

Financial Statements

THE BIOPHYSICAL SOCIETY

June 30, 2014

The Biophysical Society

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Independent Auditor's Report

To the Council
The Biophysical Society

We have audited the accompanying financial statements of the Biophysical Society (the Society), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements. We have previously audited the Society's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 4, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Society's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Society's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2014, 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.

Washington, DC
October 6, 2014

The Biophysical Society

Statements of Financial Position

<i>June 30,</i>	2014	2013
Assets		
Cash and cash equivalents	\$ 2,492,143	\$ 2,374,796
Accounts receivable	63,852	348,451
Prepaid expenses	255,195	141,629
Investments	11,364,701	9,592,977
Deferred compensation investments	259,581	209,224
Property and equipment	51,006	36,393
Total assets	\$ 14,486,478	\$ 12,703,470
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 210,920	\$ 171,653
Accrued annual leave	280,068	249,345
Deferred subscription revenue	62,914	83,500
Deferred dues revenue	393,377	386,823
Deferred publication revenue	-	50,000
Deferred exhibition revenue	245,087	305,703
Deferred meeting revenue	91,160	16,177
Deferred compensation	259,581	209,224
Deferred rent	44,767	53,303
Total liabilities	1,587,874	1,525,728
Net assets		
Unrestricted		
Council designated - annual meeting	15,765	15,765
Council designated - Congressional policy fellowship	93,212	-
Council designated - reserve for future activities	12,568,662	10,913,582
Total unrestricted net assets	12,677,639	10,929,347
Temporarily restricted	220,965	248,395
Total net assets	12,898,604	11,177,742
Total liabilities and net assets	\$ 14,486,478	\$ 12,703,470

See notes to the financial statements.

The Biophysical Society

Statements of Activities Year ended June 30, 2014

With comparative totals for the year ended June 30, 2013

	2014		Total 2014	Total 2013
	Unrestricted	Temporarily Restricted		
Revenue				
Program services				
Annual meeting	\$ 1,969,844	\$ -	\$ 1,969,844	\$ 1,743,159
Biophysical Journal	1,134,029	-	1,134,029	1,210,202
Public affairs	108,267	3,374	111,641	110,731
Total program services	3,212,140	3,374	3,215,514	3,064,092
Supporting services				
Membership dues	771,959	-	771,959	792,522
Other membership revenue	389,287	102,330	491,617	495,887
Interest and dividends	237,429	-	237,429	228,597
Total supporting services	1,398,675	102,330	1,501,005	1,517,006
Net assets released from restriction	133,134	(133,134)	-	-
Total revenue	4,743,949	(27,430)	4,716,519	4,581,098
Expenses				
Program services				
Annual meeting	1,416,354	-	1,416,354	1,348,224
Biophysical Journal	310,245	-	310,245	278,981
Public affairs	279,222	-	279,222	177,193
Total program services	2,005,821	-	2,005,821	1,804,398
Supporting services				
Membership services	2,231,148	-	2,231,148	2,090,705
Total expenses	4,236,969	-	4,236,969	3,895,103
Change in net assets - operations	506,980	(27,430)	479,550	685,995
Net gain on investments	1,241,312	-	1,241,312	839,820
Change in net assets	1,748,292	(27,430)	1,720,862	1,525,815
Net assets, beginning of year	10,929,347	248,395	11,177,742	9,651,927
Net assets, end of year	\$ 12,677,639	\$ 220,965	\$ 12,898,604	\$ 11,177,742

See notes to the financial statements.

The Biophysical Society

Statements of Cash Flows

<i>Year ended June 30,</i>	2014	2013
Cash flows from operating activities		
Change in net assets	\$ 1,720,862	\$ 1,525,815
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	14,923	14,686
Net gain on investments	(1,241,312)	(839,820)
Changes in assets and liabilities:		
Accounts receivable	284,599	(208,004)
Prepaid expenses	(113,566)	(30,733)
Deferred compensation investments	(50,357)	(35,058)
Accounts payable	39,267	(2,322)
Accrued annual leave	30,723	12,441
Deferred subscription revenue	(20,586)	(19,375)
Deferred dues revenue	6,554	(25,461)
Deferred publication revenue	(50,000)	(100,000)
Deferred exhibition revenue	(60,616)	68,501
Deferred meeting revenue	74,983	6,072
Deferred compensation	50,357	35,058
Deferred rent	(8,536)	(5,210)
Total adjustments	(1,043,567)	(1,129,225)
Net cash provided by operating activities	677,295	396,590
Cash flows from investing activities		
Purchases of investments	(6,624,328)	(6,914,736)
Sales of investments	6,093,916	6,096,724
Purchases of property and equipment	(29,536)	(16,961)
Net cash used in investing activities	(559,948)	(834,973)
Net increase (decrease) in cash and cash equivalents	117,347	(438,383)
Cash and cash equivalents, beginning of year	2,374,796	2,813,179
Cash and cash equivalents, end of year	\$ 2,492,143	\$ 2,374,796

See notes to the financial statements.

The Biophysical Society

Notes to Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: 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.

Income tax status: 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 and state income tax returns are generally subject to examination by the taxing authorities for three years after they were filed.

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

Use of estimates: 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.

Comparative totals: The financial statements and footnote disclosures for the fiscal year ended June 30, 2013 are presented only to provide a basis for comparison with fiscal year 2014. The 2013 fiscal year financial statements and footnote disclosures are not intended to present all information necessary for the fair presentation in accordance with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Society's financial statements for the year June 30, 2013, from which the summarized information was derived.

Cash and cash equivalents: For financial statement purposes, the Society considers its demand deposits in banks and the balance of money market funds in its Morgan Stanley Smith Barney investment account to be cash equivalents. As well, certificates of deposit maturing in one year or less are considered to be cash equivalents.

Accounts receivable: 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 uncollectable are charged to the allowance for doubtful accounts. The Society determined that no allowance for doubtful accounts was necessary as of June 30, 2014 and 2013.

Property and equipment: 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.

Restricted and unrestricted revenue: 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.

The Biophysical Society

Notes to Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Allocation of expenses: 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.

Council designated: Unrestricted, designated funds that provide for the annual meeting, Congressional policy fellowships, and the long-term stability and development of the Society's programs.

Reclassifications: Certain 2013 cash and investment amounts have been reclassified to conform to 2014's presentation. Management believes the 2014 presentation is more reflective of the composition of the Society's cash and investments.

Subsequent events: Subsequent events have been evaluated through October 6, 2014, which is the date the financial statements were available to be issued.

B. CONCENTRATIONS AND CREDIT RISK

Credit risk: 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.

Market value risk: 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,:

	2014		2013	
	Fair Value	Cost	Fair Value	Cost
U.S. Government, Agency & Municipal securities	\$ 2,500,534	\$ 3,339,281	\$ 2,285,868	\$ 2,250,751
Corporate bonds	2,088,109	2,022,815	1,582,832	1,562,133
Marketable equity securities	6,776,058	5,355,389	5,716,528	4,884,923
Exchange Traded Funds & Closed-End Funds	-	-	7,749	5,655
	<u>\$ 11,364,701</u>	<u>\$ 10,717,485</u>	<u>\$ 9,592,977</u>	<u>\$ 8,703,462</u>

The Biophysical Society

Notes to Financial Statements

C. INVESTMENTS - CONTINUED

For the years ended June 30, 2014 and 2013 the Society incurred investment fees of \$106,570 and \$86,548, 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.

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

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

Level 3 – 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,:

2014	Total	Level 1	Level 2	Level 3
Marketable equity securities	\$ 6,776,058	\$ 6,776,058	\$ -	\$ -
U.S. Government, Agency, and Municipal securities	2,500,534		2,500,534	
Corporate Bonds	2,088,109		2,088,109	
Assets held for deferred compensation	259,581		195,831	63,750
Total investments held at fair value	\$ 11,624,282	\$ 6,776,058	\$ 4,784,474	\$ 63,750

2013	Total	Level 1	Level 2	Level 3
Marketable equity securities	5,716,528	5,716,528	\$ -	\$ -
U.S. Government, Agency, and Municipal securities	2,285,868		2,285,868	
Corporate Bonds	1,582,832		1,582,832	
Exchange Traded Funds and Closed-End Funds	7,749	7,749		
Assets held for deferred compensation	209,224		151,885	57,339
Total investments held at fair value	\$ 9,802,201	\$ 5,724,277	\$ 4,020,585	\$ 57,339

The U.S. government, agency, and municipal securities and the corporate bonds 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.

The Biophysical Society

Notes to Financial Statements

C. INVESTMENTS - CONTINUED

The assets held for deferred compensation classified in Level 2 are variable annuity contracts with TIAA-CREF. The underlying assets of the contracts are investments with a publicly available net asset value share price updated daily on TIAA-CREF's website. However, the contracts themselves are not directly traded on active markets. Thus, the variable annuity contracts are valued using observable market data from non-public markets.

The asset held for deferred compensation classified in Level 3 is a guaranteed annuity contract. The underlying assets of the contract are part of the general assets of TIAA-CREF, which would typically involve unobservable financial risks and considerations relating to TIAA-CREF to arrive at a market selling price. For financial statement purposes, the guaranteed annuity contract is recorded at contract value, which is deemed to approximate fair value.

D. PROPERTY AND EQUIPMENT

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

	2014	2013
Furniture and fixtures	\$ 61,687	\$ 59,842
Office equipment	14,749	14,749
Computer equipment	199,937	172,246
	<u>276,373</u>	<u>246,837</u>
Less: accumulated depreciation	<u>(225,367)</u>	<u>(210,444)</u>
	<u>\$ 51,006</u>	<u>\$ 36,393</u>

E. DEFERRED PUBLICATION REVENUE

In 2008, the Society contracted with an outside publishing company, whereby the publishing company assumed all responsibilities for the publication, promotion, and distribution of the Biophysical Journal. The term of the agreement was 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 was earned ratably by the Society over the term of the agreement. Thus, as of June 30 2014, the deferred publication revenue balance was zero. The Society entered into a renewal agreement with the publishing company; however, the terms of the new agreement did not allow for a signing bonus for the Society. The renewal agreement runs from January 1, 2014 through December 31, 2019.

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, 2014 and 2013 was \$109,039 and \$107,465, respectively.

The Biophysical Society

Notes to Financial Statements

F. RETIREMENT PLAN – CONTINUED

The Society sponsors a deferred compensation plan (the Plan) for a key employee under Section 457(b) of the Internal Revenue Code. Under the terms of the Plan agreement, the employee may elect to make tax deferred contributions to the plan not to exceed \$17,500 for the years ending June 30, 2014 and 2013. The terms of the Plan agreement state that the Plan is considered unfunded and that the assets are subject to the claims of the general creditors of the Society. Pursuant to this treatment, the assets of the Plan are included with those of the Society and a corresponding liability is recorded.

The Society had traditionally presented this asset and corresponding liability at their net balance of zero on the statement of financial position. As of June 30, 2014, the Society began presenting the asset and liability as separate components of the statement of financial position. Thus, the June 30, 2013, statement of financial position balances have been reclassified for comparative purposes. The balance of the asset and related liability for the Plan was \$259,581 and \$209,224 as of June 30, 2014 and 2013, respectively.

G. TEMPORARILY RESTRICTED FUNDS

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

	2014	2013
Membrane biophysics subgroup	\$ 38,893	\$ 42,726
Membrane structure & assembly subgroup	20,536	29,173
Molecular biophysics subgroup	13,891	19,077
Motility subgroup	13,744	15,505
Intrinsically Disordered Proteins subgroup	10,308	10,000
Exocytosis & endocytosis subgroup	10,176	14,335
Biological fluorescence subgroup	8,097	10,000
Bioenergetics subgroup	7,477	9,477
Nanoscale biophysics subgroup	5,423	4,836
Biopolymers in vivo subgroup	5,296	3,171
Permeation & Transport subgroup	4,267	4,581
Total Subgroups	138,108	162,881
Dayhoff Award	60,889	62,883
Young Investigators Award	15,110	15,110
Emily Gray Award	4,774	5,437
Burroughs Welcome	2,084	2,084
	<u>\$ 220,965</u>	<u>\$ 248,395</u>

The Biophysical Society

Notes to Financial Statements

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.

Operating Leases: Commencing on May 1, 2010, the Society entered into a seven year non-cancelable office lease for office space in North Bethesda, Maryland. 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, there is a deferred rent liability of \$44,767 and \$53,303 at June 30, 2014 and 2013, respectively. Total office rental expense for the years ended June 30, 2014 and 2013 amounted to \$113,397 and \$118,313, respectively.

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

Year Ending June 30,	Office Lease
2015	\$ 128,047
2016	131,577
2017	112,148
	<u>\$ 371,772</u>

Database hosting agreements: The Society has entered into a database support and maintenance agreement related to its online abstract submission system which expires April 2016. The terms of the agreement require minimum payments for the agreed upon services used by the Society.

Future minimum payments under the agreement is as follows:

Year Ending June 30,	Amount
2015	\$ 59,200
2016	59,200
	<u>\$ 118,400</u>

Employment agreement: In 2011, the Society entered into an employment agreement with its Executive Officer ending on June 30, 2014. On June 30, 2014 the Society entered into a new employment agreement with its Executive Officer effective July 1, 2014 and ending June 30, 2017, but may be ended sooner under certain circumstances. Under certain circumstances, the agreement stipulates that the Society will be liable for severance and other payments.