

Entomological Society Of America

Financial Statements
December 31, 2005

McGladrey & Pullen
Certified Public Accountants

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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 sheet of the Entomological Society of America as of December 31, 2005, and the related statements of activities and cash flows for the year 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 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 Entomological Society of America as of December 31, 2005, 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.

As described in Note 7 to the financial statements, the December 31, 2004 net assets have been restated for a change in reporting entity.

McGladrey & Pullen, LLP

Alexandria, Virginia
April 7, 2006

Entomological Society Of America

Balance Sheet
December 31, 2005

Assets

Current Assets

Cash and cash equivalents	\$	837,978
Accounts receivable, net		204,795
Publications inventory		138,415
Accrued interest		309
Prepaid expenses		52,273
Investments		3,287,564
Total current assets		<u>4,521,334</u>

Property and Equipment, net 25,477

Deposits 4,893

\$ 4,551,704

Liabilities And Net Assets

Current Liabilities

Accounts payable	\$	271,549
Deferred membership dues and subscriptions revenue		593,544
Accrued payroll		9,448
Accrued employee leave		60,090
Other accrued liabilities		41,364
Total liabilities		<u>975,995</u>

Commitments (Notes 7 and 8)

Net Assets - Unrestricted 3,575,709

\$ 4,551,704

See Notes To Financial Statements.

Entomological Society Of America

Statement Of Activities
Year Ended December 31, 2005

Revenue:		
Subscription and publications	\$	932,962
Dues and fees		685,010
Meetings		720,159
Editorial charges		365,456
Investment income		116,646
Other		17,028
Contributions		9,044
Total revenue		<u>2,846,305</u>
Expenses:		
Program services:		
Communications		881,436
Meetings		414,839
Membership and marketing		183,856
Certification programs		44,694
Support services:		
Management and general		648,925
Governance		37,498
Total expenses		<u>2,211,248</u>
Change in net assets		635,057
Net assets:		
Beginning, as restated (Note 7)		<u>2,940,652</u>
Ending	\$	<u>3,575,709</u>

See Notes To Financial Statements.

Entomological Society Of America

Statement Of Cash Flows
Year Ended December 31, 2005

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Cash Flows from Operating Activities	
Change in net assets	\$ 635,057
Adjustment to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	7,273
Realized and unrealized losses on investments	54,919
Allowance for doubtful accounts	(18,414)
Change in assets and liabilities	
Decrease (increase) in:	
Accounts receivable	(61,141)
Accrued interest	5,951
Publications inventory	(48,110)
Prepaid expenses	(14,214)
Increase (decrease) in:	
Accounts payable	172,762
Deferred membership dues and subscriptions revenue	15,331
Accrued payroll	196
Accrued employee leave	4,499
Other accrued liabilities	14,532
Net cash provided by operating activities	<u>768,641</u>
Cash Flows from Investing Activities	
Proceeds from sale and maturity of investments	719,066
Purchases of investments	(2,510,763)
Net cash (used in) investing activities	<u>(1,791,697)</u>
Net (decrease) in cash and cash equivalents	(1,023,056)
Cash and Cash Equivalents	
Beginning, as restated (Note 7)	1,861,034
Ending	<u>\$ 837,978</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 of 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, 2005 and 2004, 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.

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 \$8,715 at December 31, 2005. 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, 2005, 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 year ended December 31, 2005.

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, 2005, consists of the following:

Certificates of deposit	\$ 216,981
Government money market funds and other savings	1,395,357
Mutual funds	1,675,226
	<u>\$ 3,287,564</u>

Investment income consists of the following at December 31, 2005:

Interest in dividends	\$ 171,565
Realized and unrealized losses	(54,919)
	<u>\$ 116,646</u>

Entomological Society Of America

Notes To Financial Statements

Note 3. Property And Equipment

Property and equipment at December 31, 2005 is as follows:

Office equipment	\$	91,308
Office furniture		12,400
		<u>103,708</u>
Less accumulated depreciation		78,231
	\$	<u><u>25,477</u></u>

Depreciation expense, which is included in general management expenses, for the year ended December 31, 2005, is as follows:

Asset Category	Estimated Lives		
Office equipment	5 -10 years	\$	5,501
Office furniture	7 years		1,772
		\$	<u><u>7,273</u></u>

Note 4. 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 of 6% of the individual employee's salary. During the year ended December 31, 2005, the Society's contributions were \$26,819.

Note 5. 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.

Note 6. Commitments

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, 2005, are as follows:

Years ending December 31,		
2006	\$	76,226
2007		78,513
2008		80,868
2009		6,755
	\$	<u><u>242,362</u></u>

Rent expense for the office space amounted to \$73,910 for the year ended December 31, 2005.

Entomological Society Of America

Notes To Financial Statements

Note 7. Change In Reporting Entity

During the year ended December 31, 2005, the operations of the individual branches became more closely aligned with the Society. As a result, the financial activities of the branches have been included in the Society's financial statements for the year ended December 31, 2005. The balances in the branch's cash and net assets accounts at December 31, 2004, have been shown as adjustments to the beginning balances in the accompanying financial statements.

A summary of this change in reporting entity at December 31, 2004, is as follows:

	Net Assets	Cash and Cash Equivalents
Beginning, as previously reported	\$ 2,757,304	\$ 1,656,270
Effect of change in reporting entity	183,348	204,764
Beginning, as restated	<u>\$ 2,940,652</u>	<u>\$ 1,861,034</u>

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report On The Supplementary Information

To the Governing Board
Entomological Society of America
Lanham, Maryland

Our audit was 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 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.

McGladrey & Pullen, LLP

Alexandria, Virginia
April 7, 2006

Entomological Society Of America

Statement Of Functional Expenses
Year Ended December 31, 2005

	Communications	Meetings	Membership and Marketing	Certification Programs	Management and General	Governance	Total
Salaries and payroll taxes	\$ 148,339	\$ 84,885	\$ 46,700	\$ 3,125	\$ 245,115	\$ 17,054	\$ 545,218
Fringe benefits	24,293	16,515	7,958	529	32,943	3,972	86,210
Total salaries and benefits	172,632	101,400	54,658	3,654	278,058	21,026	631,428
Advertising	-	-	11,022	-	574	-	11,596
Bad debt expense (recovery)	-	-	-	-	(16,043)	-	(16,043)
Bank and credit card fees	-	-	-	-	40,970	-	40,970
Contract services	364,006	176,190	-	-	172,347	-	712,543
Depreciation	-	-	-	-	7,273	-	7,273
Dues and subscriptions	-	-	-	-	188	1,554	1,742
Equipment repair or lease	-	8,323	-	-	16,334	-	24,657
Fees, taxes and licenses	1,790	-	-	35	11,554	-	13,379
Food and beverage	-	18,050	-	-	514	722	19,286
Grants and awards	-	7,112	-	16,837	16,217	-	40,166
Insurance	-	-	-	-	4,948	6,317	11,265
Inventory goods sold	96,171	-	-	-	-	-	96,171
Management fee	-	-	96,127	24,060	77,779	-	197,966
Miscellaneous	-	76,750	-	-	30	1,500	78,280
Phone	-	-	-	-	9,591	189	9,780
Postage and mailing services	96,199	2,529	5,838	37	5,103	451	110,157
Printing	150,612	7,702	14,698	71	1,365	-	174,448
Supplies	26	1,956	1,513	-	4,714	340	8,549
Training and education	-	-	-	-	738	875	1,613
Travel	-	14,827	-	-	16,671	4,524	36,022
Total expenses	\$ 881,436	\$ 414,839	\$ 183,856	\$ 44,694	\$ 648,925	\$ 37,498	\$ 2,211,248