

**NATIONAL SPELEOLOGICAL SOCIETY, INC.**

**INDEPENDENT ACCOUNTANTS' REPORT  
AND  
FINANCIAL STATEMENTS**

**APRIL 30, 2004**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
National Speleological Society, Inc.  
Huntsville, Alabama

We have audited the accompanying financial statements of the National Speleological Society, Inc. (a non-profit organization), as of and for the year ended April 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the National Speleological Society, Inc. management. 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. 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 National Speleological Society, Inc. as of April 30, 2004, and the results of its operations and cash flows for the component units for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplemental Schedule of Temporarily Restricted and Board-Designated Funds - Audited is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Mercer & Associates, P.C.

Huntsville, Alabama  
October 14, 2004

**NATIONAL SPELEOLOGICAL SOCIETY, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**APRIL 30, 2004**

<b>ASSETS</b>		
<b>Current Assets</b>		
Cash & cash equivalents	\$ 319,981	
Accounts Receivable	5,350	
Advances	1,218	
Inventory	192,476	
Prepaid expenses	<u>23,718</u>	
<b>Total Current Assets</b>		\$ 542,743
<b>Property &amp; Equipment</b>		
Building and property	172,818	
Cave preserves	591,579	
Land improvements	35,850	
Equipment	4,598	
Less Allowance for Depreciation	<u>(70,575)</u>	
<b>Total Property &amp; Equipment</b>		734,270
<b>Other Assets</b>		
Securities held for investment		<u>2,280,300</u>
<b>TOTAL ASSETS</b>		<u><u>\$ 3,557,313</u></u>
<b>LIABILITIES &amp; NET ASSETS</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 7,854	
Deposits	3,000	
Deferred income	24,408	
Current portion of Note Payable	<u>25,968</u>	
<b>Total Current Liabilities</b>		\$ 61,230
<b>Long-term Liabilities</b>		
Mortgage Note Payable		<u>73,111</u>
<b>Total Liabilities</b>		<u>134,341</u>
<b>Net Assets</b>		
Unrestricted Net Assets		
Undesignated	502,996	
Designated for Specific Purpose	<u>135,687</u>	
Total Unrestricted Net Assets	<u>638,683</u>	
Temporarily Restricted		
Temporarily Restricted	2,784,289	
Permanently Restricted	<u>0</u>	
Total Restricted New Assets	<u>2,784,289</u>	
<b>Total Net Assets</b>		<u>3,422,972</u>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>		<u><u>\$ 3,557,313</u></u>

The accompanying notes and Independent Auditor's Report are an integral part of the financial statements

**NATIONAL SPELEOLOGICAL SOCIETY, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE PERIOD ENDED APRIL 30, 2004**

<b><u>PUBLIC SUPPORT AND REVENUE</u></b>	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total All Funds</b>
<b>Public Support</b>				
Membership Dues	\$ 272,019	\$ 47,985	\$ 0	\$ 320,004
Donations	9,955	207,055	0	217,010
Grant Income	0	28,000	0	28,000
Fund Raising	5,161	0	0	5,161
Total Public Support	<u>287,135</u>	<u>283,040</u>	<u>0</u>	<u>570,175</u>
<b>Revenues</b>				
Advertising Revenue	12,514	0	0	12,514
Bookstore Sales	100,988	0	0	100,988
Convention Revenue	142,774	1,846	0	144,620
Cave Rescue Training Fees & Income	75,854	0	0	75,854
Fine Arts Salon Income	393	0	0	393
Subscriptions & Postal Surcharges	4,701	0	0	4,701
Bookstore Shipping Fees	9,121	0	0	9,121
Miscellaneous	3,333	0	0	3,333
Total Revenues	<u>349,678</u>	<u>1,846</u>	<u>0</u>	<u>351,524</u>
<b>TOTAL PUBLIC SUPPORT &amp; REVENUES</b>	<u>636,813</u>	<u>284,886</u>	<u>0</u>	<u>921,699</u>
<b><u>EXPENDITURES</u></b>				
Program Services	621,126	14,331	0	635,457
Support Services				
General & Administrative	80,808	0	0	80,808
Fundraising	5,818	4,252	0	10,070
Total Expenditures	<u>707,752</u>	<u>18,583</u>	<u>0</u>	<u>726,335</u>
Excess (Deficit) of Revenue Over Expenditures				
Before Other Income (Expenses)	<u>\$ (70,939)</u>	<u>\$ 266,303</u>	<u>\$ 0</u>	<u>\$ 195,364</u>
<b><u>OTHER INCOME (EXPENSES)</u></b>				
Interest Expense	0	(8,374)	0	(8,374)
Interest & Investment Earnings (Note 2)	12,965	68,126	0	81,091
<b>TOTAL OTHER INCOME (EXPENSES)</b>	<u>12,965</u>	<u>59,752</u>	<u>0</u>	<u>72,717</u>
<b>CHANGE IN NET ASSETS</b>	(57,974)	326,055	0	268,081
<b>NET ASSETS, BEGINNING</b>	\$ 630,658	\$ 2,250,026	\$ 0	\$ 2,880,684
Investment earnings on restricted assets (Note 2)	0	274,207	0	274,207
Transfer of unrestricted assets to restricted	(4,000)	4,000	0	0
Transfer of restricted assets to unrestricted	69,999	(69,999)	0	0
<b>NET ASSETS, ENDING</b>	<u>\$ 638,683</u>	<u>\$ 2,784,289</u>	<u>\$ 0</u>	<u>\$ 3,422,972</u>

The accompanying notes and Independent Auditor's Report are an integral part of the financial statements

**NATIONAL SPELEOLOGICAL SOCIETY, INC.  
STATEMENT OF CASH FLOWS  
FOR THE PERIOD ENDED APRIL 30, 2004**

**CASH FLOWS FROM OPERATING ACTIVITIES**

**Reconciliation of Increase in Net Assets to Net Cash  
Provided (Used) by Operating Activities**

	Total
<b>Increase in Net Assets</b>	\$ 268,081
Adjustment to reconcile net income to net cash provided (used) by operating activities	
Depreciation	4,077
Realized (gains) losses on investments	(5,950)
(Increase) Decrease in Assets	
Accounts receivable	3,876
Advances	(2,409)
Inventory	(3,771)
Prepaid expenses	11,970
Increase (Decrease) in Liabilities	
Accounts payable	(513)
Accrued expenses	(1,319)
Deferred income	1,990
Miscellaneous	3,000
<b>Net cash provided (used) by operating activities</b>	279,032
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of fixed assets, net	(99,461)
Purchase and redemption of securities, net	(31,959)
<b>Net cash provided (used) by investing activities</b>	(131,420)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Mortgage principal payments	(71,951)
<b>Net cash provided (used) by financing activities</b>	(71,951)
<b>Net increase in cash and cash equivalents</b>	75,661
<b>Cash and cash equivalents at beginning of year</b>	244,320
<b>Cash and cash equivalents at end of year</b>	\$ 319,981

**SUPPLEMENTAL INFORMATION**

Interest paid on mortgage	\$8,374
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**NATIONAL SPELEOLOGICAL SOCIETY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**APRIL 30, 2004**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization and Nature of Activities

The National Speleological Society, Inc. (NSS) is a non-profit organization affiliated with the American Association for the Advancement of Science. It was founded for the purpose of advancing the study, conservation, exploration, and knowledge of caves. In addition, the society collects and publishes information relating to speleology in this country and in all parts of the world. Membership in the Society encourages protection and conservation of caves and provides contact with thousands of serious explorers and scientists in the United States and foreign countries.

Public Support and Revenue

Grants and other contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Endowment contributions and investments are permanently restricted by the donor. Investment earnings available for the distribution are recorded in unrestricted net assets. Investment earnings with donor restrictions are recorded in temporarily or permanently restricted net assets based on the nature of the restrictions.

Donations

The National Speleological Society, Inc. receives a significant amount of donated services from unpaid volunteers who assist in special projects. No amounts have been recognized in the Statement of Activities because the criteria for recognition under SFAS No. 116 have not been satisfied. Contributions of donated non-cash assets are recorded at their fair values in the period received.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the use of management's estimates.

Allocation of Cost

The costs of providing the various programs and activities 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.

## NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

#### Cash and Equivalents

The National Speleological Society, Inc. considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents for the purposes of the Statement of Cash Flows exclude permanently restricted cash and cash equivalents. The carrying amounts reported in the Statement of Financial Position approximate fair values because of the short maturities of those instruments.

#### Investments

Investments are composed of stocks and mutual funds that invest in debt and equity securities and are carried at fair value. The fair values of investments are based on quoted market prices for those or similar investments. The carrying amount of these securities is equal to their fair value.

#### Inventory

Inventory consists of books held for resale and are priced using the average cost method.

#### Income Tax Status

The National Speleological Society is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The society has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(vi). The society paid no unrelated business tax for the fiscal year.

#### Property and Equipment

Furniture, equipment, and buildings are capitalized at cost. It is the National Speleological Society's policy to capitalize expenditures for those items in excess of \$2,500. Lesser amounts are expensed. Land (mainly composed of cave sites) is recorded at cost if purchased or fair market value in the year it is donated. Buildings are being depreciated over estimated useful lives of forty years using a straight-line method. Depreciation expense for the fiscal year was \$4,077. The original purchase price of the headquarters property was composed of land and buildings valued at \$36,000 and \$136,818, respectively.

### NOTE 2 – INVESTMENTS

The following schedule summarizes the investment return and its classification in the Statement of Activities for the year ended April 30, 2004.

<b>Investment Earnings</b>	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total All Funds</b>
Dividends	0	64,291	0	64,291
Interest	498	231	0	730
Realized gains (losses)	0	5,950	0	5,950
Unrealized gains (losses)	12,468	274,207	0	286,675
<b>Total Investment Return</b>	<u>12,966</u>	<u>344,679</u>	<u>0</u>	<u>357,646</u>

Investment and investment earnings for temporarily restricted assets are shown on the Statement of Activities net of \$2,436 in investment expenses related to investment income.

## NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

### NOTE 3 – PROPERTY AND EQUIPMENT

The NSS holds the following caves and cave preserves under property and equipment:

McFail's Cave Preserve	\$	2,000
Shelta Cave		39,000
John Guilday Preserve		42,900
Russell Cave Preserve		4,000
Warren Cave		45,000
Alachua Sink		85,800
Schoharie Caverns Preserve		35,280
Barton Hill		30,680
Tytoona Cave		3,557
Wells Cave		11,000
Great Expectations Preserve		193,362
Potter Unit Preserve		99,000
Total	\$	<u>591,579</u>

These caves and cave preserves are classified as temporarily restricted real estate capital in the amount of \$528,350, which is equal to the total caves and cave preserves of \$591,579, less \$99,079 outstanding on the Great Expectations mortgage, plus the \$38,850 value of the Shelta Cave gate that is classified as a land improvement.

### NOTE 3 – NET ASSETS

#### Temporarily Restricted Net Assets

The NSS maintains a variety of restricted funds. Permanent endowment funds, which are established by donor-restricted gifts and bequests to provide a permanent endowment, provide a permanent source of income. The principal of a permanent endowment is maintained permanently – not used up, expended, or otherwise exhausted and is classified as permanently restricted net assets. The principal of a term endowment is maintained for a specified term and is classified as temporarily restricted net assets. Several of the NSS term endowments are managed as quasi-permanent endowment funds invested to protect the inflation-adjusted principal over the long term with short-term variations due to market fluctuations. These term endowments make available up to 5.5% of the fund (principal and earnings) each year. These funds are classified as Temporarily Restricted funds, but are managed as quasi-permanent endowment (Permanently Restricted) funds with the intent that the principal will be preserved over the long-term.

Some NSS restricted funds are under contract provisions that require earnings made available for distribution but not distributed within a specified period shall be reinvested as part of the principal. In such event the assets are reclassified from unrestricted to temporarily or permanently restricted assets based on whether the fund from which they were derived was temporarily or permanently restricted.

The remaining funds include donations obtained without donor-imposed restrictions other than the implied restriction to use the donation for the purpose of the funds. Some of the funds support normal activities of the Society and the possibility that the purpose of the funds will not be met is remote.

#### Board-Designated Funds

The NSS earmarks a portion of its unrestricted net assets as board-designated funds as detailed in Note 3. The principal of a board-designated fund, which results from an internal designation, is not donor restricted and is classified as unrestricted net assets. The NSS earmarks other portions of its unrestricted net assets for specified purposes for which both principal and earnings may be spent.

## NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

### NOTE 3 – NET ASSETS - CONTINUED

#### Net Assets Released from Donor Restrictions

Net assets were released from donor restrictions in the current year by incurring expenses satisfying the purpose or time restrictions specified by donors in the amount of \$69,999.

#### Reconciliation of Net Assets

Unrestricted Net Assets		
Operating Fund Accumulated Surpluses (Undesignated)	\$	352,367
Encumbrances		0
National Cave Rescue Commission		46,093
Board-Designated Funds		135,688
Fine Arts Salon		978
Unrestricted Real Estate Capital		103,557
Total Unrestricted Net Assets	\$	638,683
Temporarily Restricted Net Assets		
National Speleological Society-Held Funds		169,088
National Speleological Foundation-Held Funds		2,059,126
Other Temporarily Restricted Funds		27,725
Temporarily Restricted Real Estate Capital		528,350
Total Temporarily Restricted Net Assets		<u>2,784,289</u>
Total Net Assets	\$	<u>3,422,972</u>

### NOTE – 4 EMPLOYEE BENEFIT PLAN

The NSS has a defined contribution salary deferral plan covering substantially all employees. Under the plan, the NSS contributes 5.5 percent of each eligible employee's salary. Plan expenses incurred by the NSS during the fiscal year were \$3,064.

### NOTE 5 – DONATED SERVICES

The Society received a significant amount of donated services from unpaid volunteers who assist in special projects. No amounts have been recognized in the Statement of Activities because the criteria for recognition under SFAS No. 116 have not been satisfied.

### NOTE 6 – CONCENTRATION OF CREDIT RISK

The Society maintains its cash accounts at several commercial banks nationwide for its many and several funds. Some of these accounts include uninsured money market funds. The FDIC, up to \$100,000 per bank, insures the total cash balances at each commercial bank. Uninsured money market accounts are invested in treasury securities. Balances of all accounts are stated at cost, which approximates market value. As of April 30, 2004, all deposits with banking institutions are fully insured by the FDIC.

### NOTE 7 – FOUNDATION SUPPORT

The National Speleological Foundation, Inc. is a separate legal entity created to support the activities of the Society. The Society invests a significant amount of its funds with the National Speleological Foundation. The Foundation's principle activity is managing the investments of other organizations with similar purposes.

**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**

**NOTE 8 – GREAT EXPECTATIONS MORTGAGE**

The National Speleological Foundation advanced \$195,000 to the Society to finance the purchase of a real estate capital investment. The agreement calls for quarterly payments of principal only of \$6,492 beginning April 1, 2003 and continuing until a final payment on January 1, 2013. As of April 30, 2004 the mortgage had an outstanding balance of \$99,079. Maturities for the note are as follows:

2005	\$	25,968
2006		25,968
2007		25,968
2008		<u>21,175</u>
Total	\$	<u><u>99,079</u></u>

**NATIONAL SPELEOLOGICAL SOCIETY**  
**SUPPLEMENTAL SCHEDULE OF TEMPORARILY RESTRICTED AND BOARD-DESIGNATED FUNDS - AUDITED**  
**APRIL 30, 2004**

**Temporarily Restricted Net Assets**

**National Speleological Society-Held Funds**

Cave Acquisition Fund	\$ 10,399
Contemporary Cave Use Study	31
Gage Caverns Fund	262
International Exploration Fund	4,816
John Guilday Cave Preserve Fnd	446
Library Fund	6,253
Museum Fund	460
Peter Gomez Memorial Fund	6,180
Save the Caves Fund	24,538
Schoharie Caverns Fund	26
Membership Committee Fund	247
Spring Hill Fund	8,871
Educational Fund	6,054
Landowner Assistance Fund	4,458
Joe Ivy Fund	5,732
Shelta Cave Fund	7,033
Cave Rescue Fund	583
Pacific Slope Cave Acquisition	79,713
NE Cave Properties Fund	1,435
Great-Expectations Fund	1,551
	<u>\$ 169,088</u>

**Other Temporarily Restricted Net Assets**

Mammoth Cave Restoration Project	\$ 26,936
Junior Speleological Society Fund	789
	<u>\$ 27,725</u>

**Temporarily Restricted Net Assets**

**National Speleological Foundation-Held Funds**

Life Membership Fund	\$ 1,254,266
Stone Research Fund	103,594
Headquarters Fund	129,869
International Fund	57,237
Publication Special Features Fund	42,564
Cave Preserve Fund	60,389
Sara Corrie Fund	63,830
Vandalism Deterrence Fund	11,647
Stephenson 50 Fund	14,342
Awards Fund	8,561
NSS Endowment Fund	109,415
Publication Fund	133,881
Fund for Litigation to Save Caves	64,914
Library/Museum Building Fund	4,617
	<u>\$ 2,059,126</u>

**Unrestricted Net Assets**

**Board Designated Funds \***

AV Library Fund	\$ 5,128
Building Repair Fund	10,986
Equipment Fund	21,606
Salons Fund	3,033
News Restricted Fund	20,195
Journal Restricted Fund	1,600
Convention Surplus Fund	60,785
Guide Resp. Caving Fund	1,659
ACA Restricted Fund	10,695
	<u>\$ 135,687</u>

\* Board-designated funds are unrestricted funds that are internally designated and therefore not classified as temporarily restricted by the donor

The accompanying notes and Independent Auditor's Report are an integral part of the financial statements