

Entomological Society Of America

Financial Statements
December 31, 2004

McGladrey & Pullen
Certified Public Accountants

Contents

| | |
|--|--------------|
| Independent Auditor's Report On The Financial Statements | 1 |
| Financial Statements | |
| Balance Sheets | 2 |
| Statements Of Activities | 3 |
| Statements Of Cash Flows | 4 |
| Notes To Financial Statements | 5 - 8 |
| <hr/> | |
| Independent Auditor's Report On The Supplementary Information | 9 |
| Supplementary Information | |
| Statements Of Functional Expenses | 10 - 11 |

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To the Governing Board
Entomological Society Of America
Lanham, Maryland

We have audited the accompanying balance sheets of the Entomological Society of America as of December 31, 2004 and 2003, and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of the Entomological Society of America's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide 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 Entomological Society of America as of December 31, 2004 and 2003, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Frederick, Maryland
April 29, 2005

Entomological Society Of America

Balance Sheets

December 31, 2004 And 2003

| Assets | 2004 | 2003 |
|-----------------------------------|---------------------|---------------------|
| Current Assets | | |
| Cash and cash equivalents | \$ 1,671,531 | \$ 1,525,922 |
| Cash - restricted | 6,155 | 49,972 |
| Accounts receivable, net | 125,240 | 65,092 |
| Publications inventory | 90,305 | 97,927 |
| Accrued interest | 6,260 | 3,590 |
| Prepaid expenses | 38,059 | 52,463 |
| Investments | 1,550,786 | 1,441,883 |
| Total current assets | 3,488,336 | 3,236,849 |
| Property and Equipment, net | 32,750 | 6,708 |
| Deposits | 4,893 | 17,467 |
| | \$ 3,525,979 | \$ 3,261,024 |
| Liabilities And Net Assets | | |
| Current Liabilities | | |
| Accounts payable | \$ 98,787 | \$ 149,290 |
| Deferred revenue | 578,213 | 701,794 |
| Accrued payroll | 9,252 | 22,898 |
| Accrued employee leave | 55,591 | 46,443 |
| Other accrued liabilities | 26,832 | 7,140 |
| Total liabilities | 768,675 | 927,565 |
| Commitments (Notes 7 and 8) | | |
| Net Assets - unrestricted | 2,757,304 | 2,333,459 |
| | \$ 3,525,979 | \$ 3,261,024 |

See Notes To Financial Statements.

Entomological Society Of America

Statements Of Activities

Years Ended December 31, 2004 And 2003

| | 2004 | 2003 |
|-------------------------------|---------------------|---------------------|
| Revenue: | | |
| Subscription and publications | \$ 975,633 | \$ 1,012,981 |
| Dues and fees | 657,718 | 583,553 |
| Annual meeting | 585,492 | 499,330 |
| Editorial charges | 381,118 | 300,330 |
| Grant revenue | 50,000 | - |
| Interest income | 23,393 | 12,053 |
| Other | 17,250 | 5,688 |
| Contributions | 10,040 | 1,574 |
| Gain on sale of building | - | 13,127 |
| Rental income | - | 102,608 |
| Total revenue | <u>2,700,644</u> | <u>2,531,244</u> |
| Expenses: | | |
| Program services: | | |
| Communications | 1,016,975 | 866,333 |
| Membership | 145,250 | 190,009 |
| Annual meeting | 309,763 | 300,361 |
| BCE certification | 43,584 | 37,020 |
| Support services: | | |
| General management | 761,227 | 801,907 |
| Total expenses | <u>2,276,799</u> | <u>2,195,630</u> |
| Change in net assets | 423,845 | 335,614 |
| Net Assets | | |
| Beginning | 2,333,459 | 1,997,845 |
| Ending | <u>\$ 2,757,304</u> | <u>\$ 2,333,459</u> |

See Notes To Financial Statements.

Entomological Society Of America

Statements Of Cash Flows

Years Ended December 31, 2004 And 2003

| | 2004 | 2003 |
|---|---------------------|---------------------|
| Cash Flows From Operating Activities | | |
| Change in net assets | \$ 423,845 | \$ 335,614 |
| Adjustment to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation | 12,959 | 66,987 |
| Loss (gain) on sale/disposal of office equipment | 147 | (200) |
| Gain on sale of building | - | (13,127) |
| Allowance for doubtful accounts | (1,688) | (19,718) |
| Change in assets and liabilities | | |
| Decrease (increase) in | | |
| Accounts receivable | (58,460) | 35,122 |
| Accrued interest | (2,670) | (792) |
| Publications inventory | 7,622 | 10,355 |
| Prepaid expenses | 14,404 | 1,667 |
| Deposits | 8,574 | - |
| Increase (decrease) in | | |
| Accounts payable | (50,503) | (21,001) |
| Deferred revenue | (123,581) | 97,903 |
| Due to Entomological Foundation, Inc. | - | (1,319) |
| Security deposits payable | - | (8,673) |
| Accrued payroll | (13,646) | 8,741 |
| Accrued employee leave | 9,148 | 12,097 |
| Other accrued liabilities | 19,692 | 645 |
| Net cash provided by operating activities | 245,843 | 504,301 |
| Cash Flows From Investing Activities | | |
| Proceeds from sale of investments | 1,333,726 | 197,989 |
| Purchases of investments | (1,442,629) | (1,014,258) |
| Deposits paid on furniture | - | (4,000) |
| Purchases of fixed assets | (35,148) | - |
| Proceeds (refunds) from sale of furniture and equipment | - | 200 |
| Proceeds from sale of building | - | 1,022,327 |
| Net cash (used in) provided by investing activities | (144,051) | 202,258 |
| Net increase in cash and cash equivalents | 101,792 | 706,559 |
| Cash and Cash Equivalents | | |
| Beginning | 1,575,894 | 869,335 |
| Ending | <u>\$ 1,677,686</u> | <u>\$ 1,575,894</u> |

See Notes To Financial Statements.

Entomological Society Of America

Notes To Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: The Entomological Society of America (the "Society") is a professional member-based organization whose purpose is to promote the science of entomology in all its sub-disciplines, for the advancement of science and the benefit of society, to issue publications that will promote these purposes, and to assure cooperation in all measures tending toward these ends. The international membership consists of individuals in colleges and universities, health agencies, private industries, and state and federal governments. The Society is divided into five geographical branches: Eastern, North Central, Pacific, Southeastern, and Southwestern. Each branch has its own elected officers and holds an annual meeting.

A summary of the Society's significant accounting policies follows:

Basis of accounting: The accompanying financial statements are presented in accordance with the accrual basis of accounting, whereby, revenue is recognized when earned and expenses are recognized when incurred.

Basis of presentation: The financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As of December 31, 2004 and 2003, the Society had no temporarily or permanently restricted net assets.

Cash and cash equivalents: The Society considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Restricted cash consists of grant funds to be used for grant expenditures.

Financial risk: The Society maintains its cash in bank deposit accounts which, at times, may exceed federally-insured limits. The Society has not experienced any losses in such accounts. The Society believes it is not exposed to any significant financial risk on cash.

Receivables: The Society's receivables consist of receivables related to publications, membership dues, subscriptions, editorial charges, and merchandise. Receivables are carried at original invoice amount less an estimate made for doubtful receivables. The allowance for doubtful accounts is based on management's evaluation of the status of existing accounts receivable. The provision for doubtful accounts was \$27,129 and \$28,817 at December 31, 2004 and 2003, respectively. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

Publications inventory: Publications inventories are stated at the lower of cost, using the specific identification method, or market. The provision for obsolescence is based on management's evaluation of the salability of inventory. No provision for obsolescence was recorded at December 31, 2004 and 2003 as management deemed all inventory fully salable.

Investments: Investments are recorded at fair market value and represent investments in certificates of deposit, money market funds, mutual funds and common stock. To adjust the carrying values of these securities, the change in fair market value is recorded as a component of investment income.

Property and equipment: The Society capitalizes all expenditures for property and equipment with a cost in excess of \$500. Depreciation is computed by the straight-line method based on the estimated useful lives of the assets less salvage value. Expenditures for maintenance, repairs and renewals are charged to expense as incurred, whereas major betterments are capitalized and depreciated.

Entomological Society Of America

Notes To Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Valuation of long-lived assets: The Society accounts for the valuation of long-lived assets under Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

Revenue recognition: Membership dues are recognized as revenue ratably over the membership year. Dues received in advance are reported as deferred revenue and recognized during the period of membership.

Subscriptions and publications revenue is deferred and recognized as income over a period relating to the subscription.

Annual meeting revenue is recognized at the completion of the meeting.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted, depending on the existence and/or nature of any donor restrictions.

Income taxes: The Society is generally exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Association qualifies for charitable contributions deductions and has been classified as an organization that is not a private foundation. Under current Internal Revenue Service regulations, advertising revenue earned in the publication of the Society's journals is subject to unrelated business income tax. There was no tax liability for unrelated business income for the years ended December 31, 2004 and 2003.

Estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

Note 2. Investments

Investments are presented in the financial statements at fair market value. The investment portfolio at December 31, 2004 and 2003, consisted of the following:

| | 2004 | 2003 |
|---|---------------------|---------------------|
| Certificates of deposit | \$ 813,232 | \$ 802,393 |
| Government money market funds and other savings | 737,554 | 639,490 |
| | <u>\$ 1,550,786</u> | <u>\$ 1,441,883</u> |

Entomological Society Of America

Notes To Financial Statements

Note 3. Property and Equipment

Property and equipment at December 31, 2004 and 2003, is as follows:

| | 2004 | 2003 |
|-------------------------------|------------------|-----------------|
| Office equipment | \$ 91,308 | \$ 326,767 |
| Office furniture | 12,400 | - |
| | <u>103,708</u> | <u>326,767</u> |
| Less accumulated depreciation | 70,958 | 320,059 |
| | <u>\$ 32,750</u> | <u>\$ 6,708</u> |

Depreciation expense, which is included in general management expenses, for the year ended December 31, 2004 and 2003, is as follows:

| Asset Category | Estimated Lives | 2004 | 2003 |
|------------------|-----------------|------------------|------------------|
| Building | 31.5 years | \$ - | \$ 30,172 |
| Office equipment | 5 -10 years | 11,195 | 36,815 |
| Office furniture | 7 years | 1,764 | - |
| | | <u>\$ 12,959</u> | <u>\$ 66,987</u> |

Note 4. Deferred Revenue

Deferred revenue for the year ended December 31, 2004 and 2003, consists of the following:

| | 2004 | 2003 |
|-----------------------------------|-------------------|-------------------|
| Membership dues and subscriptions | \$ 578,213 | \$ 651,794 |
| Meetings | - | 50,000 |
| | <u>\$ 578,213</u> | <u>\$ 701,794</u> |

Note 5. Retirement Plan

The Society has a contributory retirement plan available to all employees whereby they may enter into an annuity contract with an independent insurance carrier and withhold a portion of their salaries in order to fund the policy premiums. The Society will match employee voluntary withholdings to a maximum of 6% of the individual employee's salary. During the years ended December 31, 2004 and 2003, the Society's contributions were \$24,994 and \$16,197, respectively.

Note 6. Employment Agreement

The Society has an employment agreement with the Executive Director where it accepted certain terms and conditions regarding the Executive Director's position, terms of employment, compensation, benefits, and termination. Under this agreement, the Society agrees that, in the event the Board terminates the Executive Director without cause, the Society will pay the Executive Director a severance benefit equal to four months of base salary plus the value of current benefits.

Entomological Society Of America

Notes To Financial Statements

Note 7. Leasing Arrangements As Lessor

The Society was the owner of an office building used mainly as its own operating facility until the sale of the building on November 17, 2003. The Society leased unused office space to tenants under annual and month-to-month lease terms. Rental income was \$102,608 for the year ended December 31, 2003.

Note 8. Commitments

During the year ended December 31, 2003, the Society entered into an operating lease agreement for office space for a five-year term commencing February 1, 2004 and expiring January 31, 2009.

Future minimum lease payments as of December 31, 2004, are as follows:

| Years Ending December 31, | |
|---------------------------|-------------------|
| 2005 | \$ 74,006 |
| 2006 | 76,226 |
| 2007 | 78,513 |
| 2008 | 80,868 |
| 2009 | 6,755 |
| | <u>\$ 316,368</u> |

Rent expense for the new office space for the year ended December 31, 2004 totaled \$66,636.

After the sale of the building on November 17, 2003, the Society leased back their space from the new owners for \$7,000 per month through January 31, 2004. Total rent expense amounted to \$7,000 and \$10,267 for the years ended December 31, 2004 and 2003, respectively.

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report On The Supplementary Information

To the Governing Board
Entomological Society Of America
Lanham, Maryland

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information which follows 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 audits 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.

McGladrey & Pullen, LLP

Frederick, Maryland
April 29, 2005

Entomological Society Of America

Statement Of Functional Expenses
Year Ended December 31, 2004

| | Communications | Membership | Annual Meeting | BCE Certification | General Management | Total |
|------------------------------|----------------|------------|----------------|-------------------|--------------------|--------------|
| Salaries and payroll taxes | \$ 151,361 | \$ 38,792 | \$ 76,283 | \$ 5,176 | \$ 267,951 | \$ 539,563 |
| Fringe benefits | 20,082 | 4,558 | 10,772 | 677 | 35,915 | 72,004 |
| Total salaries and benefits | 171,443 | 43,350 | 87,055 | 5,853 | 303,866 | 611,567 |
| Bad debt expense | - | - | - | - | 45 | 45 |
| Bank and credit card fees | - | - | - | - | 60,713 | 60,713 |
| Contract services | 366,199 | - | 148,513 | - | 164,135 | 678,847 |
| Depreciation | - | - | - | - | 12,959 | 12,959 |
| Dues and subscriptions | - | 57 | - | - | 1,770 | 1,827 |
| Equipment repair or lease | - | - | 2,139 | - | 20,081 | 22,220 |
| Fees, taxes and licenses | 3,038 | - | - | 69 | 5,659 | 8,766 |
| Food and beverage | - | - | 37,374 | - | 1,999 | 39,373 |
| Grants and awards | - | - | 5,800 | 14,887 | 56,283 | 76,970 |
| Insurance | - | - | - | - | 10,241 | 10,241 |
| Inventory goods sold | 203,273 | - | - | - | - | 203,273 |
| Management fee | - | 92,706 | - | 22,457 | 75,480 | 190,643 |
| Miscellaneous | - | - | - | - | 280 | 280 |
| Phone | - | - | - | - | 9,168 | 9,168 |
| Postage and mailing services | 92,196 | 2,984 | 3,440 | 42 | 7,994 | 106,656 |
| Printing | 180,826 | 6,153 | 9,081 | 276 | 1,036 | 197,372 |
| Supplies | - | - | 1,784 | - | 6,414 | 8,198 |
| Training and education | - | - | - | - | 2,495 | 2,495 |
| Travel | - | - | 14,577 | - | 20,765 | 35,342 |
| Utilities | - | - | - | - | (156) | (156) |
| Total expenses | \$ 1,016,975 | \$ 145,250 | \$ 309,763 | \$ 43,584 | \$ 761,227 | \$ 2,276,799 |

21

Entomological Society Of America

Statement Of Functional Expenses
Year Ended December 31, 2003

| | Communications | Membership | Annual Meeting | BCE Certification | General Management | Total |
|------------------------------|----------------|------------|----------------|-------------------|--------------------|--------------|
| Salaries and payroll taxes | \$ 130,808 | \$ 41,989 | \$ 69,341 | \$ 6,950 | \$ 309,776 | \$ 558,864 |
| Fringe benefits | 20,707 | 6,156 | 12,587 | 1,338 | 25,433 | 66,221 |
| Total salaries and benefits | 151,515 | 48,145 | 81,928 | 8,288 | 335,209 | 625,085 |
| Advertising | 4,244 | - | - | - | 1,499 | 5,743 |
| Bad debt recovery | - | - | - | - | (10,995) | (10,995) |
| Bank and credit card fees | - | - | - | - | 53,482 | 53,482 |
| Contract services | 302,081 | - | 139,274 | - | 123,281 | 564,636 |
| Depreciation | - | - | - | - | 66,987 | 66,987 |
| Dues and subscriptions | - | 24,807 | - | - | 629 | 25,436 |
| Equipment repair or lease | - | - | 5,610 | - | 17,957 | 23,567 |
| Fees, taxes and licenses | 1,470 | - | - | 178 | 20,928 | 22,576 |
| Food and beverage | - | - | 41,460 | - | 808 | 42,268 |
| Grants and awards | - | - | 7,050 | 13,301 | 12,639 | 32,990 |
| Insurance | - | - | - | - | 11,795 | 11,795 |
| Inventory goods sold | 172,820 | - | - | - | - | 172,820 |
| Management fee | - | 114,110 | - | 14,913 | 66,144 | 195,167 |
| Miscellaneous | - | - | - | - | 4,377 | 4,377 |
| Phone | - | - | - | - | 10,658 | 10,658 |
| Postage and mailing services | 94,616 | 2,456 | 3,965 | 31 | 10,064 | 111,132 |
| Printing | 139,587 | 473 | 9,651 | 309 | 1,279 | 151,299 |
| Repairs and maintenance | - | - | - | - | 20,568 | 20,568 |
| Supplies | - | 18 | 1,244 | - | 4,752 | 6,014 |
| Training and education | - | - | - | - | 1,851 | 1,851 |
| Travel | - | - | 10,179 | - | 22,478 | 32,657 |
| Utilities | - | - | - | - | 25,517 | 25,517 |
| Total expenses | \$ 866,333 | \$ 190,009 | \$ 300,361 | \$ 37,020 | \$ 801,907 | \$ 2,195,630 |