



ECOLOGICAL SOCIETY OF AMERICA, INCORPORATED

AUDIT REPORT

**FINANCIAL AND FEDERAL AWARD
COMPLIANCE EXAMINATION**

FOR THE YEAR ENDED JUNE 30, 2011

ECOLOGICAL SOCIETY OF AMERICA, INCORPORATED

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FINANCIAL STATEMENTS



**ECOLOGICAL SOCIETY OF AMERICA,
INCORPORATED**

**FOR THE YEAR ENDED JUNE 30, 2011
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2010**

ECOLOGICAL SOCIETY OF AMERICA, INCORPORATED

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GELMAN, ROSENBERG & FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Ecological Society of America, Incorporated
Washington, D.C.

We have audited the accompanying statement of financial position of the Ecological Society of America, Incorporated (the Society) as of June 30, 2011, and the related statements of activities and change in net assets, functional expenses 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 financial statements for the year ended June 30, 2010 and, in our report dated February 16, 2011, we expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 Society as of June 30, 2011, and its change in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2012, on our consideration of the Society's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

February 27, 2012

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ECOLOGICAL SOCIETY OF AMERICA, INCORPORATED
STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2011
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2010

ASSETS

| | <u>2011</u> | <u>2010</u> |
|--------------------------------|----------------------------|----------------------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 1,842,497 | \$ 1,466,644 |
| Investments (Notes 2 and 9) | 4,234,691 | 4,443,817 |
| Accounts receivable | 266,115 | 259,720 |
| Grants receivable | 220,554 | 161,119 |
| Prepaid expenses | <u>188,643</u> | <u>174,975</u> |
| Total current assets | <u>6,752,500</u> | <u>6,506,275</u> |
| FIXED ASSETS | | |
| Equipment | 123,887 | 119,518 |
| Furniture and fixtures | <u>11,884</u> | <u>11,884</u> |
| | 135,771 | 131,402 |
| Less: Accumulated depreciation | <u>(125,823)</u> | <u>(110,369)</u> |
| Net fixed assets | <u>9,948</u> | <u>21,033</u> |
| OTHER ASSETS | | |
| Deposits | <u>24,616</u> | <u>24,616</u> |
| TOTAL ASSETS | <u>\$ 6,787,064</u> | <u>\$ 6,551,924</u> |

See accompanying notes to financial statements.

LIABILITIES AND NET ASSETS

| | <u>2011</u> | <u>2010</u> |
|--|----------------------------|----------------------------|
| CURRENT LIABILITIES | | |
| Accounts payable and accrued liabilities | \$ 304,937 | \$ 258,617 |
| Deferred revenue: | | |
| Membership dues and subscriptions | 1,679,479 | 1,700,661 |
| Meeting fees | 725,275 | 765,955 |
| Refundable advance | <u>6,039</u> | <u>-</u> |
| Total current liabilities | <u>2,715,730</u> | <u>2,725,233</u> |
| LONG-TERM LIABILITIES | | |
| Deferred rent (Note 5) | <u>99,242</u> | <u>78,037</u> |
| Total liabilities | <u>2,814,972</u> | <u>2,803,270</u> |
| NET ASSETS | | |
| Unrestricted: | | |
| Undesignated | 2,007,340 | 1,794,631 |
| Board designated (Note 8) | <u>548,290</u> | <u>548,290</u> |
| Total unrestricted net assets | 2,555,630 | 2,342,921 |
| Temporarily restricted (Note 3) | 1,366,462 | 1,355,733 |
| Permanently restricted (Note 10) | <u>50,000</u> | <u>50,000</u> |
| Total net assets | <u>3,972,092</u> | <u>3,748,654</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 6,787,064</u> | <u>\$ 6,551,924</u> |

ECOLOGICAL SOCIETY OF AMERICA, INCORPORATED
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2010

| | 2011 | | | | 2010 |
|---|----------------------------|----------------------------|-------------------------|----------------------------|----------------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Total |
| REVENUE | | | | | |
| Grants and contributions | \$ 189,075 | \$ 486,156 | \$ - | \$ 675,231 | \$ 307,571 |
| Government grants | 539,546 | - | - | 539,546 | 625,940 |
| Membership dues | 631,350 | - | - | 631,350 | 622,511 |
| Subscriptions | 2,661,008 | - | - | 2,661,008 | 2,679,712 |
| Manuscript charges | 530,722 | - | - | 530,722 | 474,577 |
| Annual meeting | 991,915 | - | - | 991,915 | 1,026,668 |
| Investment income (Note 2) | 82,006 | 111,512 | - | 193,518 | 157,279 |
| Other | 311,918 | - | - | 311,918 | 269,931 |
| Royalty income | 191 | - | - | 191 | 385 |
| Chapter and Sections income | 42,448 | - | - | 42,448 | 42,513 |
| Net assets released from donor-imposed restriction (Note 4) | <u>586,939</u> | <u>(586,939)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total revenue | <u>6,567,118</u> | <u>10,729</u> | <u>-</u> | <u>6,577,847</u> | <u>6,207,087</u> |
| EXPENSES | | | | | |
| Program Services: | | | | | |
| Public Affairs | 244,059 | - | - | 244,059 | 243,747 |
| Science Programs | 362,550 | - | - | 362,550 | 512,591 |
| Annual Meeting | 852,061 | - | - | 852,061 | 781,863 |
| Chapters and Sections | 41,528 | - | - | 41,528 | 32,667 |
| Journals | 2,073,302 | - | - | 2,073,302 | 1,979,265 |
| Frontiers | 650,804 | - | - | 650,804 | 627,908 |
| Education | <u>617,254</u> | <u>-</u> | <u>-</u> | <u>617,254</u> | <u>465,346</u> |
| Total program services | <u>4,841,558</u> | <u>-</u> | <u>-</u> | <u>4,841,558</u> | <u>4,643,387</u> |
| Supporting Services: | | | | | |
| Management and General | 1,510,013 | - | - | 1,510,013 | 1,406,313 |
| Fundraising | <u>2,838</u> | <u>-</u> | <u>-</u> | <u>2,838</u> | <u>5,241</u> |
| Total supporting services | <u>1,512,851</u> | <u>-</u> | <u>-</u> | <u>1,512,851</u> | <u>1,411,554</u> |
| Total expenses | <u>6,354,409</u> | <u>-</u> | <u>-</u> | <u>6,354,409</u> | <u>6,054,941</u> |
| Change in net assets | 212,709 | 10,729 | - | 223,438 | 152,146 |
| Net assets at beginning of year | <u>2,342,921</u> | <u>1,355,733</u> | <u>50,000</u> | <u>3,748,654</u> | <u>3,596,508</u> |
| NET ASSETS AT END OF YEAR | \$ <u>2,555,630</u> | \$ <u>1,366,462</u> | \$ <u>50,000</u> | \$ <u>3,972,092</u> | \$ <u>3,748,654</u> |

See accompanying notes to financial statements.

ECOLOGICAL SOCIETY OF AMERICA, INCORPORATED

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2011
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2010**

| | 2011 | | | | | |
|--------------------------|---------------------------|-----------------------------|---------------------------|--------------------------------------|---------------------|-------------------|
| | Program Services | | | | | |
| | Public Affairs | Science Programs | Annual Meeting | Chapters and Sections | Journals | Frontiers |
| Salaries | \$ 179,180 | \$ 171,247 | \$ 167,034 | \$ - | \$ 680,043 | \$ 276,593 |
| Benefits (Note 6) | 35,618 | 26,185 | 30,201 | - | 205,004 | 49,844 |
| Payroll taxes | 13,707 | 13,124 | 13,315 | - | 53,706 | 21,159 |
| Insurance | - | 1,066 | 8,135 | - | - | - |
| Awards | - | - | - | - | - | - |
| Travel and meeting costs | 7,425 | 49,714 | 90,437 | - | - | 489 |
| Committee expense | 585 | 4,569 | - | - | - | - |
| Telephone | - | - | 15 | - | 11,081 | - |
| Printing and production | - | - | 94,240 | - | - | 186,797 |
| Postage and delivery | - | - | 428 | - | 2,161 | 45 |
| Dues and subscriptions | 7,497 | - | - | - | - | - |
| Equipment | - | - | - | - | 36,142 | - |
| Bank charges | - | - | 37,654 | - | - | - |
| Occupancy (Note 5) | - | - | - | - | 56,638 | - |
| Professional fees | - | - | 24,000 | - | 120,781 | 115,877 |
| Miscellaneous | - | - | - | - | - | - |
| Publications | 47 | - | - | - | 899,132 | - |
| Depreciation | - | - | - | - | - | - |
| Office expenses | - | - | - | - | 8,614 | - |
| Other direct costs | - | 96,645 | 386,602 | 41,528 | - | - |
| TOTAL | \$ 244,059 | \$ 362,550 | \$ 852,061 | \$ 41,528 | \$ 2,073,302 | \$ 650,804 |

See accompanying notes to financial statements.

| | | | | | | 2010 |
|--------------------------|------------------------------|----------------------------|------------------------|---------------------------------|----------------------------|----------------------------|
| Education | Total Program Services | Supporting Services | | Total Supporting Services | Total Expenses | Total Expenses |
| | | Management and General | Fundraising | | | |
| \$ 174,062 | \$ 1,648,159 | \$ 462,802 | \$ 2,838 | \$ 465,640 | \$ 2,113,799 | \$ 2,012,853 |
| 36,352 | 383,204 | 72,220 | - | 72,220 | 455,424 | 400,337 |
| 13,278 | 128,289 | 28,459 | - | 28,459 | 156,748 | 146,841 |
| 2,019 | 11,220 | 30,573 | - | 30,573 | 41,793 | 37,141 |
| - | - | 11,970 | - | 11,970 | 11,970 | 6,832 |
| 236,316 | 384,381 | 6,213 | - | 6,213 | 390,594 | 270,372 |
| 2,923 | 8,077 | 34,357 | - | 34,357 | 42,434 | 48,344 |
| 825 | 11,921 | 16,619 | - | 16,619 | 28,540 | 23,538 |
| - | 281,037 | 16,411 | - | 16,411 | 297,448 | 281,769 |
| - | 2,634 | 3,377 | - | 3,377 | 6,011 | 5,488 |
| 255 | 7,752 | 8,122 | - | 8,122 | 15,874 | 12,723 |
| - | 36,142 | 21,855 | - | 21,855 | 57,997 | 77,097 |
| - | 37,654 | 41,880 | - | 41,880 | 79,534 | 69,140 |
| - | 56,638 | 355,021 | - | 355,021 | 411,659 | 374,210 |
| 58,786 | 319,444 | 209,203 | - | 209,203 | 528,647 | 499,839 |
| (300) | (300) | 53,064 | - | 53,064 | 52,764 | 14,321 |
| - | 899,179 | 100,000 | - | 100,000 | 999,179 | 993,469 |
| - | - | 15,454 | - | 15,454 | 15,454 | 16,433 |
| 135 | 8,749 | 22,413 | - | 22,413 | 31,162 | 31,080 |
| <u>92,603</u> | <u>617,378</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>617,378</u> | <u>733,114</u> |
| <u>\$ 617,254</u> | <u>\$ 4,841,558</u> | <u>\$ 1,510,013</u> | <u>\$ 2,838</u> | <u>\$ 1,512,851</u> | <u>\$ 6,354,409</u> | <u>\$ 6,054,941</u> |

ECOLOGICAL SOCIETY OF AMERICA, INCORPORATED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2010

| | <u>2011</u> | <u>2010</u> |
|---|----------------------------|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 223,438 | \$ 152,146 |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: | | |
| Depreciation | 15,454 | 16,433 |
| Net appreciation of investments | (156,096) | (65,609) |
| Bad debt | (39,305) | - |
| (Increase) decrease in: | | |
| Accounts receivable | 32,910 | (65,599) |
| Grants receivable | (59,435) | 93,247 |
| Prepaid expenses | (13,668) | (16,912) |
| Increase (decrease) in: | | |
| Accounts payable and accrued liabilities | 46,320 | (115,114) |
| Deferred revenue | (61,862) | (196,883) |
| Refundable advance | 6,039 | - |
| Deferred rent | <u>21,205</u> | <u>28,838</u> |
| Net cash provided (used) by operating activities | <u>15,000</u> | <u>(169,453)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of fixed assets | (4,369) | (15,151) |
| Purchase of investments | (2,087,477) | (293,313) |
| Proceeds from sale of investments | <u>2,452,699</u> | <u>657,383</u> |
| Net cash provided by investing activities | <u>360,853</u> | <u>348,919</u> |
| Net increase in cash and cash equivalents | 375,853 | 179,466 |
| Cash and cash equivalents at beginning of year | <u>1,466,644</u> | <u>1,287,178</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u>\$ 1,842,497</u> | <u>\$ 1,466,644</u> |

See accompanying notes to financial statements.

ECOLOGICAL SOCIETY OF AMERICA, INCORPORATED

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

The Ecological Society of America, Incorporated (the Society) is a non-profit, tax-exempt corporation, formed in 1915 to further the study and development of concerns in the field of ecology. The Society is located in the District of Columbia, with chapters located in various regions of the United States, as well as a publication office in Ithaca, New York.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with FASB ASC 958, *Not-for-Profit Entities*.

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Society's financial statements for the year ended June 30, 2010, from which the summarized information was derived.

Cash and cash equivalents -

The Society considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

At times during the year, the Society maintains cash balances at financial institutions in excess of the Federal Deposit Insurance Corporation (FDIC) limits. Management believes the risk in these situations to be minimal.

Investments -

Investments are recorded at their readily determinable fair value. The net appreciation of investments are included in investment income in the Statement of Activities and Change in Net Assets.

Accounts and grants receivable -

Accounts receivable and grants receivable are stated at their net realizable value. Management considers all amounts to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

Fixed assets -

Fixed assets are stated at cost. Fixed assets with costs exceeding \$1,000 are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to ten years. The cost of maintenance and repairs is recorded as expenses are incurred.

Income taxes -

The Society is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. The Society is not a private foundation.

ECOLOGICAL SOCIETY OF AMERICA, INCORPORATED

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Uncertain tax positions -

In June 2006, the Financial Accounting Standards Board (FASB) released FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes. For the year ended June 30, 2011, the Society has documented its consideration of FASB ASC 740-10 and determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements. The Federal Form 990, *Return of Organization Exempt from Income Tax*, is subject to examination by the Internal Revenue Service, generally for three years after it is filed.

Deferred revenue -

Deferred revenue consists of membership dues, subscriptions and meeting fees collected in advance. Membership dues and subscriptions are recorded as deferred revenue upon receipt and are recognized ratably over the period to which the dues and subscriptions relate. Meeting fees are recorded as deferred revenue and are recognized as revenue in the period in which the meeting occurs.

Net asset classification -

The net assets are reported in three self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of the Society and include both internally designated and undesignated resources.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of the Society and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Change in Net Assets as net assets released from restrictions.
- **Permanently restricted net assets** represent funds restricted by the donor to be maintained in-perpetuity by the Society.

Grants and contributions -

Grants and contributions are recorded as revenue in the year notification is received from the donor. Grants and contributions are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions.

The Society receives funding under grants and contracts from the U.S. Government for direct and indirect program costs. This funding is subject to contractual restrictions, which must be met through incurring qualifying expenses for particular programs. Accordingly, such grants are considered exchange transactions and are recorded as unrestricted income to the extent that related expenses are incurred in compliance with the criteria stipulated in the grant agreements.

Grants and contributions received in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements. Grants received in exchange for services are recorded when earned based on the terms of the agreement.

ECOLOGICAL SOCIETY OF AMERICA, INCORPORATED

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Use of estimates -

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Risks and uncertainties -

The Society invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

Fair value measurements -

The Society adopted the provisions of FASB ASC 820, *Fair Value Measurements and Disclosures*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. The Society accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

2. INVESTMENTS

Investments consisted of the following at June 30, 2011:

| | <u>Fair Value</u> |
|-------------------------------------|----------------------------|
| Money market funds | \$ 209,123 |
| Government bond funds | 740,453 |
| Corporate bond funds | 92,775 |
| Mutual funds- fixed income | 866,864 |
| Mutual funds - equity income | 501,822 |
| Mutual funds - International equity | 158,689 |
| Precious metals | 76,337 |
| Equities | 565,837 |
| Certificates of deposit | <u>1,022,791</u> |
| TOTAL INVESTMENTS | <u>\$ 4,234,691</u> |

ECOLOGICAL SOCIETY OF AMERICA, INCORPORATED

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

2. INVESTMENTS (Continued)

Included in investment income are the following at June 30, 2011:

| | |
|---------------------------------|--------------------------|
| Interest and dividends | \$ 37,422 |
| Net appreciation of investments | <u>156,096</u> |
| TOTAL INVESTMENT INCOME | \$ <u>193,518</u> |

3. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at June 30, 2011:

| | |
|--|----------------------------|
| Awards | \$ 545,642 |
| Bio Fuels Meeting | 43,866 |
| Chapters and Sections Funds | 80,767 |
| Ecosystems | 948 |
| Energy Foundation | 13,867 |
| EPA Purchase Orders | 5,620 |
| Life Member | 83,574 |
| Millennium Fund | 51,917 |
| Packard - Leadership | 114,688 |
| Publication Fund | 130,099 |
| Seeds | <u>295,474</u> |
| TOTAL TEMPORARILY RESTRICTED NET ASSETS | \$ <u>1,366,462</u> |

4. NET ASSETS RELEASED FROM DONOR-IMPOSED RESTRICTIONS

The following temporarily restricted net assets were released from donor restrictions by incurring expenses, which satisfied the restricted purposes specified by the donors:

| | |
|---|--------------------------|
| Awards - Endowment Funds | \$ 1,846 |
| Awards | 8,291 |
| Bio Fuels Conference | 29,936 |
| Ecosystems | 5,968 |
| Education | 2,500 |
| Energy Foundation | 18,482 |
| EPA Purchase Orders | 14,380 |
| Millennium Fund | 9,666 |
| Packard - Leadership | 35,312 |
| Publication Fund | 370,865 |
| Seeds | 79,744 |
| Seeds- Packard | 2,449 |
| SWRR | <u>7,500</u> |
| TOTAL NET ASSETS RELEASED FROM DONOR- IMPOSED RESTRICTIONS | \$ <u>586,939</u> |

ECOLOGICAL SOCIETY OF AMERICA, INCORPORATED

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

5. LEASE COMMITMENT

In May 2003, the Society entered into an office lease for its Ithaca, New York office. The lease will expire on May 31, 2013.

During the year ended June 30, 2008, the Society executed a new lease and combined the Silver Spring and D.C. offices. Included in the lease is an annual rent escalation of approximately 3%. Generally accepted accounting principles require that the total rent commitment should be recognized on a straight-line basis over the term of the lease.

Accordingly, the difference between the actual monthly payments and the rent expense being recognized for financial statement purposes is being deferred. Such amount will be amortized over the term of the lease agreement.

The following is a schedule of future minimum payments required under this non-cancelable operating lease as of June 30, 2011:

| <u>Year Ended June 30,</u> | |
|----------------------------|----------------------------|
| 2012 | \$ 374,860 |
| 2013 | 381,760 |
| 2014 | 343,135 |
| 2015 | 351,713 |
| 2016 | 360,506 |
| Thereafter | <u>619,936</u> |
| | <u>\$ 2,431,910</u> |

Rent expense and deferred rent for the year ended June 30, 2011 totaled \$411,659 and \$99,242, respectively.

6. RETIREMENT PLAN

The Society has a defined contribution plan with the Teachers Insurance and Annuity Association College Retirement Equities Fund (TIAA/CREF). TIAA/CREF retirement plans are defined contribution plans (commonly called money-purchase plans) in compliance with the Employee Retirement Income Security Act of 1974 and subsequent related legislation. The Society's contributions totaled \$198,021 for the fiscal year ended June 30, 2011.

7. LINE OF CREDIT

The Society has a \$300,000 line of credit with a bank, collateralized by chattel paper, accounts receivable, equipment and general intangibles. The interest rate is 2.32% and the agreement expires April 30, 2012. As of June 30, 2011, the Society had no outstanding borrowings on its line of credit.

8. BOARD DESIGNATED

Each year, the Society's Board members set aside a certain amount of unrestricted funds for future use. These funds will be used to fund future programs for which other funds are not available.

ECOLOGICAL SOCIETY OF AMERICA, INCORPORATED

NOTES TO FINANCIAL STATEMENTS **JUNE 30, 2011**

9. FAIR VALUE MEASUREMENTS

In accordance with FASB ASC 820, Fair Value Measurements and Disclosures, the Society has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Investments recorded in the Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market the Society has the ability to access.

Level 2. These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

Level 3. Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value for the year ended June 30, 2011.

- *Money market funds*—Fair value is equal to the reported net asset value of the fund.
- *Common stocks*—Valued at the closing price reported on the active market in which the individual securities are traded.
- *U.S. government securities*—Valued at the closing price reported on the active market in which the individual securities are traded.
- *Mutual funds*—The fair value is equal to the reported net asset value of the fund, which is the price at which additional shares can be obtained.
- *Certificates of deposit*—Generally valued at original cost plus accrued interest, which approximates fair value.

Financial assets recorded in the Statement of Financial Position are categorized based on the inputs to the valuation technique as follows for the year ended June 30, 2011:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|-------------------------------------|---------------------|---------------------|----------------|---------------------|
| Asset Category: | | | | |
| Money market funds | \$ 209,123 | \$ - | \$ - | \$ 209,123 |
| Government bond funds | 740,453 | - | - | 740,453 |
| Corporate bond funds | 92,775 | - | - | 92,775 |
| Mutual funds- fixed income | 866,864 | - | - | 866,864 |
| Mutual funds - equity income | 501,822 | - | - | 501,822 |
| Mutual funds - International equity | 158,689 | - | - | 158,689 |
| Precious metals | 76,337 | - | - | 76,337 |
| Equities | 565,837 | - | - | 565,837 |
| Certificates of deposit | - | 1,022,791 | - | 1,022,791 |
| TOTAL | \$ 3,211,900 | \$ 1,022,791 | \$ - | \$ 4,234,691 |

ECOLOGICAL SOCIETY OF AMERICA, INCORPORATED

NOTES TO FINANCIAL STATEMENTS **JUNE 30, 2011**

10. ENDOWMENT

The Society's endowment consists of donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Society classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purpose of the organization and the donor-restricted endowment fund;

In accordance with UPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds (continued):

- General economic conditions and the possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments; and
- Investment policies of the organization.

Endowment net asset composition by type of fund as of June 30, 2011:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|----------------------------|--|--|-------------------------|
| Donor-Restricted Endowment Funds | \$ <u>-</u> | \$ <u>1,108</u> | \$ <u>50,000</u> | \$ <u>51,108</u> |

Changes in endowment net assets for the year ended June 30, 2011:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|----------------------------|--|--|-------------------------|
| Endowment net assets, beginning of year | \$ - | \$ 2,562 | \$ 50,000 | \$ 52,562 |
| Net appreciation (realized and unrealized) | - | 392 | - | 392 |
| Payment of the Eugene Odum Award | - | (1,846) | - | (1,846) |
| ENDOWMENT NET ASSETS, END OF YEAR | \$ <u>-</u> | \$ <u>1,108</u> | \$ <u>50,000</u> | \$ <u>51,108</u> |

ECOLOGICAL SOCIETY OF AMERICA, INCORPORATED

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

10. ENDOWMENT (Continued)

Description of amounts classified as permanently restricted net assets and temporarily restricted net assets (Endowment only):

Permanently Restricted Net Assets:

| | |
|---|-------------------------|
| The Portion of Perpetual Endowment Funds that is Required to be Retained Permanently Either by Explicit Donor Stipulation or by SPMIFA | \$ <u>50,000</u> |
|---|-------------------------|

Temporarily Restricted Net Assets:

| | |
|---|------------------------|
| With Purpose Restrictions - Awards | \$ <u>1,108</u> |
|---|------------------------|

Funds with Deficiencies -

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Society to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, there were no deficiencies of this nature at June 30, 2011.

Return Objectives and Risk Parameters -

The Society has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets.

Endowment assets include those assets of donor-restricted funds that the Society must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index, while assuming a moderate level of investment risk. The Society expects its endowment funds, over time, to provide an average rate of return of approximately 5% annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives -

To satisfy its long-term rate-of-return objectives, the Society relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Society targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy -

The Society has a policy of appropriating for distribution no more than 5% of investment earnings.

11. SUBSEQUENT EVENTS

In preparing these financial statements, the Society has evaluated events and transactions for potential recognition or disclosure through February 27, 2012, the date the financial statements were issued.



GELMAN, ROSENBERG & FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON
SUPPLEMENTAL FINANCIAL INFORMATION**

To the Board of Directors
Ecological Society of America, Incorporated
Washington, D.C.

Our report on our audit of the basic financial statements of the Ecological Society of America, Incorporated appears on page I-3. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedules of Expenditures of Federal Awards and Findings and Questioned Costs are presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and are 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.

Gelman Rosenberg & Freedman

February 27, 2012

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ECOLOGICAL SOCIETY OF AMERICA, INCORPORATED

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

| <u>Federal Granting Agency and Program Title</u> | <u>CFDA or Award Number</u> | <u>Expenditures</u> |
|---|-----------------------------|--------------------------|
| United States Department of Agriculture: | | |
| CSREES | 10.206 | \$ 3,623 |
| NIFA | 10.200 | 7,434 |
| Forest Service | 11-DG-11132650-024 | 2,854 |
| CSREES | 10.310 | 606 |
| Forest Service | 10.09-DG-11132650-133 | 10,145 |
| Forest Service | 10.08-JV-11221633-248 | 10,694 |
| Forest Service | 10.06-DG-1132650-270 | 24,705 |
| Forest Service | 10.10-DG-11242305-015 | <u>63,411</u> |
| Total United States Department of Agriculture | | <u>123,472</u> |
| National Oceanic and Atmospheric Administration: | | |
| BLM | L10AC20565 | <u>40,000</u> |
| National Science Foundation: | | |
| SEEDS | 47.082 | 36,292 |
| EcoEd DL: Strategies and Technologies to Support Outstanding Ecology Education | 47.076 | 943 |
| Ecology and Education Summit | 47.076 | 51,217 |
| Digital Resource Discovery and Dynamic Learning Communities for a Changing Biology | 47.076 | 73,489 |
| Cultivating Participation of Underrepresented Institutions and Students in NEON Science and Education | 47.074 | 41,455 |
| Workshop: Strategies for Sustainability of Biological Infrastructure | 47.074 | 64,421 |
| Strategies for Ecology Education, Development and Sustainability | 47.074 | 94,883 |
| Education Neon | 47.074 | 633 |
| Millennium | 47.074 | <u>6,786</u> |
| Total National Science Foundation | | <u>370,119</u> |
| U.S. Geological Survey: | | |
| ESA Millennium Conference | 15.808 | <u>5,955</u> |
| Total U.S. Geological Survey | | <u>5,955</u> |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | \$ <u>539,546</u> |

ECOLOGICAL SOCIETY OF AMERICA, INCORPORATED

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011**

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the Federal grant activity of the Society under programs of the Federal government for the year ended June 30, 2011. The information in the Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Society, it is not intended to and does not present the financial position, change in net assets or cash flows of the Society.

Note 2. Summary of Significant Accounting Policies

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown in the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

ECOLOGICAL SOCIETY OF AMERICA, INCORPORATED

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

Section I - Summary of Audit Results

Financial Statements

- 1). Type of auditor's report issued: **Unqualified**
- 2). Internal control over financial reporting:
- Material weakness(es) identified? ☐ Yes ☒ No
 - Significant deficiency(ies) identified that are not considered to be material weakness(es)? ☐ Yes ☒ None Reported
- 3). Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

- 4). Internal control over major programs:
- Material weakness(es) identified? ☐ Yes ☒ No
 - Significant deficiency(ies) identified that are not considered to be material weakness(es)? ☐ Yes ☒ None Reported
- 5). Type of auditor's report issued on compliance for major programs: **Unqualified**
- 6). Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☐ Yes ☒ No
- 7). Identification of major programs:

| <u>Federal Program Title</u> | <u>CFDA Number</u> |
|---|--------------------|
| EcoEd DL: Strategies and Technologies to Support Outstanding Ecology Education | 47.076 |
| Ecology and Education Summit | 47.076 |
| Digital Resource Discovery and Dynamic Learning Communities for a Changing Biology | 47.076 |
| Cultivating Participation of Underrepresented Institutions and Students in NEON Science and Education | 47.074 |
| Workshop: Strategies for Sustainability of Biological Infrastructure | 47.074 |
| Strategies for Ecology Education, Development and Sustainability Millennium | 47.074 |

- 8). Dollar threshold used to distinguish between Type A and Type B programs: **\$300,000**
- 9). Auditee qualified as a low-risk auditee? ☐ Yes ☒ No

ECOLOGICAL SOCIETY OF AMERICA, INCORPORATED

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

Section II - Financial Statement Findings

There were no reportable findings.

Section III - Federal Award Findings and Questioned Costs (Circular A-133, Section .510)

There were no reportable findings.

Section IV - Prior Year Findings

Finding 2010-1:

Federal Programs: All

Criteria: OMB Circular A-122, Cost Principles for Non-Profit Organizations, Attachment B, Selected Items of Cost, Paragraph 8.m (2)(a), Compensation for personal services, salaries and wages, states that reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards. In addition, in order to support the allocation of indirect costs, such reports must also be maintained for other employees whose work involves two or more functions or activities if a distribution of their compensation between such functions or activities is needed in the determination of the Society's indirect cost rate(s) (e.g., an employee engaged part-time in indirect cost activities and part-time in a direct function). Reports maintained by non-profit organizations to satisfy these requirements must meet the following standards: (a) The reports must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to awards.

Condition: While testing controls over payroll and discussions with management, we noted that employee time reports are prepared based on program budgets. We further noted that time charged for several employees was a recurring monthly entry.

Questioned Costs: Unknown

Context, Effect and Cause: By recording time based on budgets, Federal programs could be overcharged for hours not actually worked.

Recommendation: We recommend that employees begin keeping daily logs of time spent working on the Society's various programs, to ensure salary expense is properly allocated to all programs.

Current Year Status: Based on our recommendation, employees that work on federal programs began keeping a more detailed timesheet than an employee that does not. The timesheets are submitted to their supervisor for review and approval. Following approval, they are submitted to the CFO & Director of Administration who then allocates the time accordingly.



GELMAN, ROSENBERG & FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Independent Auditors' Report

To the Board of Directors
Ecological Society of America, Incorporated
Washington, D.C.

We have audited the financial statements of the Ecological Society of America, Incorporated (the Society) as of and for the year ended June 30, 2011, and have issued our report thereon dated February 27, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Society is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Society's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Society's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Society's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Society's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Society in a separate letter dated February 27, 2012.

This report is intended solely for the information and use of management, the Board of Directors, others within the Ecological Society of America, Incorporated, and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Gelman Rosenberg & Friedman".

February 27, 2012



GELMAN, ROSENBERG & FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors
Ecological Society of America, Incorporated
Washington, D.C.

Compliance

We have audited the compliance of the Ecological Society of America, Incorporated (the Society) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2011. The Society's major Federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of the Society's management. Our responsibility is to express an opinion on the Society's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Society's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Society's compliance with those requirements.

In our opinion, the Society complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

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Internal Control Over Compliance

Management of the Society is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Society's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Society's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, others within the Ecological Society of America, Incorporated, and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



February 27, 2012