

Entomological Society Of America

Financial Statements
December 31, 2002 And 2001

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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 sheets of the Entomological Society of America as of December 31, 2002 and 2001, 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.

The Entomological Society of America (the "Society") has not consolidated the activities of the Entomological Foundation, Inc. (the "Foundation") a related organization. In our opinion, given that members of the Executive Committee of the Society are the Foundation members who approve the Board of Directors of the Foundation, accounting principles generally accepted in the United States of America require that the activities of the two entities be consolidated due to the existence of control and economic interest.

In our opinion, except for the effects of not consolidating the activities of the Entomological Foundation, Inc., 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, 2002 and 2001, 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
August 20, 2003

Entomological Society Of America

Balance Sheets

December 31, 2002 And 2001

Assets	2002	2001
Current Assets		
Cash	\$ 869,335	\$ 368,192
Accounts receivable, net	80,496	72,808
Due from Entomological Foundation, Inc.	-	15,140
Publications inventory	108,282	135,965
Accrued interest	2,798	14,921
Prepaid expenses	54,130	41,772
Investments	625,614	977,089
Total current assets	1,740,655	1,625,887
Property and Equipment, net	1,082,895	1,171,008
Deposit	13,467	13,467
	\$ 2,837,017	\$ 2,810,362

Liabilities And Net Assets

Current Liabilities		
Accounts payable	\$ 170,291	\$ 207,177
Deferred revenue	603,891	727,979
Due to Entomological Foundation, Inc.	1,319	-
Accrued payroll	14,157	38,591
Payroll taxes payable	422	2,896
Accrued employee leave	34,346	39,927
Other accrued liabilities	6,073	-
Security deposits payable	8,673	6,359
Total liabilities	839,172	1,022,929
Commitments (Notes 7 and 8)		
Net Assets - unrestricted	1,997,845	1,787,433
	\$ 2,837,017	\$ 2,810,362

See Notes to Financial Statements.

Entomological Society Of America

Statements Of Activities

Years Ended December 31, 2002 And 2001

	2002	2001
Revenue		
Subscription and publications	\$ 1,017,327	\$ 1,319,660
Editorial charges	251,516	275,621
Dues and fees	634,940	310,547
Annual meeting	618,005	558,706
Investment income (loss)	(15,187)	(15,745)
Loss on sale of land	-	(31,425)
Rental income	93,075	84,190
Administrative expense reimbursement fee - Foundation	18,840	77,462
Grants	-	3,564
Contributions	2,715	6,313
Other	4,902	13,464
Total revenue	2,626,133	2,602,357
Expenses		
Communications	1,059,489	1,298,693
Membership	107,594	175,929
Annual meeting	283,388	273,618
BCE certification	18,620	5,865
General management	946,630	941,212
Total expenses	2,415,721	2,695,317
Change in net assets	210,412	(92,960)
Net Assets		
Beginning	1,787,433	1,880,393
Ending	\$ 1,997,845	\$ 1,787,433

See Notes to Financial Statements.

Entomological Society Of America

Statements Of Cash Flows

Years Ended December 31, 2002 And 2001

	2002	2001
Cash Flows from Operating Activities		
Change in net assets	\$ 210,412	\$ (92,960)
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	87,989	91,394
Realized and unrealized losses (gains) on investments	(34,153)	(45,254)
Dividend and interest reinvestment	(18,966)	29,509
Loss on disposal of office equipment	124	-
Loss on sale of land	-	31,425
Allowance for doubtful accounts	32,871	3,500
Change in assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	(40,559)	34,138
Due from Entomological Foundation, Inc.	15,140	(15,140)
Accrued interest	12,123	12,710
Publications inventory	27,683	38,331
Prepaid expenses	(12,358)	(6,929)
Increase (decrease) in:		
Accounts payable	(36,886)	(108,195)
Deferred revenue	(124,088)	218,762
Due to Entomological Foundation, Inc.	1,319	(19,381)
Security deposits payable	2,314	(408)
Accrued employee leave	(5,581)	21,126
Accrued payroll	(24,434)	4,571
Payroll taxes payable	(2,474)	336
Other accrued liabilities	6,073	(132)
Net cash provided by operating activities	96,549	197,403
Cash Flows from Investing Activities		
Proceeds from sale of investments	727,180	425,718
Purchases of investments	(322,586)	(560,154)
Proceeds from sale of land	-	109,200
Net cash provided by (used in) investing activities	404,594	(25,236)
Net increase in cash	501,143	172,167
Cash:		
Beginning	368,192	196,025
Ending	\$ 869,335	\$ 368,192

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 is as 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, 2002 and 2001, the Society had no temporarily or permanently restricted net assets.

Reclassifications: Certain accounts from the 2001 financial statements have been reclassified to be consistent with the 2002 presentation. These reclassifications had no effect on previously reported change in net assets.

Revenue: 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.

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

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 \$48,535 and \$16,500 at December 31, 2002 and 2001, 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.

Entomological Society Of America

Notes To Financial Statements

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

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.

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, 2002 and 2001.

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.

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.

The Society invests in a portfolio that contains common shares and bonds of publicly-traded companies, U.S. obligations, mutual funds and money market funds. Such investments are exposed to various risks such as interest rate, market and credit. Due to the level of risk associates with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

Note 2. Investments

Investments are presented in the financial statements at fair market value. The investment portfolio at December 31, 2002 and 2001, consisted of the following:

	2002	2001
Certificates of deposit	\$ 195,171	\$ 81,037
Government money market funds and other savings	430,443	706,820
Mutual funds	-	188,858
Common stock	-	374
	<u>\$ 625,614</u>	<u>\$ 977,089</u>

Entomological Society Of America

Notes To Financial Statements

Note 2. Investments (Continued)

Investment income was derived from the following sources for the years ended December 31, 2002 and 2001:

	2002	2001
Interest	\$ 16,143	\$ 24,998
Dividends	2,823	4,511
Realized and unrealized (loss) gain on investments	(34,153)	(45,254)
	<u>\$ (15,187)</u>	<u>\$ (15,745)</u>

Note 3. Property and Equipment

Property and equipment at December 31, 2002 and 2001, is as follows:

	2002	2001
Land	\$ 459,375	\$ 459,375
Building	1,122,403	1,122,403
Office equipment	327,316	393,848
	<u>1,909,094</u>	<u>1,975,626</u>
Less accumulated depreciation	826,199	804,618
	<u>\$ 1,082,895</u>	<u>\$ 1,171,008</u>

Depreciation expense, which is included in general management expenses, for the years ended December 31, 2002 and 2001, is as follows:

Asset Category	Estimated Lives	2002	2001
Building	31.5 years	\$ 54,911	\$ 35,628
Office equipment	6-10 years	33,078	55,766
		<u>\$ 87,989</u>	<u>\$ 91,394</u>

Entomological Society Of America

Notes To Financial Statements

Note 4. Related Party Transactions

During 2002 and 2001, the Society collected revenue and paid expenses on behalf of the Entomological Foundation, Inc., (the "Foundation") a related organization of the Society. The Society operated under an expense reimbursable agreement with the Foundation whereby the Society performed limited payroll and administrative functions for the Foundation, including payment of salaries and benefits, accounting, rent, postage, telephone, and audit and management of the awards program. The fees paid to the Society by the Foundation for these payroll and administrative functions were \$18,840 and \$77,462, for the years ended December 31, 2002 and 2001, respectively. As a result of these reimbursable expense transactions, the Society owed the Foundation \$1,319, at December 31, 2002.

The Society and the Foundation dissolved this agreement during the first quarter of 2002.

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, 2002 and 2001, the Society's contributions were \$22,702 and \$22,681, 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.

Note 7. Leasing Arrangements As Lessor

The Society is the owner of an office building used mainly as its own operating facility. The Society is the lessor of unused office space to tenants under annual and month-to-month lease terms. Rental income was \$93,075 and \$84,190 for the years ended December 31, 2002 and 2001, respectively.

Note 8. Commitments

The Society has entered into contracts for hotel rooms and with convention centers for the 2003 annual meeting. In the event of cancellation, the Society is required to pay various costs of the hotel rooms and convention centers as stipulated in the contracts, the amount of which are dependent upon the date of cancellation.

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, except for the effects of not consolidating the activities of the Entomological Foundation, Inc., as explained in the third paragraph of our report on page 1, such information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

McGladrey & Pullen, LLP

Frederick, Maryland
August 20, 2003

Entomological Society Of America

Statement Of Functional Expenses
Year Ended December 31, 2002

	Communications	Membership	Annual Meeting	BCE Certification	General Management	Total
Salaries	\$ 270,810	\$ 89,420	\$ 64,927	\$ 5,038	\$ 402,187	\$ 832,382
Fringe benefits	40,801	13,472	9,782	758	60,598	125,411
Total salaries and benefits	311,611	102,892	74,709	5,796	462,785	957,793
Advertising	4,893	-	-	-	1,781	6,674
Audio visual	-	-	23,126	-	-	23,126
Bad debt expense	-	-	-	-	35,128	35,128
Bank and credit card fees	-	-	-	-	39,617	39,617
Contract services	361,310	200	72,836	-	61,125	495,471
Depreciation	-	-	-	-	87,989	87,989
Dues and subscriptions	-	-	-	-	619	619
Equipment repair or lease	-	-	4,454	-	39,171	43,625
Fees, taxes and licenses	1,185	-	30,008	-	-	31,193
Food and beverage	-	-	37,910	-	1,095	39,005
Grants and awards	2,271	-	13,250	12,370	11,991	39,882
Honoraria	9,908	-	-	-	-	9,908
Insurance	-	-	-	-	15,060	15,060
Inventory goods sold	82,489	-	-	-	-	82,489
Management fee	-	-	-	-	97,111	97,111
Phone	781	-	70	-	15,911	16,762
Postage and mailing services	116,277	2,628	3,224	388	8,304	130,821
Printing	168,764	1,874	10,364	66	304	181,372
Repairs and maintenance	-	-	-	-	8,996	8,996
Supplies	-	-	1,641	-	7,380	9,021
Training and education	-	-	-	-	412	412
Travel	-	-	11,796	-	16,459	28,255
Utilities	-	-	-	-	35,392	35,392
Total expenses	\$ 1,059,489	\$ 107,594	\$ 283,388	\$ 18,620	\$ 946,630	\$ 2,415,721

Entomological Society Of America

Statement Of Functional Expenses
Year Ended December 31, 2001

	Communications	Membership	Annual Meeting	BCE Certification	General Management	Total
Salaries	\$ 337,405	\$ 119,964	\$ 85,848	\$ 4,228	\$ 250,251	\$ 797,696
Fringe benefits	85,390	30,759	22,263	977	63,948	203,337
Total salaries and benefits	422,795	150,723	108,111	5,205	314,199	1,001,033
Advertising	-	-	-	-	2,167	2,167
Audio visual	-	-	27,614	-	-	27,614
Bank and credit card fees	-	-	-	-	37,837	37,837
Computer equipment fund	-	-	-	-	6,127	6,127
Contract services	358,580	-	46,782	-	236,555	641,917
Depreciation	-	-	-	-	91,394	91,394
Dues and subscriptions	28	-	-	-	7,409	7,437
Equipment repair or lease	-	-	5,386	-	31,801	37,187
Fees, taxes and licenses	1,307	-	-	-	30,270	31,577
Food and beverage	-	-	38,329	-	2,441	40,770
Grants and awards	200	-	1,232	-	19,384	20,816
Honoraria	70,633	-	4,334	-	-	74,967
Insurance	-	-	-	-	15,201	15,201
Inventory goods sold	107,905	-	-	-	-	107,905
Miscellaneous	-	-	830	-	-	830
Phone	-	-	-	-	12,184	12,184
Postage and mailing services	112,898	16,424	4,735	471	21,172	155,700
Printing	224,086	7,322	11,033	189	1,988	244,618
Repairs and maintenance	-	-	-	-	32,093	32,093
Supplies	261	-	1,038	-	20,042	21,341
Temporary help	-	1,460	3,838	-	-	5,298
Training and education	-	-	-	-	3,494	3,494
Travel	-	-	20,356	-	21,360	41,716
Utilities	-	-	-	-	34,094	34,094
Total expenses	\$ 1,298,693	\$ 175,929	\$ 273,618	\$ 5,865	\$ 941,212	\$ 2,695,317