

**NATIONAL GENEALOGICAL SOCIETY**

**AUDITED FINANCIAL STATEMENTS**

**Years Ended September 30, 2015 and 2014**

*Bourne, Painter & Bradley, P.C.  
Certified Public Accountants*

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
National Genealogical Society  
Arlington, Virginia

We have audited the accompanying financial statements of National Genealogical Society (referred to as "the Society"), which comprise the statements of financial position as of September 30, 2015 and 2014, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years 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 those financial statements based on our audit. We conducted our audits 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 National Genealogical Society as of September 30, 2015 and 2014, and the changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Bourne, Painter & Bradley, P.C.

*Bourne, Painter & Bradley, P.C.*

April 21, 2016

**NATIONAL GENEALOGICAL SOCIETY  
STATEMENTS OF FINANCIAL POSITION  
AS OF SEPTEMBER 30**

	<u>2015</u>	<u>2014</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 278,579	\$ 670,715
Certificates of deposit	901,318	1,000,000
Marketable securities, net	493,642	14,808
Accounts receivable, net	15,133	18,920
Inventory, net	27,859	29,658
Prepaid expenses and other assets	58,716	33,041
Property and equipment:		
Office furniture and equipment	182,379	253,028
Property and equipment, at cost	182,379	253,028
Accumulated depreciation	(178,002)	(250,504)
Property and equipment, net	<u>4,377</u>	<u>2,524</u>
<b>Total Assets</b>	<u>\$ 1,779,624</u>	<u>\$ 1,769,666</u>
<b>Liabilities and Net Assets</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 63,067	\$ 67,579
Accrued leave	15,124	8,225
Deferred revenue:		
Membership dues	464,132	447,779
Conference and other	120,960	119,811
Subtotal	<u>585,092</u>	<u>567,590</u>
Total liabilities	663,283	643,394
Net Assets		
Unrestricted	1,095,206	1,105,750
Temporarily restricted	-	-
Permanently restricted	21,135	20,522
Total net assets	<u>1,116,341</u>	<u>1,126,272</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 1,779,624</u>	<u>\$ 1,769,666</u>

**See accompanying auditors' report and notes to financial statements.**

**NATIONAL GENEALOGICAL SOCIETY**  
**STATEMENT OF ACTIVITIES & CHANGE IN NET ASSETS**  
**YEAR ENDED SEPTEMBER 30, 2015**  
**(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED SEPTEMBER 30, 2014)**

	2015			Total	2014
	Unrestricted	Temporarily Restricted	Permanently Restricted		
<b>Revenue and Support</b>					
Conferences and meetings	\$ 542,970			542,970	622,811
Educational services	34,860			34,860	40,298
Publication sales and advertising	18,106			18,106	17,352
Membership dues & subscriptions	559,291			559,291	538,178
Research & Special Activities	81,133			81,133	72,250
Bookstore sales	94,123			94,123	77,269
Contributions and donations	10,984		600	11,584	10,209
Investment income	4,946		13	4,959	4,321
Other miscellaneous	9,885			9,885	12,283
Total revenue and support	1,356,298	-	613	1,356,911	1,394,971
<b>Expense</b>					
Program services:					
Conferences and meetings	464,583			464,583	493,360
Educational services	152,398			152,398	143,601
NGS Quarterly publication	155,351			155,351	128,157
NGS News magazine	76,575			76,575	66,307
Membership programs	97,300			97,300	42,779
Special activities	-			-	6,973
Research trips	49,117			49,117	59,909
Bookstore costs	54,069			54,069	34,466
Total program services	1,049,393	-	-	1,049,393	975,552
Supporting services:					
Management and general	307,347			307,347	302,108
Total supporting services	307,347	-	-	307,347	302,108
Unrealized loss on investments	10,102			10,102	-
Total expense	1,366,842	-	-	1,366,842	1,277,660
<b>Change in Net Assets</b>	(10,544)	-	613	(9,931)	117,311
Net assets, beginning of year	1,105,750	-	20,522	1,126,272	1,008,961
<b>Net Assets, End of Year</b>	<u>\$ 1,095,206</u>	<u>\$ -</u>	<u>\$ 21,135</u>	<u>\$ 1,116,341</u>	<u>\$ 1,126,272</u>

See accompanying auditors' report and notes to financial statements.

**NATIONAL GENEALOGICAL SOCIETY  
STATEMENT OF CASH FLOWS  
YEAR ENDED SEPTEMBER 30, 2015  
(WITH COMPARATIVE TOTALS)**

	<u>2015</u>	<u>2014</u>
<b>Cash Provided (Used) by Operating Activities</b>		
Change in net assets	\$ (9,931)	\$ 117,311
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	1,705	1,074
Provisions for bad debts expense		
Unrealized gain on marketable securities	(600)	(572)
Changes in assets and liabilities:		
Accounts Receivable	3,787	(10,184)
Inventory	1,799	(12,020)
Prepaid Expenses and other assets	(25,675)	3,061
Accounts Payable and accrued expenses	(4,512)	(2,535)
Accrued leave	6,899	2,093
Deferred revenue	17,502	42,449
Total adjustments	<u>905</u>	<u>23,366</u>
Net cash provided (used) by operating activities	<u>(9,026)</u>	<u>140,677</u>
<b>Cash Provided (Used) by Investing Activities</b>		
Investments/redemptions in certificates of deposit, net	98,682	(25,510)
Investment in marketable securities, net	(478,234)	-
Purchases of property and equipment	(3,558)	(750)
Net cash provided (used) by investing activities	<u>(383,110)</u>	<u>(26,260)</u>
<b>Cash Provided (Used) by Financing Activities</b>		
Net cash provided (used) by financing activities	-	-
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(392,136)	114,417
Cash and cash equivalents, beginning of year	<u>670,715</u>	<u>556,298</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 278,579</u>	<u>\$ 670,715</u>
<b>Supplemental Cash Flows Information</b>		
Cash paid for interest	\$ -	\$ -
Cash paid for income taxes	\$ -	\$ -

**See accompanying auditors' report and notes to financial statements.**

**NATIONAL GENEALOGICAL SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2015**

**Note A – Organization & Activities**

Organization and Activities: The National Genealogical Society (the Society) was founded in 1903 with the expressed purpose of promoting genealogical leadership and education. The Society was incorporated in the Commonwealth of Virginia in January 1992 as a non-stock, nonprofit organization. The Society fulfills its purpose as a resource for genealogists and family historians by providing educational programs, informative publications, research assistance, genealogical resources, and networking opportunities for members. The Society is managed by its Board of Directors and Executive Director and has approximately 10,000 members and subscribers.

**Note B – Summary of Significant Accounting Policies**

Basis of Accounting: The Society prepares its financial statements on the accrual basis of accounting. Consequently, revenue is recognized when earned and expense when an obligation is incurred.

Income Tax Status: The Society received a favorable tax determination letter from the Internal Revenue Service in June 1957 setting forth its tax exemption under Section 501(c)(3) of the Internal Revenue Code (IRC) as a publicly supported organization under Section 509(a)(1). The Society's exempt activities are exempt for the payment of income taxes; however, any related business-type activities, such as publication advertising, are subject to income taxes.

Cash and Cash Equivalents: For financial statement presentation purposes, the Society considers highly liquid debt instruments with maturities of three months or less, including money market funds, to be cash equivalents. The Society has had cash balances in excess of Federal insurance available for such accounts in the past. As of September 30, 2015, there were no cash balances in excess of federally insured amounts. As of September 30, 2014, there was \$346,832 in cash balances in excess of federally insured amounts.

Certificates of Deposit: The Society invests a certain portion of its savings in certificates of deposit with original maturities of 18-30 months and stated annual interest rates that range from .35 – 1.25 %. The certificates mature at various times during the fiscal years ending from September 30, 2016 to 2018. As of September 30, 2015, all \$901,318 in certificates of deposit are federally insured.

Marketable Securities: The Society's marketable securities consist of mutual funds and a United States Savings Bond that is reported at fair value based upon current published market prices. The bond which is due to mature in January 2023 has a cost basis of \$5,000 and a face value of \$10,000. The fair value as of September 30, 2015 was \$15,408, including an unrealized gain for the fiscal year then ended of \$600, which was

included as a component of investment income. The fair value as of September 30, 2014 was \$14,808, including an unrealized gain for the fiscal year then ended of \$572, which was included as a component of investment income.

Prepaid Expenses: The Society's prepaid expenses and other assets consist primarily of prepaid rent, postage, insurance, publication cost, conference and meeting expenses, security and other deposits.

Accounts Receivable: The Society's accounts receivables consist primarily of amounts due from the publication advertisements and other member services and inventory sales. Accounts receivable are reported in the accompanying financial statements at their net realizable value. Periodically, the Society reviews its outstanding receivables for collection purposes and to evaluate the necessity for an allowance for doubtful accounts. As of both September 30, 2015 and September 30, 2014, accounts receivable are reported net of an allowance for doubtful accounts of \$500. There was no bad debts expense for the fiscal years ended September 30, 2015 or September 30, 2014.

Inventory: Inventory consists primarily of educational publications, videos, materials, and promotional items held for resale, which are valued at the lower of cost or market on a first-in, first-out (FIFO) basis. Inventory is reported net of a reserve for inventory obsolescence of \$5,135 as of September 30, 2015 and as of September 30, 2014, due to the limited marketability and age of certain items.

Property and Equipment: The Society capitalizes property and equipment acquisitions at cost or fair value at time of donation and depreciates these items using the straight-line method over estimated useful lives that range from 3-10 years.

Depreciation and amortization expense was \$1,705 and \$1,074, respectively, for the fiscal years ended September 30, 2015 and September 30, 2014.

Deferred Revenue: Deferred revenue consists principally of membership dues and meeting registrations received in advance of the applicable membership period or corresponding conference or meeting. Membership dues revenue is recognized ratably over the membership.

Net Assets: The Society classifies its net assets based upon the existence or lack of donor imposed restrictions. When the Society receives contributions that are restricted by the donor or limited as to their use and the Society has not met the donor's restriction by the end of the fiscal year, then the Society reports these amounts as temporarily restricted or permanently restricted depending upon the nature of the restriction.

It is the Society's policy to report any temporarily restricted amounts that are recognized and released from restriction during the same fiscal year are reported as unrestricted revenue and support. For the years ended September 30, 2015 and September 30, 2014, the Society did not report any temporarily restricted net assets. The permanently

restricted net assets pertain to amounts contributed and earnings on the Society's 2<sup>nd</sup> Century Endowment Funds.

Contributions and Donations: Contributions and donations are recognized in the period in which an unconditional promise-to-give is known or when a contribution is received, at the earliest point the contribution is both determinable and measurable by the Society. Contributions are recognized as unrestricted, temporarily restricted, or permanently restricted based upon the existence or lack of donor-imposed restrictions. Any temporarily restricted amounts released from the donor's restriction are reported as net assets released from restriction unless the amount is both recognized and release from restriction during the same fiscal year at which point the amount is reflected as unrestricted revenue and support in the statement of activities.

Revenue Recognition: The Society recognizes revenue when earned in accordance with the accrual basis of accounting. Revenue from conferences and meetings and educational programs are recognized when the conference or meeting is held. Revenue from regular member dues is recognized ratably over the membership term, and revenue from life member dues is recognized with the remaining balance of deferred life dues being amortized over 15 years each fiscal year. Revenue from inventory sales and other member services are recognized when goods or services are provided to members and customers in the ordinary course of the Society's activities.

Functional Allocation of Expenses: The Society summarizes the cost of providing its various programs and activities on a functional basis in the accompanying financial statements. Accordingly, certain expenses were allocated to the program and supporting services benefited.

Corporate Reporting: Not-for-profit organizations frequently present information for the prior period in total, rather than by net asset class. In our opinion, the information included for the prior period contains sufficient detail to constitute a fair presentation in conformity with generally accepted accounting principles. The Permanently Restricted activity for the fiscal year ended September 30, 2015 was \$613. The Permanently Restricted activity for the fiscal year ended September 30, 2014 was \$717.

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates and any difference could be significant.

#### **Note C – Concentration of Risk**

Financial instruments that subject the Society to concentrations or risk consist of deposits with bank institutions that exceed the Federal insurance available for such accounts. As of September 30, 2015, the Society had no cash, money market and certificate accounts

in excess of Federal insurance amounts. The amount at risk fluctuates daily. The Society does not anticipate any loss on these balances.

#### **Note D – Marketable Securities**

The Society's investments are reported at fair value in the accompanying statements of financial position. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future values. Furthermore, although the Society believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

U.S. generally accepted accounting principles establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Quoted market prices in active markets for identical assets or liabilities. An active market for the assets or liability is a market in which the transaction for the asset or liability occurs with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data, such as quoted prices for similar assets or liabilities or model-derived valuations.

Level 3: Unobservable inputs that are not corroborated by market data. These inputs reflect a company's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following schedule presents the Society's investments by level within the fair value hierarchy as of September 30, 2015 and 2014:

Assets at Fair Value as of September 30, 2015				
	Level 1	Level 2	Level 3	Total
Government Securities	\$15,408	-	-	\$15,408
Mutual Funds	478,234			478,234
Certificates of Deposit	-	901,318	-	901,318
Total Investments	\$493,642	901,318	-	\$1,394,960

Assets at Fair Value as of September 30, 2014				
	Level 1	Level 2	Level 3	Total
Government Securities	\$14,808	-	-	\$14,808
Certificates of Deposit	-	1,000,000	-	1,000,000
Total Investments	\$14,808	1,000,000	-	\$1,014,808

For the years ended September 30, 2015 and 2014, the Society's investments appreciated(depreciated) in value by \$(9,502) and \$572 respectively, as follows:

	<u>2015</u>	<u>2014</u>
<b>Investments at Fair Value as Determined by Level 1 Measurements</b>		
Cash, Government Securities, Money Market and Mutual Funds	\$(9,502)	\$572
<b>Investments at Fair Value as Determined by Level 2 Measurements</b>		
Certificates of Deposit	-	-
<b>Investments at Fair Value as Determined by Level 3 Measurements</b>		
None	-	-
Net Change in Fair Value	<u>\$(9,502)</u>	<u>\$572</u>

The Society's marketable securities, which consist of mutual funds and a United States Savings Bond, are reported at fair value with any unrealized gain or loss included as a component of investment income. The Savings Bond is due to mature in January 2023. As of September 30, 2015 the Society's bond had an initial issue price and cost basis of \$5,000 and a fair value based upon published market values of approximately \$15,408. The Society recognized unrealized gains on the bond of \$600 and \$572 for the fiscal years ended September 30, 2015 and September 30, 2014, respectively. The Society recognized unrealized losses on the mutual funds of \$10,102 for the fiscal year ended September 30, 2015. The components of investment income for the fiscal years ended

September 30, 2015 and September 30, 2014, respectively consist of realized interest and dividends of \$4,346 and \$3,737, in addition to the unrealized gains(losses).

**Note E – Personnel Costs**

Personnel costs are allocated to the program and supporting services benefited in accordance with the Society’s policies.

**Note F – Operating Lease**

The Society leases office space under a noncancelable operating lease that expires on January 31, 2017. The lease requires total minimum monthly lease payments of approximately \$3,430 over original terms of approximately 60-months. As of February 1, 2015, the minimum monthly lease payment is \$4,246.90 per month. Rent expense incurred by the Society totaled \$50,630 and \$49,637 for the fiscal years ended September 30, 2015 and September 30, 2014, respectively. Future minimum rental payments under the noncancelable operating lease agreements are as follows for the fiscal year ended September 30:

FYE	9/30/16	\$50,963
FYE	9/30/17	16,988

**Note G – Permanently Restricted Net Assets**

The Society’s permanently restricted net assets consist of amounts contributed to the 2<sup>nd</sup> Century Endowment Fund and earnings thereon as stipulated with the contributors. The Endowment Fund was established with the goal of raising \$1,000,000 to ensure the future viability of the Society and its programs. Funds were contributed to the Endowment Fund with the understanding that no principal or income will be spent until the endowment reaches \$150,000 at which time 80% of the interest may be spent on programs as approved by the Board of Directors. After the Endowment reaches \$1,000,000, 100% of the interest may be spent on programs as approved by the Board of Directors. The Endowment Fund’s balance as of September 30, 2015 and September 30, 2014 was \$21,135 and \$20,522, respectively.

**Note H – Retirement Plan**

The Society maintains a 401(k) retirement plan covering substantially all employees meeting certain minimum requirements. Eligible employees may make tax-deferred contributions to the plan and participate in employer contributions. The Society adopted a safe-harbor matching provision in which the Society makes matching contributions equal to 50% of the participant’s elective deferrals which do not exceed 6% of the participating employee’s compensation. Participants are immediately vested in the safe harbor matching contributions.

The Society made safe harbor matching contributions totaling \$8,329 to the plan during the fiscal year ended September 30, 2015 and \$5,272 to the plan during the fiscal year ended September 30, 2014.

#### **Note I – Contingencies & Commitments**

Hotel Contracts: The Society has contracts with hotels and conference centers for future meetings and conferences. These contracts contain cancellation clauses that require the Society to pay certain liquidating damages in the event of cancellation. The amount of damages varies depending upon the date of cancellation, numbers of rooms reserved, percentage of rooms resold by the hotel, etc. Also, in the event of cancellation, the Society risks forfeiture of any deposits held by the hotels. The Society obtains cancellation insurance for its annual conference.

Editorial Contracts: The Society has several contracts with editors for its newsletters and periodicals. The contracts have varying terms and contain performance and standards of conduct and other clauses designed to protect the Society's best interest. In the event of cancellation of its newsletters or periodicals, the Society may be contractually liable to the editor for compensation defined in the contract.

#### **Note J – Unrelated Business Income Taxes**

The Society obtained a favorable tax determination letter setting forth its exemption under Section 501(c)(3) of the IRC. However, activities unrelated to the tax exemptions, such as publication advertising, are subject to income taxes. The Society has accumulated net operating losses totaling approximately \$56,000 as of September 30, 2015 and \$46,000, as of September 30, 2014.

These net operating loss deductions may be carried forward to offset any taxable income from unrelated business activities through the fiscal year ending September 30, 2035. Management is currently unable to determine if or when the Society may benefit from the net operating loss deductions and, therefore, any potential deferred tax asset is fully reserved by a valuation allowance. The Society recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. There are no income tax positions that The Society does not believe would be sustained. No income tax expense was reflected by the Society in the accompanying financial statements for the fiscal years ended September 30, 2015 or September 30, 2014.

Accounting principles generally accepted in the United States of America require management to evaluate uncertain tax positions taken by the Society and recognize a tax liability (or asset) if the Society takes an position that is more likely than not to be sustained upon examination. Management has concluded that there are no uncertain positions taken or expected to be taken for the year ended September 30, 2015.

The Society can be subject to routine audits by taxing jurisdictions; however there are currently no audits for any tax periods in progress. The Society is not subject to income tax examinations prior to the year ended September 30, 2011.

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**Independent Auditor's Report on Other Supplemental Financial Information**

Board of Directors  
National Genealogical Society  
Arlington, Virginia

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplementary financial information included on page 15 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits 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.

Bourne, Painter & Bradley, P.C.

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NATIONAL GENEALOGICAL SOCIETY  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED SEPTEMBER 30, 2015

	Conferences & Meetings	Educational Services	NGS Quarterly Publication	NGS News Magazine	Membership Programs	Research Trips	Bookstore Costs	Management & General	Total
Accounting Fees								8,150	8,150
Advertising & Promotion	27,239								27,239
Audio Visual & Equipment Rental	23,612							8,118	31,730
Bank and Credit Card Fees	19,056				12,464			1,415	32,935
Board Expense								9,289	9,289
Compensation	99,803	120,244						150,313	370,360
Cost of Sales							21,373		21,373
Course & Research Materials		9,110							9,110
Depreciation								1,705	1,705
Education Consultant		3,330							3,330
Hotel & Catering	82,862					46,460			129,322
Insurance	1,761							(2,770)	(1,009)
Internet Fees	15,200							5,405	20,605
Investment Fees								1,634	1,634
Live Streaming	26,576								26,576
Marketing Fees	3,902	5,281			2,059	490	840	473	13,045
Materials & Supplies	20,006				346			1,874	22,226
Membership Consulting					18,284				18,284
Misc Services	30,554			1,848				4,543	36,945
Postage, Shipping & Handling	7,152	434	22,295	11,560	4,138			71	55,532
Printing & Reproduction	16,515	16	43,871	26,457	7,251		9,882		94,110
Publishing			87,902	36,710			13,600	219	138,431
Rent								50,630	50,630
Site Rental	16,204								16,204
Speaker Fees	18,850								18,850
Subscriptions					3,125			697	3,822
Technology & Website	20,267	13,901	1,240		47,664			51,624	134,695
Telephone								5,215	5,215
Travel	27,611	82			1,310	1,596		4,320	34,919
Other Costs	7,413	-	43	-	659	571	8,374	4,422	21,482
	464,583	152,398	155,351	76,575	97,300	49,117	54,069	307,347	1,356,739

See accompanying auditors' report and notes to financial statements.