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Contents

Independent Auditor's Report	1
Financial Statements	
Statements of financial position	2
Statements of activities	3
Statements of cash flows	4
Notes to financial statements	5-10

TRYON

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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, 2010, 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 2009 financial statements and, in our report dated September 25, 2009, 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, 2010, 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

September 27, 2010

Tate & Tryon

Statements of Financial Position

June 30,		2010		2009			
Assets							
Cash and cash equivalents - Note B	\$	2,610,934	\$	2,631,606			
Accounts receivable, net of allowance		183,679		82,951			
Prepaid expenses		77,346		96,226			
Investments - Note C		5,316,229		4,077,853			
Property and equipment - Note D		42,116		41,398			
Total assets	\$	8,230,304	\$	6,930,034			
Liabilities and Net Assets							
Liabilities							
Accounts payable	\$	94,574	\$	85,762			
Accrued annual leave		156,317		145,038			
Deferred subscription revenue		333,964		345,638			
Deferred dues revenue		421,254		403,043			
Deferred publication revenue - Note E		350,000		450,000			
Deferred exhibition revenue		52,490		58,565			
Deferred rent - Note H		19,344		-			
Total liabilities		1,427,943		1,488,046			
Net assets							
Unrestricted							
Board designated - annual meeting		15,765		15,765			
Board designated - reserve for future activities		6,617,476		5,278,443			
Total unrestricted net assets		6,633,241		5,294,208			
Temporarily restricted - Note G		169,120		147,780			
Total net assets		6,802,361		5,441,988			
Total liabilities and net assets	\$	8,230,304	\$	6,930,034			

Statements of Activities

				mporarily	Total	Total
Year ended June 30,	U	nrestricted	R	estricted	2010	2009
Revenue						
Program services						
Annual meeting	\$	1,868,454	\$	-	\$ 1,868,454	\$ 1,631,964
Biophysical Journal		1,222,942		-	1,222,942	2,073,301
Public affairs		108,509		3,342	111,851	103,710
Total program services		3,199,905		3,342	3,203,247	3,808,975
Supporting services						
Membership dues		816,869		-	816,869	743,762
Other membership revenue		344,458		88,655	433,113	385,338
Interest and dividends		179,413		-	179,413	206,667
Total supporting services		1,340,740		88,655	1,429,395	1,335,767
Net assets released from restriction		70,657		(70,657)	-	-
Total revenue		4,611,302		21,340	4,632,642	5,144,742
Expenses						
Program services						
Annual meeting		1,377,529		-	1,377,529	1,311,882
Biophysical Journal		297,838		-	297,838	1,269,465
Public affairs		166,687		-	166,687	124,692
Total program services		1,842,054		-	1,842,054	2,706,039
Supporting services						
Membership services		1,674,104		-	1,674,104	1,525,765
Total expenses		3,516,158		-	3,516,158	4,231,804
Change in net assets - operations		1,095,144		21,340	1,116,484	912,938
Bad debt expense		-		-	-	(21,871)
Net gain (loss) on investments		243,889			243,889	(430,707)
Change in net assets		1,339,033		21,340	 1,360,373	 460,360
Net assets, beginning of year		5,294,208		147,780	5,441,988	4,981,628
Net assets, end of year	\$	6,633,241	\$	169,120	\$ 6,802,361	\$ 5,441,988

Statements of Cash Flows

Year ended June 30,	2010	2009
Cash flows from operating activities		
Change in net assets	\$ 1,360,373	\$ 460,360
Adjustments to reconcile change in net assets		
to net cash provided by operating activities:		
Depreciation	21,277	26,091
Net gain (loss) on investments	(243,889)	430,707
Changes in assets and liabilities:		
Accounts receivable	(100,728)	75,080
Prepaid expenses	18,880	2,988
Accounts payable	8,812	(97,681)
Accrued annual leave	11,279	30,485
Deferred subscription revenue	(11,674)	(339,500)
Deferred dues revenue	18,211	45,101
Deferred signing bonus	(100,000)	(50,000)
Deferred exhibition revenue	(6,075)	(62,585)
Deferred rent	19,344	-
Total adjustments	(364,563)	60,686
Net cash provided by operating activities	995,810	521,046
Cash flows from investing activities		
Purchases of investments, net	(994,487)	(232,087)
Purchases of property and equipment	(21,995)	(2,458)
Net cash used in investing activities	(1,016,482)	(234,545)
Net (decrease) increase in cash and cash equivalents	(20,672)	286,501
Cash and cash equivalents, beginning of year	2,631,606	2,345,105
Cash and cash equivalents, end of year	\$ 2,610,934	\$ 2,631,606

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 Organization has adopted the accounting standard related to uncertain income tax positions. The standard requires that an uncertain income tax position must be likely than not (greater than 50% likelihood) before it is recognized in the consolidated financial statements. Furthermore, the standard requires that the amount recognized be the same as that which would be determined as a result of a review by tax authorities having all relevant information. During the year ended June 30, 2010, management did not identify any additional uncertain income tax positions. The Organization believes it is no longer subject to U.S. Federal, state, and local income tax examinations by taxing authorities for years before 2007.

<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>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 \$18,283 and \$47,373 at June 30, 2010 and 2009, 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.

<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.

Notes to Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Net assets: Unrestricted net assets consist of the following:

<u>Undesignated</u>: An unrestricted fund that accounts for the general

operations of the Society.

Board designated: 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 September 27, 2010.

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	10	20	09
	Fair Value	Cost	Fair Value	Cost
Money market funds U.S. Government, Agency, & Municipal	\$ 103,347	\$ 103,347	\$ 98,240	\$ 98,240
securities	1,886,902	1,809,644	1,491,685	1,468,274
Corporate bonds	1,057,871	983,415	1,158,597	1,140,929
International bonds Marketable equity	74,028	72,137	69,882	68,198
securities	2,194,081	2,366,412	1,259,449	1,376,951
	\$ 5,316,229	\$5,334,955	\$ 4,077,853	\$4,152,592

For the years ended June 30, 2010 and 2009 the Society incurred investment fees of \$42,440 and \$35,577, respectively.

Notes to Financial Statements

C. INVESTMENTS - CONTINUED

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:

2010	Total	Level 1	Level 2	Level 3
Investments, at fair value				
Money market funds	\$ 103,347	\$ 103,347	\$ - \$	-
U.S. Government, Agency,				
and Municipal securities	1,886,902		1,886,902	
Corporate bonds	1,057,871		1,057,871	
International bonds	74,028		74,028	
Marketable equity securities	 2,194,081	2,194,081		
Total investments	\$ 5,316,229	\$ 2,297,428	\$ 3,018,801 \$	-

2009		Total	Level 1	Level 2	Level 3
Investments, at fair value					
Money market funds	\$	98,240	\$ 98,240	\$ -	\$ -
U.S. Treasury & Agency securities		1,491,685		1,491,685	
Corporate bonds		1,158,597		1,158,597	
International bonds		69,882		69,882	
Marketable equity securities		1,259,449	1,259,449		
Total investments		4,077,853	\$ 1,357,689	\$ 2,720,164	\$ -

Notes to Financial Statements

D. PROPERTY AND EQUIPMENT

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

	2010	2009
Furniture and fixtures	\$ 63,427	\$ 60,965
Office equipment	25,780	25,780
Computer equipment	214,064	194,531
	303,271	281,276
Less accumulated depreciation	(261,155)	(239,878)
	\$ 42,116	\$ 41,398

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, 2010 and 2009 was \$82,340 and \$72,119, respectively.

Notes to Financial Statements

G. TEMPORARILY RESTRICTED FUNDS

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

	2010	2009
Membrane subgroup	\$ 39,527	\$ 36,590
Structure & assembly subgroup	26,808	24,251
Motility subgroup	15,835	16,150
Molecular subgroup	20,211	19,047
Biological fluorescence subgroup	11,684	11,236
Exocytosis & endocytosis subgroup	8,429	3,144
Bioenergetics subgroup	8,146	9,597
Intrinsically Disordered Proteins	7,746	2,671
Permeation & Transport	4,635	4,041
Total Subgroups	143,021	126,727
Young Investigators Award	15,110	15,110
Emily Gray Award	3,955	3,859
Burroughs Welcome	2,084	2,084
	\$ 164,170	\$ 147,780

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 \$19,344 has been accrued at June 30, 2010. Total office rental expense for the years ended June 30, 2010 and 2009 amounted to \$128,699 and \$113,042, respectively.

Notes to Financial Statements

H. COMMITMENTS - CONTINUED

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

Year Ending June 30,		Office Lease
2011	\$	76,770
2012		118,043
2013		121,277
2014		124,602
2015		128,047
2016		131,577
2017	<u></u>	112,148
	\$	812,464

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, 2011, but may be ended sooner under certain circumstances.