

FINANCIAL STATEMENTS



**ECOLOGICAL SOCIETY OF AMERICA,
INCORPORATED**

**FOR THE YEAR ENDED JUNE 30, 2016
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2015**

ECOLOGICAL SOCIETY OF AMERICA, INCORPORATED

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Ecological Society of America, Incorporated (the Society), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and change in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

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 from 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 entity'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 entity'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 Society as of June 30, 2016, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Report on Summarized Comparative Information

We have previously audited the Society's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 1, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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

February 10, 2017

ECOLOGICAL SOCIETY OF AMERICA, INCORPORATED
STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2016
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2015

ASSETS

	<u>2016</u>	<u>2015</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,058,681	\$ 1,666,529
Investments	5,634,707	4,506,500
Accounts receivable, net of allowance for doubtful accounts of \$68,935 for 2016	322,536	809,281
Grants receivable	155,210	84,627
Prepaid expenses	<u>146,071</u>	<u>118,774</u>
 Total current assets	 <u>7,317,205</u>	 <u>7,185,711</u>
FIXED ASSETS		
Equipment	145,264	159,943
Furniture and fixtures	<u>26,501</u>	<u>26,501</u>
	171,765	186,444
Less: Accumulated depreciation	<u>(132,919)</u>	<u>(171,514)</u>
 Net fixed assets	 <u>38,846</u>	 <u>14,930</u>
OTHER ASSETS		
Deposits	<u>24,616</u>	<u>24,616</u>
 TOTAL ASSETS	 \$ <u>7,380,667</u>	 \$ <u>7,225,257</u>

LIABILITIES AND NET ASSETS

	<u>2016</u>	<u>2015</u>
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 214,407	\$ 262,242
Deferred revenue:		
Subscriptions	38,299	1,272,386
Meeting fees	620,288	974,862
Membership dues	317,528	361,875
Publication fees	1,857,143	-
Other	2,063	-
Deferred rent, current portion	-	26,363
Refundable advance	<u>52,557</u>	<u>38,907</u>
Total current liabilities	<u>3,102,285</u>	<u>2,936,635</u>
LONG-TERM LIABILITIES		
Deferred rent	<u>51,250</u>	<u>63,032</u>
Total liabilities	<u>3,153,535</u>	<u>2,999,667</u>
NET ASSETS		
Unrestricted:		
Undesignated	2,567,731	2,488,549
Board designated	<u>648,714</u>	<u>648,714</u>
Total unrestricted net assets	3,216,445	3,137,263
Temporarily restricted	960,687	1,038,327
Permanently restricted	<u>50,000</u>	<u>50,000</u>
Total net assets	<u>4,227,132</u>	<u>4,225,590</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,380,667</u>	<u>\$ 7,225,257</u>

ECOLOGICAL SOCIETY OF AMERICA, INCORPORATED
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2016
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2015

	2016				2015
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
REVENUE					
Subscriptions	\$ 1,340,477	\$ -	\$ -	\$ 1,340,477	\$ 2,435,491
Annual meeting	1,453,618	-	-	1,453,618	1,166,048
Manuscript charges	273,563	-	-	273,563	742,994
Membership dues	825,273	-	-	825,273	729,108
Government grants	458,649	-	-	458,649	375,994
Royalty income	1,454,051	-	-	1,454,051	119,091
Investment income	111,383	10,036	-	121,419	92,168
Advertising revenue	52,691	-	-	52,691	89,179
Contracts	139,920	-	-	139,920	28,238
Grants and contributions	-	114,630	-	114,630	219,651
Other publication revenue and miscellaneous income	124,695	-	-	124,695	54,498
Net assets released from donor imposed restriction	<u>202,306</u>	<u>(202,306)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue	<u>6,436,626</u>	<u>(77,640)</u>	<u>-</u>	<u>6,358,986</u>	<u>6,052,460</u>
EXPENSES					
Program Services:					
Public Affairs	277,864	-	-	277,864	254,209
Science Programs	590,674	-	-	590,674	493,552
Annual Meeting	1,055,320	-	-	1,055,320	934,859
Chapters and Sections	72,472	-	-	72,472	53,813
Journals	2,222,556	-	-	2,222,556	2,763,745
Education	<u>401,913</u>	<u>-</u>	<u>-</u>	<u>401,913</u>	<u>329,266</u>
Total program services	<u>4,620,799</u>	<u>-</u>	<u>-</u>	<u>4,620,799</u>	<u>4,829,444</u>
Supporting Services:					
Management and General	<u>1,736,645</u>	<u>-</u>	<u>-</u>	<u>1,736,645</u>	<u>1,507,234</u>
Total expenses	<u>6,357,444</u>	<u>-</u>	<u>-</u>	<u>6,357,444</u>	<u>6,336,678</u>
Change in net assets	79,182	(77,640)	-	1,542	(284,218)
Net assets at beginning of year	<u>3,137,263</u>	<u>1,038,327</u>	<u>50,000</u>	<u>4,225,590</u>	<u>4,509,808</u>
NET ASSETS AT END OF YEAR	\$ <u>3,216,445</u>	\$ <u>960,687</u>	\$ <u>50,000</u>	\$ <u>4,227,132</u>	\$ <u>4,225,590</u>

ECOLOGICAL SOCIETY OF AMERICA, INCORPORATED

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2015

	2016				
	Program Services				
	Public Affairs	Science Programs	Annual Meeting	Chapters and Sections	Journals
Salaries	\$ 199,467	\$ 222,717	\$ 228,404	\$ -	\$ 970,119
Benefits	36,794	46,595	34,814	-	158,953
Payroll taxes	15,259	17,038	17,473	-	72,258
Insurance	-	-	3,158	-	-
Awards	-	-	-	-	-
Travel and meeting costs	8,878	32,052	152,863	-	3,113
Committee expense	6,663	-	-	-	-
Telephone	251	-	9,098	-	6,029
Printing and production	-	-	90,433	-	7,237
Postage and delivery	-	-	822	-	1,588
Dues and subscriptions	10,552	-	-	-	-
Equipment	-	-	-	-	18,396
Bank charges	-	-	43,039	-	-
Occupancy	-	-	-	-	32,926
Professional fees	-	-	-	-	236,004
Miscellaneous	-	-	-	-	224
Printing and other publication expenses	-	-	-	-	712,590
Depreciation	-	-	-	-	-
Office expenses	-	-	-	-	2,819
Other direct costs	-	220,564	475,216	72,472	-
Bad debt expense	-	-	-	-	-
Sub-total	277,864	538,966	1,055,320	72,472	2,222,256
Allocation of management and general	-	51,708	-	-	300
TOTAL	\$ 277,864	\$ 590,674	\$ 1,055,320	\$ 72,472	\$ 2,222,556

					2015
		Supporting Services			
Education	Total Program Services	Management and General	Total Expenses	Total Expenses	
\$ 153,952	\$ 1,774,659	\$ 519,633	\$ 2,294,292	\$ 2,399,338	
37,595	314,751	90,349	405,100	439,295	
12,523	134,551	32,593	167,144	176,456	
-	3,158	34,348	37,506	45,502	
-	-	9,748	9,748	13,145	
91,734	288,640	3,626	292,266	263,124	
4,993	11,656	48,063	59,719	43,703	
-	15,378	16,562	31,940	21,394	
-	97,670	15,566	113,236	118,490	
-	2,410	4,139	6,549	7,214	
329	10,881	3,312	14,193	12,465	
-	18,396	61,792	80,188	58,396	
-	43,039	34,258	77,297	81,548	
-	32,926	346,583	379,509	412,198	
-	236,004	272,092	508,096	498,909	
-	224	64,706	64,930	71,998	
-	712,590	-	712,590	992,799	
-	-	14,007	14,007	11,915	
37	2,856	26,853	29,709	30,387	
79,338	847,590	-	847,590	638,402	
-	-	211,835	211,835	-	
380,501	4,547,379	1,810,065	6,357,444	6,336,678	
21,412	73,420	(73,420)	-	-	
\$ 401,913	\$ 4,620,799	\$ 1,736,645	\$ 6,357,444	\$ 6,336,678	

ECOLOGICAL SOCIETY OF AMERICA, INCORPORATED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,542	\$ (284,218)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	14,007	11,915
Net depreciation of investments	79,426	54,501
Change in allowance for doubtful accounts	68,935	-
Bad debt	211,835	-
(Increase) decrease in:		
Accounts receivable	205,975	(342,146)
Grants receivable	(70,583)	115,904
Prepaid expenses	(27,297)	91,994
Increase (decrease) in:		
Accounts payable and accrued liabilities	(47,835)	26,340
Deferred revenue	226,198	202,280
Deferred rent	(38,145)	(17,571)
Refundable advance	<u>13,650</u>	<u>23,400</u>
Net cash provided (used) by operating activities	<u>637,708</u>	<u>(117,601)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(37,923)	(3,432)
Purchase of investments	(3,099,819)	(1,755,208)
Proceeds from sale of investments	<u>1,892,186</u>	<u>2,109,252</u>
Net cash (used) provided by investing activities	<u>(1,245,556)</u>	<u>350,612</u>
Net (decrease) increase in cash and cash equivalents	(607,848)	233,011
Cash and cash equivalents at beginning of year	<u>1,666,529</u>	<u>1,433,518</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,058,681</u>	<u>\$ 1,666,529</u>

ECOLOGICAL SOCIETY OF AMERICA, INCORPORATED

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

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.

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, 2015, from which the summarized information was derived.

Cash and cash equivalents -

The Society considers all cash and other highly liquid investments to be cash equivalents, excluding money market funds held by investment managers in the amount of \$383,573 for the year ended June 30, 2016.

Bank deposit accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000. At times during the year, the Society maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

Investments -

Investments are recorded at their readily determinable fair value. The net depreciation 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 recorded at their net realizable value, which approximates fair value. The allowance for doubtful accounts is determined by management based on specific identification of uncollectable amounts.

Fixed assets -

Fixed assets with a unit cost greater than \$1,000 are capitalized and stated at cost. Fixed assets 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. Depreciation expense for the year ended June 30, 2016 totaled \$14,007.

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, 2016

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

Uncertain tax positions -

For the year ended June 30, 2016, the Society has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

Deferred revenue -

Deferred revenue consists of subscriptions, publications fees, meeting fees and membership dues collected in advance. Subscriptions and membership dues are recorded as deferred revenue upon receipt and are recognized ratably over the period to which the dues and subscriptions relate. Publication and meeting fees are recorded as deferred revenue and are recognized as revenue in the period in which they occur.

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.

ECOLOGICAL SOCIETY OF AMERICA, INCORPORATED

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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

Grants and contributions -

Grants received in exchange for services are recorded when earned based on the terms of the agreement. Grant funding received in advance of incurring the related expenses is recorded as a refundable advance.

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 measurement -

The Society adopted the provisions of FASB ASC 820, *Fair Value Measurement*. 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, at fair value, consisted of the following at June 30, 2016:

	<u>Fair Value</u>
Money market funds	\$ 383,573
U.S. Government securities	894,456
Corporate bond funds	60,939
Mutual funds - fixed income	2,292,360
Precious metals	70,159
Mutual funds - equities	<u>1,933,220</u>
TOTAL INVESTMENTS	<u>\$ 5,634,707</u>

ECOLOGICAL SOCIETY OF AMERICA, INCORPORATED

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

2. INVESTMENTS (Continued)

Included in investment income are the following at June 30, 2016:

Interest and dividends	\$ 200,845
Net depreciation of investments	<u>(79,426)</u>
TOTAL INVESTMENT INCOME	\$ <u>121,419</u>

3. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at June 30, 2016:

Awards	\$ 601,690
Seeds	84,785
Ecosystem Health and Sustainability	65,962
Life Member	51,785
Chapters and Sections Funds	40,383
Publication Fund	34,000
Millennium Fund	24,594
Sustainable Infrastructure	13,650
American Wind Wildlife Institute	10,000
NEON - MacMahon Award	9,100
Issues in Ecology	7,762
USGS Purchase Orders	7,123
Lawrence Foundation	5,000
REAP	2,063
Munson Foundation	1,789
Defenders of Wildlife	790
Sustainable Water Roundtable	<u>211</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	\$ <u>960,687</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:

Chapters and Sections Funds	\$ 40,384
Ecosystem Health and Sustainability	35,381
Life Member	35,000
Seeds	32,775
Publication Fund	32,752
Awards	11,154
Munson Foundation	9,211
USGS Purchase Orders	1,882
Issues in Ecology	1,699
Packard - Leadership	1,527
REAP	<u>541</u>
TOTAL NET ASSETS RELEASED FROM DONOR-IMPOSED RESTRICTIONS	\$ <u>202,306</u>

ECOLOGICAL SOCIETY OF AMERICA, INCORPORATED

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

5. LEASE COMMITMENT

During the year ended June 30, 2008, the Society executed a lease for office space in Washington D.C. Included in the lease is an annual rent escalation of approximately 3%. On March 1, 2016, the lease was amended and expires on June 30, 2026. Base rent is \$26,099 per month increasing 3.5% annually.

Accounting principles generally accepted in the United States of America 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 recorded as a deferred rent liability on the Statement of Financial Position. 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, 2016:

Year Ending June 30,

2017	\$ 276,782
2018	326,991
2019	338,433
2020	350,283
2021	362,544
Thereafter	<u>2,012,168</u>
	<u>\$ 3,667,201</u>

Rent expense and deferred rent for the year ended June 30, 2016 totaled \$379,509 and \$51,250, respectively.

6. CONTINGENCY

The Society receives grants from various agencies of the United States Government. Such grants are subject to audit under the provisions of *Title 2 U.S. Code of Federal Regulations (CFR) Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The ultimate determination of amounts received under the United States Government grants is based upon the allowance of costs reported to and accepted by the United States Government as a result of the audits. Audits in accordance with the applicable provisions have been completed for all required fiscal years through 2015. Until such audits have been accepted by the United States Government, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

During 2016, the Society did not spend Federal funding in excess of \$750,000 requiring a single audit under *Title 2 U.S. Code of Federal Regulations (CFR) Part 200*.

7. RETIREMENT PLAN

The Society has a defined contribution plan with the Teachers Insurance and Annuity Association College Retirement Equities Fund (TIAA). TIAA 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 \$155,409 for the fiscal year ended June 30, 2016.

ECOLOGICAL SOCIETY OF AMERICA, INCORPORATED

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

8. **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, 2017. As of June 30, 2016, the Society had no outstanding borrowings on its line of credit.

9. **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.

10. **FAIR VALUE MEASUREMENT**

In accordance with FASB ASC 820, *Fair Value Measurement*, 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. These are investments where 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. There have been no changes in the methodologies used at June 30, 2016.

- *Money market funds* - The fair value is equal to the reported net asset value of the fund.
- *U.S. Government securities* - Valued at the closing price reported on the active market in which the individual securities are traded.
- *Corporate bond funds* - Fair value is based upon current yields available on comparable securities of issuers with similar ratings, the security's terms and conditions, and interest rate and credit risk.
- *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.
- *Commodities (Precious metals)* - Valued at the the most recent sale price or official closing price reported on the exchange (U.S. or foreign) or over-the-counter market on which they trade.

ECOLOGICAL SOCIETY OF AMERICA, INCORPORATED

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

10. FAIR VALUE MEASUREMENT (Continued)

The table below summarizes, by level within the fair value hierarchy, the Society's investments as of June 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Asset Class:				
Money market funds	\$ 383,573	\$ -	\$ -	\$ 383,573
U.S. Government securities	894,456	-	-	894,456
Corporate bond funds	-	60,939	-	60,939
Mutual funds - fixed income	-	2,292,360	-	2,292,360
Precious metals	-	70,159	-	70,159
Mutual funds - equities	<u>1,933,220</u>	<u>-</u>	<u>-</u>	<u>1,933,220</u>
TOTAL	\$ <u>3,211,249</u>	\$ <u>2,423,458</u>	\$ <u>-</u>	\$ <u>5,634,707</u>

11. 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;
- 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, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment Funds	\$ <u>-</u>	\$ <u>7,693</u>	\$ <u>50,000</u>	\$ <u>57,693</u>

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

11. ENDOWMENT (Continued)

Changes in endowment net assets for the year ended June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 6,567	\$ 50,000	\$ 56,567
Net appreciation of investments	<u>-</u>	<u>1,126</u>	<u>-</u>	<u>1,126</u>
ENDOWMENT NET ASSETS, END OF YEAR	<u>\$ -</u>	<u>\$ 7,693</u>	<u>\$ 50,000</u>	<u>\$ 57,693</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, 2016.

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.

12. COMMITMENTS

The Society is committed under agreements for conference space through the year 2019. The total commitments under the agreements are not determinable as it depends upon attendance and other unknown factors. There are cancellation penalties that would be due if the agreements were cancelled prior to the event date. The amount of the cancellation penalties increases through the date of the event.

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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

12. COMMITMENTS (Continued)

During 2016, the Society entered into an agreement for the publication of the Society's journals. The contract will be in effect for seven calendar publication years.

It is possible that lawsuits could arise in the course of the Society's activities. While the final outcome of any legal action cannot be determined at this time, management is of the opinion that the ultimate liability, if any, from the final resolution of such matters will not have a material effect on the Society's financial statements.

13. SUBSEQUENT EVENTS

In preparing these financial statements, the Society has evaluated events and transactions for potential recognition or disclosure through February 10, 2017, the date the financial statements were issued.