Audited Financial Statements	
THE BIOPHYSICAL SOCIETY	
June 30, 2011	

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# **Independent Auditor's Report**

To the Board of Directors The Biophysical Society

We have audited the accompanying statement of financial position of the Biophysical Society (the Society) as of June 30, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior-year summarized comparative information has been derived from the Society's 2010 financial statements and, in our report dated September 27, 2010 we expressed an unqualified opinion on those financial statements.

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 Biophysical Society as of June 30, 2011, 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.

Tate & Tryon
Washington, DC
October 5, 2011

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### **Statements of Financial Position**

June 30,	2011	2010
Assets		
Cash and cash equivalents - Note B	\$ 2,808,405	\$ 2,610,934
Accounts receivable, net of allowance	12,850	183,679
Prepaid expenses	179,476	77,346
Investments - Note C	7,048,874	5,316,229
Property and equipment - Note D	43,289	42,116
Total assets	\$ 10,092,894	\$ 8,230,304
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 120,026	\$ 94,574
Accrued annual leave	178,589	156,317
Deferred subscription revenue	103,082	333,964
Deferred dues revenue	412,250	421,254
Deferred publication revenue - Note E	250,000	350,000
Deferred exhibition revenue	199,375	52,490
Deferred meeting revenue	69,053	-
Deferred rent - Note H	60,490	19,344
Total liabilities	1,392,865	1,427,943
Net assets		
Unrestricted		
Board designated - annual meeting	15,765	15,765
Board designated - reserve for future activities	8,468,471	6,617,476
Total unrestricted net assets	8,484,236	6,633,241
Temporarily restricted - Note G	215,793	169,120
Total net assets	8,700,029	6,802,361
Total liabilities and net assets	\$ 10,092,894	\$ 8,230,304

### **Statements of Activities**

			Τe	emporarily	Total	Total
Year ended June 30,	Uı	nrestricted	R	Restricted	2011	2010
Revenue						
Program services						
Annual meeting	\$	1,953,030	\$	- ;	\$ 1,953,030	\$ 1,868,454
Biophysical Journal		1,212,665		-	1,212,665	1,222,942
Public affairs		114,007		2,900	116,907	111,851
Total program services		3,279,702		2,900	3,282,602	3,203,247
Supporting services						
Membership dues		828,029		-	828,029	816,869
Other membership revenue		300,239		121,689	421,928	433,113
Interest and dividends		217,708		-	217,708	179,413
Total supporting services		1,345,976		121,689	1,467,665	1,429,395
Net assets released from restriction		77,916		(77,916)	-	-
Total revenue		4,703,594		46,673	4,750,267	4,632,642
Expenses						
Program services						
Annual meeting		1,406,969		-	1,406,969	1,377,529
Biophysical Journal		244,822		-	244,822	297,838
Public affairs		160,877		-	160,877	166,687
Total program services		1,812,668		-	1,812,668	1,842,054
Supporting services						
Membership services		1,730,832		-	1,730,832	1,674,104
Total expenses		3,543,500		-	3,543,500	3,516,158
Change in net assets - operations		1,160,094		46,673	1,206,767	1,116,484
Net gain on investments		690,901		-	690,901	243,889
Change in net assets		1,850,995		46,673	 1,897,668	 1,360,373
Net assets, beginning of year		6,633,241		169,120	6,802,361	5,441,988
Net assets, end of year	\$	8,484,236	\$	215,793	\$ 8,700,029	\$ 6,802,361

### **Statements of Cash Flows**

Year ended June 30,	2011		2010
Cash flows from operating activities			
Change in net assets	\$ 1,897,668	\$	1,360,373
Adjustments to reconcile change in net assets			
to net cash provided by operating activities:			
Depreciation	16,652		21,277
Net gain on investments	(690,901)		(243,889)
Changes in assets and liabilities:			
Accounts receivable	170,829		(100,728)
Prepaid expenses	(102,130)		18,880
Accounts payable	25,452		8,812
Accrued annual leave	22,272		11,279
Deferred subscription revenue	(230,882)		(11,674)
Deferred dues revenue	(9,004)		18,211
Deferred publication revenue	(100,000)		(100,000)
Deferred exhibition revenue	146,885		(6,075)
Deferred meeting revenue	69,053		-
Deferred rent	41,146		19,344
Total adjustments	(640,628)		(364,563)
Net cash provided by operating activities	1,257,040		995,810
Cash flows from investing activities			
Purchases of investments, net	(1,041,744)		(994,487)
Purchases of property and equipment	(17,825)		(21,995)
Net cash used in investing activities	(1,059,569)		(1,016,482)
Net increase (decrease) in cash and cash equivalents	197,471	_	(20,672)
Cash and cash equivalents, beginning of year	2,610,934		2,631,606
Cash and cash equivalents, end of year	\$ 2,808,405	\$	2,610,934

#### **Notes to Financial Statements**

#### A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

<u>Organization</u>: The Biophysical Society (the Society) was incorporated in the State of Ohio in 1958. Its mission is to encourage the development and dissemination of knowledge in Biophysics.

<u>Income tax status</u>: The Society is exempt from income taxes on its exempt activities under Section 501(c)(3) of the Internal Revenue Code and has been classified as other than a private foundation by the Internal Revenue Service. The Society believes it has appropriate support for any tax positions taken, and therefore, does not have any uncertain tax positions that are material to the financial statements.

The Society's federal Exempt Organization Business Income Tax Returns (Form 990T) are generally subject to examination by the IRS for three years after they were filed.

<u>Basis of accounting</u>: The Society prepares its financial statements on the accrual basis of accounting. Revenue is recognized when earned and expense when the obligation is incurred.

<u>Use of estimates</u>: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

<u>Comparative totals:</u> The financial statements and footnote disclosures for the fiscal year ended June 30, 2010 are presented only to provide a basis for comparison with fiscal year 2010. The 2010 fiscal year financial statements and footnote disclosures are not intended to present all information necessary for the fair presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Society's financial statements for the year June 30, 2010, from which the summarized information was derived.

<u>Cash and cash equivalents</u>: For financial statement purposes, the Society considers its demand deposits in banks and the balance in its Morgan Stanley Smith Barney "Operating Accounts" to be cash equivalents.

<u>Accounts receivable</u>: Accounts receivable consists primarily of amounts owed from customers as a result of the sale of publications and advertising. The Society's management periodically reviews the status of all accounts receivable balances for collectability. Each receivable balance is assessed based on management's knowledge of the customer, the Society's relationship with the customer, and the age of the receivable balance. As a result of these reviews, customer balances deemed to be uncollectible are charged to the allowance for doubtful accounts. Accounts receivable are presented net of an allowance for doubtful accounts of \$- and \$18,283 at June 30, 2011 and 2010, respectively.

<u>Property and equipment</u>: Property and equipment is stated at cost and is depreciated using the straight-line method over five to seven years. The Society generally capitalizes all acquisitions greater than \$1,000.

<u>Restricted and unrestricted revenue</u>: Contributions are recorded as unrestricted or temporarily restricted support depending upon the existence and/or nature of any donor imposed restrictions.

When a restriction expires (that is, when a stipulated 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.

#### **Notes to Financial Statements**

#### A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

<u>Allocation of expenses</u>: The costs of the Society's 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.

Net assets: Unrestricted net assets consist of the following:

Undesignated: An unrestricted fund that accounts for the general

operations of the Society.

<u>Board designated</u>: Unrestricted, designated funds that provide for the

annual meeting, Biophysical Journal, and the long-term stability and development of the Society's programs.

<u>Subsequent events</u>: Subsequent events have been evaluated through October 5, 2011 which is the date the financial statements were available to be issued.

#### **B. CONCENTRATIONS AND CREDIT RISK**

<u>Credit risk:</u> The Society maintains demand deposits with commercial banks and money market funds with financial institutions. At times, certain balances held within these accounts may not be fully guaranteed or insured by the U.S. federal government. The uninsured portion of these accounts is backed solely by the assets of the underlying institution. Therefore, the failure of an underlying institution could result in financial loss to the Society.

<u>Market value risk:</u> The Society also invests funds in a professionally managed portfolio. Such investments are exposed to market and credit risks and may be subject to significant fluctuations in fair value. As a result, the investment balances reported in the accompanying financial statements may not be reflective of the portfolio's value during subsequent periods.

#### C. INVESTMENTS

The Society's investments are recorded at fair value and consisted of the following as of June 30,

	20	011	20	)10
	Fair Value	Cost	Fair Value	Cost
Money market funds U.S. Government, Agency, & Municipal	\$ 1,056,859	\$1,056,859	\$ 103,347	\$ 103,347
securities	1,000,700	978,262	1,886,902	1,809,644
Corporate bonds	1,226,934	1,208,842	1,057,871	983,415
International bonds	24,058	23,125	74,028	72,137
Marketable equity				
securities	3,729,988	3,398,145	2,194,081	2,366,412
Exchange Traded Funds	10,335	9,248		
	\$ 7,048,874	\$6,674,481	\$ 5,316,229	\$5,334,955

#### **Notes to Financial Statements**

#### C. INVESTMENTS - CONTINUED

For the years ended June 30, 2011 and 2010 the Society incurred investment fees of \$61,514 and \$42,440, respectively.

In accordance with generally accepted accounting principles, the Society uses the following prioritized input levels to measure fair value of financial instruments. The input levels used for valuing financial instruments are not necessarily an indication of risk.

<u>Level 1</u> – Observable inputs that reflect quoted prices for identical assets or liabilities in active markets such as stock quotes;

<u>Level 2</u> – Includes inputs other than level 1 that are directly or indirectly observable in the marketplace such as yield curves or other market data;

<u>Level 3</u> – Unobservable inputs which reflect the reporting entity's assessment of the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk such as bid/ask spreads and liquidity discounts.

The following is a summary of input levels used to determine fair value, measured on a recurring basis, of the following assets at June 30:

2011	Total	Level 1	Level 2		Level 3
Investments, at fair value					
Money market funds	\$ 1,056,859	\$ 1,056,859	\$ -	\$	-
U.S. Government, Agency, and Municipal securities	1,000,700		1,000,700	)	
Corporate bonds	1,226,934		1,226,93	4	
International bonds	24,058		24,058	}	
Marketable equity securities	3,729,988	3,729,988			
Exchange traded funds	 10,335	10,335			
Total investments	\$ 7,048,874	\$ 4,797,182	\$ 2,251,692	\$	-
2010	Total	Level 1	Level 2		Level 3
2010 Investments, at fair value	Total	Level 1	Level 2		Level 3
	\$ <b>Total</b> 103,347	\$ <b>Level 1</b> 103,347	\$ Level 2	\$	Level 3
Investments, at fair value	\$	\$	\$ Level 2	\$	Level 3
Investments, at fair value  Money market funds	\$	\$	\$ Level 2 - 1,886,902	\$	Level 3
Investments, at fair value  Money market funds  U.S. Government, Agency,	\$ 103,347	\$	\$ -	\$	Level 3
Investments, at fair value  Money market funds  U.S. Government, Agency, and Municipal securities	\$ 103,347 1,886,902	\$	\$ 1,886,902	\$	Level 3
Investments, at fair value  Money market funds  U.S. Government, Agency, and Municipal securities  Corporate bonds	\$ 103,347 1,886,902 1,057,871	\$	\$ 1,886,902 1,057,871	\$	Level 3

Investments classified in Level 2 are valued by pricing vendors using outside data. In determining the fair value of the investments, the pricing vendors use a market approach and pricing spreads based on the credit risk of the issuer, maturity, current yield, and other terms and conditions of each security. Management believes the estimated fair value to be a reasonable approximation of the exit price for these investments.

#### **Notes to Financial Statements**

#### D. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30,

	2011	2010
Furniture and fixtures	\$ 59,842	\$ 63,427
Office equipment	14,749	25,780
Computer equipment	150,536	214,064
	225,127	303,271
Less accumulated depreciation	(181,838)	(261,155)
	\$ 43,289	<b>\$</b> 42,116

#### E. DEFERRED PUBLICATION REVENUE

The Society has contracted with an outside publishing company, whereby the publishing company will assume all responsibilities for the publication, promotion, and distribution of the Biophysical Journal. The term of the agreement is from January 1, 2009 through December 31, 2013. As part of the agreement, the publisher paid the Society a \$500,000 "signing bonus" during the year ended June 30, 2008. The signing bonus is earned by the Society ratably over the term of the agreement.

#### F. RETIREMENT PLAN

The Society has a defined contribution retirement plan under Section 403(b) of the Internal Revenue Code. The plan covers all full-time employees upon their completion of minimum requirements as to age and length of service. Retirement expense for the years ended June 30, 2011 and 2010 was \$78,618 and \$82,340, respectively.

#### **Notes to Financial Statements**

#### G. TEMPORARILY RESTRICTED FUNDS

Temporarily restricted net assets are available for the following purposes at June 30,

	2011	2010
Membrane subgroup	\$ 45,874	\$ 39,527
Structure & assembly subgroup	28,970	26,808
Molecular subgroup	21,118	20,211
Motility subgroup	14,909	15,835
Biological fluorescence subgroup	12,100	11,684
Exocytosis & endocytosis subgroup	10,558	8,429
Bioenergetics subgroup	9,667	8,146
Intrinsically Disordered Proteins subgroup	9,310	7,746
Permeation & Transport subgroup	5,317	4,635
Nanoscale biophysics subgroup	915	-
Biopolymers in vivo subgroup	 748	 -
Total Subgroups	159,486	143,021
Dayhoff Award	35,000	-
Young Investigators Award	15,110	15,110
Emily Gray Award	4,113	3,955
Burroughs Welcome	2,084	2,084
Other	 · -	 4,950
	\$ 215,793	\$ 169,120

#### H. COMMITMENTS

In the ordinary course of business, the Society has entered into various operating contracts with vendors for goods and services. The Society's management actively reviews all such contracts and believes that the Society's exposure to significant future liabilities from such contracts is remote.

<u>Operating Leases:</u> Commencing on May 1, 2010, the Society entered into a seven year non-cancelable office lease for new office space in Bethesda, Maryland. (Prior to the commencement of this new lease, the Society was leasing space in another location under a short-term arrangement.) The lease provides for an abatement of the first six months' rent expense. In addition, the lease contains escalation clauses for increases in operating expenses and real estate taxes. The Society is recognizing the fixed component of the lease expense on a straight-line basis over the lease term. As such, a deferred rent liability of \$60,490 and \$19,344 is accrued at June 30, 2011 and 2010, respectively. Total office rental expense for the years ended June 30, 2011 and 2010 amounted to \$120,009 and \$128,699, respectively.

### **Notes to Financial Statements**

#### H. COMMITMENTS - CONTINUED

Total anticipated future fixed minimum lease payments under the above lease are as follows:

Year Ending	Office
June 30,	Lease
2012	\$ 118,043
2013	121,277
2014	124,602
2015	128,047
2016	131,577
2017	 112,148
	\$ 735,694

In addition, the Society has entered into an employment agreement (the Agreement) with its Executive Officer. The agreement is scheduled to terminate on June 30, 2014, but may be ended sooner under certain circumstances.