each transfer of assets is (1) an exchange (reciprocal) transaction in which a resource provider receives commensurate value in return for the assets transferred, or (2) a nonreciprocal transfer (a contribution or a grant), where no value is exchanged.

- *Exchange Transactions* – If the transfer of assets is determined to be an exchange transaction, Xerces recognizes revenue when or as it satisfies the required performance obligations and transfers the promised good or service to a customer, and when the customer obtains control of that good or service.

Xerces' exchange transactions include revenues from service fees, workshop registrations, and royalties. These revenues are generally recognized over time as deliverables are met (e.g. as work is performed) or at the time of service delivery.

- *Contributions and Grants* – If the transfer of assets is determined to be a contribution, Xerces evaluates whether the contribution is conditional based upon whether the agreement includes both (1) a barrier that must be overcome to be entitled to the funds and (2) either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets.
- *Governmental Support* – Activities funded by governments are often carried out for the benefit of the general public, rather than to obtain goods or services for the government's own use or proprietary benefit. Accordingly, if the primary beneficiary of the activity is the general public rather than the government itself, the transaction is treated as nonreciprocal (i.e., a contribution). Government grants and contracts may include government funds passed-through colleges, universities, or other entities.

Contributions – Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period the donor's commitment is received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

Contributions and grants received with donor stipulations that limit the use of the donated assets are reported as net assets with donor restrictions.

Unconditional promises to give with payments due in future periods are recorded as increases in net assets with donor restrictions at the estimated present value of future cash flows using credit adjusted discount rates which articulate to the collection period of the respective pledge. Such discount rates are not subsequently revised. Amortization of the discount is recorded as additional contribution revenue in subsequent years in the appropriate net asset class.

Unconditional contributions and grants receivable are reported net of an allowance for estimated uncollectible promises. Promises to give are written off when deemed uncollectible.

When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Contributions of capital assets without donor stipulations concerning the use of such long-lived assets are reported as revenues of the net assets without donor restrictions class. Contributions of cash or other assets to be used to acquire capital assets with such donor stipulations are reported as net assets with donor restrictions; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

In-Kind Contributions – A number of unpaid volunteers have made significant contributions of their time to develop and implement Xerces' programs. Under generally accepted accounting principles, significant services received which create or enhance a non-financial asset or require specialized skills that Xerces would have purchased if not donated are recognized in the statement of activities. During the year ended December 31, 2020, no contributed services were recorded.

In-kind contributions of land, buildings, equipment, and other materials are recorded where there is an objective basis upon which to value these contributions and where the contributions are an essential part of Xerces' activities. During the year ended December 31, 2020, no contributed land, buildings, equipment, or other materials were recorded.

Advertising Expenses – Advertising and marketing costs, representing primarily costs incurred to expand the region's awareness of Xerces' programs and activities, are charged to expense as they are incurred.

Grants – Grants are accrued when awarded by Xerces and unconditional. Grants are provided from available resources and in accordance with restrictions imposed by donors.

Concentrations of Credit Risk – Xerces' financial instruments consist primarily of cash, cash equivalents, brokered certificates of deposit, Treasury Bills, mutual funds, and common stock, which may subject Xerces to concentrations of credit risk as, from time to time, for example, cash balances may exceed amounts insured by the Federal Deposit Insurance Corporation ("FDIC"). All interest-bearing checking and savings accounts, money market deposit accounts, and certificates of deposit are insured by the FDIC for up to \$250,000 per depositor, per insured bank, for each account ownership category. At December 31, 2020, Xerces held \$856,946 in excess of FDIC insurance. In addition, the market value of securities is dependent on the ability of the issuer to honor its contractual commitments, and the investments are subject to changes in market values.

Certain receivables may also, from time to time, subject Xerces to concentrations of credit risk. To minimize its exposure to significant losses from customer or donor insolvencies, Xerces' management evaluates the financial condition of its customers and donors, and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics. When necessary, receivables are reported net of an allowance for uncollectible accounts.

Income Taxes – Xerces is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and comparable state law, and derives its public charity status as an organization described in Sections 170(b)(1)(A)(vi) and 509(a)(1) of the Internal Revenue Code.

Subsequent Events – Subsequent events have been evaluated by management through August 19, 2021, which is the date the financial statements were available to be issued.

Summarized Financial Information for 2019 – The accompanying financial information as of and for the year ended December 31, 2019 is presented for comparative purposes only and is not intended to represent a complete financial statement presentation.

Other Significant Accounting Policies – Other significant accounting policies are set forth in the financial statements and the following notes.

4. Government Grants, Contracts, and Other Receivables

Government grants, contracts, and other receivables are summarized as follows at December 31, 2020:

Unconditional government grants receivable, expected to be collected in less than one year	\$ 541,465
Program service fees receivable (<i>note 12</i>)	82,034
Other receivables	4,365
	\$ 627,864

Conditional Grants

As of December 31, 2020, Xerces had been awarded governmental grants and contracts totaling \$2,683,151, of which receipt is conditioned upon the incurrence of certain allowable costs or other matching requirements. These funds have not been included in the accompanying financial statements because the associated conditions had not been satisfied as of December 31, 2020.

5. Private Grants and Contributions Receivable

Private grants and contributions receivable totaled \$112,619 at December 31, 2020, representing unconditional promises expected to be collected in less than one year.

Conditional Grants

As of December 31, 2020, Xerces had been awarded private grants totaling \$97,264, of which receipt is conditioned upon the successful review and approval of financial and program reports. These funds have not been included in the accompanying financial statements because the associated conditions had not been satisfied as of December 31, 2020.

6. Investments and Investment Return

A summary of investments, carried at fair value, as of December 31, 2020 is as follows:

Brokered certificates of deposit	\$ 3,521,735
United States Treasury Bills	2,748,590
Mutual funds:	
Bond funds	238,218
Equity funds	108,294
Common stock	25,705
	\$ 6,642,542

Net investment return for the year ended December 31, 2020 is summarized as follows:

Interest and dividend income	\$ 101,907
Net increase in the fair value of investments	37,378
	\$ 139,285

7. Property and Equipment

A summary of property and equipment at December 31, 2020 is as follows:

Website	\$ 8,892
Equipment	21,546
Furniture and fixtures	41,585
	72,023
Less accumulated depreciation	(50,637)
	\$ 21,386

8. Note Payable

On April 7, 2020, Xerces obtained an unsecured loan from a commercial bank in the amount of \$713,211, pursuant to the Paycheck Protection Program (the “PPP”) under Division A, Title I of the CARES Act, which was enacted March 27, 2020.

The bank’s loan is guaranteed by the U.S. Small Business Administration (“SBA”), and is designed to provide a direct incentive for small businesses and nonprofits to keep their employees on payroll during the COVID-19 pandemic (see note 19). Qualifying businesses could spend loan proceeds to cover payroll, mortgage interest, rent, and utilities. PPP borrowers can qualify to have the loans forgiven if the proceeds are used to pay certain eligible costs. However, the amount of loan forgiveness will be reduced if less than 60% of the funds are spent on payroll, full-time headcount declines, or if salary levels decrease over a covered period of either eight weeks or 24 weeks.

The loan matures in April of 2022, and bears interest at a rate of 1.0% per annum, payable monthly beginning in October 2020. However, pursuant to the Paycheck Protection Flexibility Act of 2020, the deferral period for loan payments has been extended to either (1) the date that SBA remits the borrower’s loan forgiveness amount to the lender, or (2) if the borrower does not apply for loan forgiveness, 10 months after the end of the borrower’s loan forgiveness covered period.

The note may be prepaid by the organization at any time prior to maturity with no prepayment penalties.

In accordance with the provisions of the PPP and SBA’s promise of forgiveness, Xerces used the loan amount for the qualifying expenses. Xerces accounts for the loan as debt under Financial Accounting Standards Board Accounting Standards Codification Topic 470, *Debt*, until the loan is, in part or wholly, forgiven and legally released by the SBA, or until the loan is paid in full. Subsequent to December 31, 2020, Xerces requested and obtained forgiveness for \$582,715 of the loan and repaid the remaining \$130,496.

9. Board-Designated Reserve

As of December 31, 2020, the Board of Directors had designated \$281,741 as a reserve fund, set aside to stabilize Xerces’ finances by providing for substantial emergency expenses or losses. The fund is not intended to make up for general income shortfalls in any given year.

10. Net Assets with Donor Restrictions

The following summarizes Xerces' net assets with donor-imposed restrictions as of December 31, 2020:

*Expendable net assets restricted
for the following purposes:*

Pollinator conservation	\$ 856,737
Pesticide reduction	458,778
Community engagement	197,678
Joan M. DeWind award	64,771
Endangered species	104,173
Other conservation	66,371

1,748,508

*Expendable net assets unrestricted
as to purpose, but restricted as
to time:*

Pledges to benefit the Xerces' general operations in future periods	6,000
---	-------

Total net assets with donor restrictions	\$ 1,754,508
---	--------------

11. Net Assets Released from Restrictions and Other Reclassifications

During the year ended December 31, 2020, restrictions on contributions in the amount of \$2,833,637 expired or were otherwise satisfied by the organization's expenditures in satisfaction of the restricted purposes, or by the occurrence of other events specified by donors. Accordingly, a corresponding amount is reported as a reclassification from net assets with donor restriction to net assets without donor restriction in the accompanying financial statements.

In addition, during the year ended December 31, 2020, Xerces reclassified net assets without donor restriction totaling \$124,722 to net assets with donor restriction in satisfaction of matching requirements related to various governmental and private grants.

Total expenditures in satisfaction of donor restricted purposes	\$ 2,833,637
--	--------------

Less unrestricted net assets reclassified to net assets with donor restrictions in satisfaction of matching requirements	(124,722)
---	-----------

Net assets released from restriction and other reclassifications	\$ 2,708,915
---	--------------

12. Contracts with Customers

Program revenue from contracts with customers is recognized over a period of time as performance obligations are satisfied or as the project is completed over the term of the contract. Other revenues from contracts with customers such as workshop fees are recognized at a point in time, (e.g. upon occurrence of the workshop).

Accounts Receivable from Customers

Xerces reported accounts receivable from contracts with customers of \$82,034 at December 31, 2020.

Deferred Revenues from Customers

Deferred revenues of \$1,290,355 at December 31, 2020 consists of prepayments received for future services.

13. Expenses

The costs of providing the various programs and activities of Xerces have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the organization, and therefore require allocation on a reasonable basis that is applied consistently. Those expenses include depreciation, and other facility-related costs, as well as salaries and wages, benefits, payroll taxes, professional services, office expenses, insurance, and other expenses, which are allocated on the basis of estimates of time and effort.

14. Employee Retirement Benefits

Xerces maintains a qualified profit-sharing retirement plan, as described under Section 401(k) of the Internal Revenue Code. Employees must complete one year of service, have worked 1,000 or more hours at the time of their anniversary, and be 21 years of age in order to become eligible to participate in the plan. Qualified employees become eligible to make voluntary contributions to the plan on a pre-tax basis up to the limits allowed by law. Upon meeting the employee eligibility requirements, employee and employer contributions are fully vested. Xerces makes a safe harbor contribution totaling 3% of qualifying compensation as well as discretionary contributions to the plan. During the year ended December 31, 2020, Xerces contributed \$225,713 to this plan as safe harbor and discretionary contributions.

15. Commitments and Contingencies

Amounts received or receivable under Xerces' governmental grants and contracts are subject to audit and adjustment by the granting or contracting agencies. Any expenditures or claims disallowed as a result of such audits would become a liability of the organization's unrestricted net assets. In the opinion of Xerces' management, any adjustments that might result from such audits would not be material to Xerces' overall financial statements.

In addition, subsequent to December 31, 2020, Xerces extended a lease for certain office space for an extension period of five years totaling \$255,936 in future lease commitments.

16. Liquidity and Availability of Financial Assets

Financial assets available for general expenditure within one year of the statement of financial position date comprise the following at December 31, 2020:

<i>Total financial assets:</i>	
Cash and cash equivalents	\$ 2,825,023
Governmental grants, contracts, and other receivables	627,864
Private grants and contributions receivable	112,619
Investments	6,642,542
	10,208,048
 <i>Less financial assets not available within the year ending December 31, 2021:</i>	
Financial assets restricted by donors for student awards	(64,771)
 <i>Plus other funds subject to appropriation for expenditure:</i>	
Fiscal year 2021 appropriation of financial assets restricted for student awards	9,914
	\$10,153,191

Continued

As part of its liquidity management, Xerces has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. Xerces also invests cash in excess of daily requirements in short-term investments, certificates of deposit, and money market funds. In addition, Xerces maintains a reserve fund, specifically put in place to stabilize Xerces' finances by providing for substantial emergency expenses or losses, though it is not intended to make up for general income shortfalls in any given year.

17. Fair Value Measurements

Included in the accompanying financial statements are certain financial instruments carried at fair value. The fair value of an asset is the amount at which that asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale; similarly, the fair value of a liability is the amount at which the liability could be transferred in a current transaction between willing parties.

Fair values are based on quoted market prices when available. When market prices are not available, fair value is generally estimated using discounted cash flow analyses, incorporating current market inputs for similar financial instruments with comparable terms and credit quality.

All financial assets and liabilities carried at fair value have been classified, for disclosure purposes, based on a hierarchy defined under generally accepted accounting principles.

The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities and the lowest ranking to fair values determined using methodologies and models with unobservable inputs, as follows:

- *Level 1* – Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.
- *Level 2* – Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument.
- *Level 3* – Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect Xerces' best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

At December 31, 2020, the following financial assets are measured at fair value on a recurring basis:

	Level 1	Level 2	Total
<i>Investments (note 6):</i>			
U.S. Treasury bills	\$ 2,748,590	–	2,748,590
Mutual funds	346,512	–	346,512
Stocks	25,705	–	25,705
Certificates of deposit	–	3,521,735	3,521,735
	\$ 3,120,807	3,521,735	6,642,542

18. Statement of Cash Flows Reconciliation

The following presents a reconciliation of the increase in net assets (as reported on the statement of activities) to net cash provided by operating activities (as reported on the statement of cash flows):

Increase in net assets	\$ 1,197,218
<i>Adjustments to reconcile increase in net assets to net cash provided by operating activities:</i>	
Depreciation	4,436
Net increase in the fair value of investments	(37,378)
<i>Net changes in:</i>	
Government grants, contracts, and other receivables	95,791
Private grants and contributions receivable	78,356
Inventories	11,740
Prepaid expenses	(27,504)
Accounts payable and accrued expenses	30,615
Accrued payroll and related expenses	32,889
Deferred revenue	421,724
Total adjustments	610,669
Net cash provided by operating activities	\$ 1,807,887

19. Coronavirus Pandemic

In March of 2020, the World Health Organization characterized an outbreak of a novel strain of coronavirus (COVID-19) as a pandemic. Multiple jurisdictions in the U.S., including Oregon, have declared a public health state of emergency, ordering the public to stay at home, closing specified businesses, and requiring social distancing measures for most public and private facilities.

Although many restrictions related to the COVID-19 outbreak have been lifted, it is anticipated that the effects of these events will continue for some time and could include continued disruptions to and/or restrictions on Xerces' employees' ability to work and on the ability of Xerces' patrons, customers, and other constituents to fully participate in Xerces' programs. Impacts on all revenue streams (earned, contributed, and public) are unknown, but may be profound. Xerces has taken immediate measures to adapt the delivery of programming in order to keep employees and constituents safe, as well as facilitate ongoing availability of services, and execution of Xerces' conservation mission.

■

THE XERCES SOCIETY, INC.

GOVERNING BOARD AND MANAGEMENT

**Board Members as of
December 31, 2020**

Linda Craig, *President*

Beth Robertson-Martin, *Vice President*

Sacha H. Spector, *Secretary*

Casey Sclar, Ph.D., *Treasurer*

Lisa Bertelson

Rachael Winfree, Ph.D.

Jay Withgott

Management

Scott Hoffman Black, *Executive Director*

Karl Souza, *Director of Finance & Operations*

Denise Ledgerwood, *Director of Grants & Corporate
Giving*

Megan Faria, *Financial Manager*

THE XERCES SOCIETY, INC.

INQUIRIES AND OTHER INFORMATION

THE XERCES SOCIETY, INC.
628 N.E. Broadway, Suite 200
Portland, Oregon 97232

(855) 232-6639
(503) 233-6794 Fax

E-Mail

info@xerces.org

Web

www.xerces.org

