

## Report of the 2006 Audit Committee to the Council of the American Physical Society

Moses Chan, Robert Eisenberg (Chair), Rocky Kolb ( not present), Art Ramirez.

The Audit Committee met on April 3, with Tom McIlrath and Michael Stephen of APS, Don Phillips and Ajit Chawla of Price Waterhouse Cooper (PWC).

At this meeting PWC's Audit report for the year ending Dec 31, 2005, was examined and discussed in some detail. Following the general discussion with all of the above, the Audit Committee met with just the representatives of PWC. The Committee met separately with just the APS representatives and separately with just Tom McIlrath and finally in Executive session. The Committee also heard reports from Tracy Alinger from the APS at College Park and Bob Kelly and Martin Blume of Ridge.

PWCS provided the Audit Committee with an Audit of APS financial statements; an Audit of the Schedule of Expenditures of Federal awards in accordance with OMB circular A-133; and a Report to Management and Presentation to the Audit Committee.

The audit was completed with procedures and scope generally consistent with planned audit strategy and an unqualified opinion was issued, dated February 24, 2006. Unadjusted differences were insignificant. **No material weaknesses in the internal control system noted during the course of our audit.** Internal control observations and recommendations were discussed with management. Management replies were made available to the Audit Committee and were considered more than adequate. In particular, the management issue of greatest significance to the Audit Committee of previous years was resolved to the entire satisfaction of the present Audit Committee, namely the evaluation and reporting of the projected costs of Post Retirement benefits. **The Committee wishes to commend management on the financially sound resolution of this issue.**

The Disaster Recovery Plan of the Journals group was presented and all were very pleased with its realism. The Committee wondered if a little more attention might be paid to the provision of communications among leaders after a disaster, using (for example) multiple websites.

The Disaster Recovery Plan of the office was satisfactory although the Committee felt the complete recovery plan and all supporting data should be stored on many servers around the country with access available to whoever needs it after a disaster. Password protection would provide sufficient privacy and security in the Committee's opinion.

The Committee felt that the possibility of using another Audit firm should be considered, if it seems likely that costs would be reduced. However, given the large changes in personnel occurring soon, with Tom McIlrath leaving, the committee recommends that PWC be retained as auditor through the next fiscal year, i.e., through FY 2006.

# **American Physical Society**

**Financial Statements and Supplemental Information  
For the Years Ended December 31, 2005 and 2004  
And Report Thereon**

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## **Report of Independent Auditors**

To the Council of  
The American Physical Society:

In our opinion, the accompanying statements of financial position and the related statements of activities and cash flows present fairly, in all material respects, the financial position of the American Physical Society (the Society) as of December 31, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. 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 audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

February 24, 2006

**American Physical Society  
Statements of Financial Position  
As of December 31, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 15,264,547	\$ 15,220,741
Investments, at fair value	82,198,855	77,476,419
Accounts receivable:		
American Institute of Physics	6,715,387	5,700,479
Other, net of allowance for doubtful accounts of \$310,000 and \$151,000	986,021	662,102
Bequest receivable	983,336	1,406,889
Pledges receivable, net	430,769	748,758
Prepaid expenses and other assets	518,159	406,459
Land, building and equipment, net	4,144,619	4,407,489
Beneficial interest in perpetual trust	433,080	428,649
Total assets	<u>\$ 111,674,773</u>	<u>\$ 106,457,985</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable	\$ 1,943,906	\$ 1,889,700
Deferred revenues:		
Publications	17,393,576	20,142,290
Membership dues	2,447,176	2,393,388
Other	131,978	186,560
Liability for post-retirement medical benefits	8,331,263	7,250,581
Total liabilities	<u>30,247,899</u>	<u>31,862,519</u>
Net assets:		
Unrestricted	72,050,165	65,420,730
Temporarily restricted	7,330,553	7,264,574
Permanently restricted	2,046,156	1,910,162
Total net assets	<u>81,426,874</u>	<u>74,595,466</u>
Total liabilities and net assets	<u>\$ 111,674,773</u>	<u>\$ 106,457,985</u>

*The accompanying notes are an integral part of these financial statements.*

**American Physical Society**  
**Statements of Activities**  
**For the Years Ended December 31, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
Changes in unrestricted net assets:		
Revenues:		
Research publications	\$ 34,022,589	\$ 34,314,725
Scientific meetings	3,972,180	3,284,793
Membership operations	3,347,169	3,141,064
Public affairs and programs	2,128,542	1,378,802
Net assets released from restrictions	<u>622,130</u>	<u>451,128</u>
	<u>44,092,610</u>	<u>42,570,512</u>
Expenses:		
Research publications	28,887,220	29,506,624
Scientific meetings	3,452,460	3,344,560
Membership operations	3,424,322	3,447,376
Public affairs and programs	4,521,439	3,615,304
Fundraising	373,701	360,700
General and administrative	981,456	888,891
Prizes and related costs	<u>622,130</u>	<u>451,128</u>
	<u>42,262,728</u>	<u>41,614,583</u>
Income from operations	<u>1,829,882</u>	<u>955,929</u>
Non-operating activities:		
Income from investments	2,746,920	2,083,152
Net unrealized and realized gains on investments	<u>2,052,633</u>	<u>4,807,473</u>
	<u>4,799,553</u>	<u>6,890,625</u>
Increase in unrestricted net assets	<u>6,629,435</u>	<u>7,846,554</u>
Changes in temporarily restricted net assets:		
Contributions	196,451	511,448
Income from investments	491,658	441,552
Net assets released from restrictions	<u>(622,130)</u>	<u>(451,128)</u>
Increase in temporarily restricted net assets	<u>65,979</u>	<u>501,872</u>
Changes in permanently restricted net assets:		
Contributions	<u>135,994</u>	<u>1,434,150</u>
Increase in permanently restricted net assets	<u>135,994</u>	<u>1,434,150</u>
Increase in net assets	6,831,408	9,782,576
Net assets at beginning of the year	<u>74,595,466</u>	<u>64,812,890</u>
Net assets at end of the year	<u>\$ 81,426,874</u>	<u>\$ 74,595,466</u>

*The accompanying notes are an integral part of these financial statements.*

**American Physical Society**  
**Statements of Cash Flows**  
**For the Years Ended December 31, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
Cash flow from operating activities:		
Increase in net assets	\$ 6,831,408	\$ 9,782,576
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	633,081	572,667
Allowance for doubtful pledges and receivables	169,000	(71,000)
Net realized gains on investments	(1,105,944)	(521,419)
Net unrealized gains on investments	(946,689)	(4,286,054)
Contributions permanently restricted for investments	(135,994)	(1,434,150)
Increase (decrease) in cash attributable to changes in assets and liabilities:		
Increase in accounts and bequest receivables	(1,074,274)	(3,207,535)
Decrease (increase) in pledges receivable	307,989	(26,096)
Increase in beneficial interest in trust	(4,431)	(24,924)
(Increase) decrease in prepaid expenses and other assets	(111,700)	138,903
Increase in accounts payable	54,206	577,711
(Decrease) increase in deferred publication revenue	(2,748,714)	1,183,639
Increase in deferred membership dues	53,788	128,903
(Decrease) increase in other deferred revenue	(54,582)	63,183
Increase in liability for post-retirement medical benefits	<u>1,080,682</u>	<u>1,112,145</u>
Net cash provided by operating activities	<u>2,947,826</u>	<u>3,988,549</u>
Cash flow from investing activities:		
Proceeds from the sales of investments	6,700,858	8,049,723
Purchase of investments	(9,370,661)	(13,084,524)
Purchases of equipment and building renovations	(370,211)	(460,569)
Net cash used by investing activities	<u>(3,040,014)</u>	<u>(5,495,370)</u>
Cash flow from financing activities:		
Contributions permanently restricted for investments	<u>135,994</u>	<u>27,261</u>
Net cash provided by financing activities	<u>135,994</u>	<u>27,261</u>
Net (decrease) increase in cash and cash equivalents	43,806	(1,479,560)
Cash and cash equivalents at beginning of the year	<u>15,220,741</u>	<u>16,700,301</u>
Cash and cash equivalents at end of the year	<u>\$ 15,264,547</u>	<u>\$ 15,220,741</u>

*The accompanying notes are an integral part of these financial statements.*

**American Physical Society  
Notes to Financial Statements  
For the Years Ended December 31, 2005 and 2004**

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**1. Organization**

The American Physical Society ("APS") is an educational and scientific organization whose objective is the advancement and diffusion of the knowledge of physics. APS, a membership association with over 45,000 members, publishes physics journals, conducts scientific meetings, and engages in educational and public affairs and outreach programs. APS also administers various prize and award funds, campaigns for physics, and contracts. The campaigns for physics are programs designed to promote scientific interest and learning among students and to improve science education at all levels.

In addition to its core activities, APS has fourteen divisions, ten topical groups, six forums, and eight sections:

Divisions

Division of Astrophysics  
Division of Atomic, Molecular & Optical Physics  
Division of Biological Physics  
Division of Chemical Physics  
Division of Computational Physics  
Division of Condensed Matter Physics  
Division of Fluid Dynamics  
Division of Laser Science  
Division of Materials Physics  
Division of Nuclear Physics  
Division of Particles and Fields  
Division of Physics of Beams  
Division of Plasma Physics  
Division of Polymer Physics

Topical Groups

Few-Body Systems & Multiparticle Dynamics Topical Group  
Instrument & Measurement Science Topical Group  
Magnetism and its Applications Topical Group  
Precision Measurement and Fundamental Constants Topical Group  
Shock Compression of Condensed Matter Topical Group  
Statistical & Non-Linear Topical Group  
Topical Group on Gravitation  
Topical Group on Hadronic Physics  
Topical Group on Plasma Astrophysics  
Topical Group on Quantum Information

Forums

Forum on Education  
Forum on Graduate Student Affairs  
Forum on History of Physics  
Forum on Industrial and Applied Physics  
Forum on International Physics  
Forum on Physics and Society

Sections

California Section  
Four Corners Section  
New England Section  
New York Section  
Northwest Section  
Ohio Section  
Southeastern Section  
Texas Section

**American Physical Society  
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**2. Summary of Significant Accounting Policies**

**Accounting basis**

Assets, liabilities, revenues, and expenses are recognized on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

**Cash and cash equivalents**

APS considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

**Investments**

Investments are principally in mutual funds and one real estate investment corporation, and are recorded at their fair value. The fair value of mutual funds are based on quoted market values. The fair value of the real estate investment corporation is based on the valuation published by that entity. Interest income was allocated to restricted prize and award funds and the campaigns for physics at the rate of 7% for the years ended December 31, 2005 and 2004.

**Interest in unconsolidated affiliate**

The American Center for Physics, Inc. ("ACP") was founded in 1991 by APS, AIP, and another member society. ACP is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In the event of dissolution or wind-up of the affairs of ACP, net assets, if any, will be distributed to the founders in accordance with the predetermined ratios. APS accounts for its 25.299% interest in ACP under the equity pick-up method.

**Pledges receivable**

APS receives pledges relating to the prize and award funds and the campaigns for physics. Pledges receivable consists of those amounts for which APS has received letters of promise signed by the prospective donors, discounted to their present value.

The pledges receivable balance is based on management's best estimate of amounts expected to be collected. The amounts ultimately realized could differ in the near term from amounts assumed in arriving at the present value.

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**Land, building and equipment**

Expenditures for building and equipment are capitalized at cost and depreciated on the straight-line basis over their estimated useful lives. When such assets are retired, disposed of or fully depreciated, the cost and accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in the statement of activities.

**Beneficial interest in perpetual trust**

Interest in the perpetual trust represent resources not in the possession of APS, but held and administered by a trustee, with APS deriving income from such funds. The trustee is currently an employee of APS. The fair value of APS' share of the assets is reflected in the statement of financial position.

**Deferred revenues**

All revenues and expenses for research publications, scientific meetings, and membership dues relating to future periods are deferred until their applicable periods. Revenues and expenses relating to these activities are recognized when published or when meetings or program activities are held. Membership dues revenues are recognized over the periods of membership. Monies received for private sector grants and contracts are deferred until the related expenditures are recognized.

**Classification of net assets**

In accordance with Statement of Financial Accounting Standards No. 117, "Financial Statements of Not-for-Profit Organizations", net assets have been grouped into the following three classes:

*Unrestricted Net Assets.* Unrestricted net assets generally result from providing services, receiving unrestricted contributions, unrealized and realized gains and losses, receiving interest from investing in income producing assets, less expenses incurred in providing services, raising contributions, and performing administrative functions.

*Temporarily Restricted Net Assets.* Temporarily restricted net assets generally result from contributions whose use by the organization is limited by donor-imposed stipulations that can be fulfilled and removed by actions of APS pursuant to those stipulations.

*Permanently Restricted Net Assets.* Permanently restricted net assets are those gifts for which donor-imposed restrictions require that the corpus be invested in

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perpetuity. Generally only the investment income generated from such gifts may be spent.

**Tax exemption**

APS is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and has been classified as an organization that is not a private foundation.

**Concentration of credit risk**

APS maintains its cash balance in several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$100,000. Uninsured balances aggregate approximately \$15.0 million and \$14.9 million at December 31, 2005 and 2004, respectively. In addition, APS owns investments aggregating approximately \$82.2 million and \$77.5 million at December 31, 2005 and 2004, respectively, which are uninsured. APS has not experienced losses in the above accounts, and believes it is not exposed to significant credit risk on cash and cash equivalents and investments.

**Use of estimates**

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

**Operating indicator**

Income from operations includes all unrestricted revenues and expenses for the reporting period, except for investment-related income. Income from investments and net unrealized and realized gains on long-term investments are reported as non-operating activities.

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Notes to Financial Statements  
For the Years Ended December 31, 2005 and 2004**

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**3. Investments**

At December 31, 2005 and 2004, investments consist of the following:

	2005		2004	
	Fair value	Cost	Fair value	Cost
Mutual funds	\$ 81,954,367	\$ 73,526,745	\$ 77,098,726	\$ 69,670,344
Investment in real estate investment corporation	244,488	119,210	377,693	199,864
Total investments	<u>\$ 82,198,855</u>	<u>\$ 73,645,955</u>	<u>\$ 77,476,419</u>	<u>\$ 69,870,208</u>

Investment advisory fees were \$206,880 and \$187,183 for the years ended December 31, 2005 and 2004, respectively.

**4. Bequest receivable**

During 2004, APS was notified that it was the beneficiary of a bequest from the estate of Mrs. M. Hildred Blewett. At December 31, 2004, this permanently restricted contribution was recorded at its estimated fair value of approximately \$1,406,000, of which \$552,477 was received in 2005. At December 31, 2005, the estimated fair value of the remaining estate was \$983,336 which includes an increase of \$128,924 in the total estimated fair value of the estate, and is expected to be received in 2006. This bequest was used to establish a fund to be known as the M. Hildred Blewett Annual Scholarship for Women Physicists.

**5. Pledges receivable**

At December 31, 2005 and 2004, the present value of pledges receivable is as follows:

	2005	2004
Less than one year	\$ 177,256	\$ 270,635
One to five years	189,703	423,591
Over five years	110,000	110,000
	<u>476,959</u>	<u>804,226</u>
Less present value discount	(36,190)	(55,468)
Less allowance for uncollectible pledges	(10,000)	-
Pledges receivable, net	<u>\$ 430,769</u>	<u>\$ 748,758</u>

Pledges due in more than one year have been recorded at their present value using a discount rate of 4.39%.

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**6. Land, building and equipment**

At December 31, 2005 and 2004, land, building and equipment consist of the following:

	<u>2005</u>	<u>2004</u>
Land	\$ 196,412	\$ 196,412
Building and improvements	4,693,223	4,663,541
Furniture and equipment	<u>1,725,563</u>	<u>1,690,234</u>
	6,615,198	6,550,187
Less accumulated depreciation	<u>(2,470,579)</u>	<u>(2,142,698)</u>
Land, building and equipment, net	<u>\$ 4,144,619</u>	<u>\$ 4,407,489</u>

Depreciation and amortization expense was \$633,081 and \$572,667 for the years ended December 31, 2005 and 2004, respectively.

**7. Commitments**

**Lease commitments**

APS is committed to minimum annual lease payments on operating leases as follows:

	<u>The Office of Public Affairs in Washington D.C.</u>	<u>The American Center for Physics in College Park, Maryland</u>	<u>Total</u>
<u>Year Ending December 31,</u>			
2006	\$ 164,868	\$ 653,093	\$ 817,961
2007	172,631	652,930	825,561
2008	180,588	653,330	833,918
2009	185,102	653,137	838,239
2010	189,730	653,501	843,231
Thereafter	<u>292,909</u>	<u>4,572,994</u>	<u>4,865,903</u>
Total lease commitments	<u>\$ 1,185,828</u>	<u>\$ 7,838,985</u>	<u>\$ 9,024,813</u>

For detailed information concerning the lease with American Center for Physics, see Note 10. Total rental expense was \$1,186,650 and \$1,196,688 for the years ended December 31, 2005 and 2004, respectively.

**American Physical Society**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2005 and 2004**

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**8. Retirement plan**

All employees are eligible to participate in a defined contribution retirement plan with Teachers Insurance and Annuity Association and College Retirement Equities Fund after completing one month of service. Under the plan, APS contributes 10% of the employee's base salary while the employee can contribute an additional 2.5% of salary. Under certain conditions, employees may contribute more than the 2.5% of salary. Employee contributions may be in the form of a salary deduction or, more typically, a salary reduction whereby taxes on the contribution are deferred until retirement. Retirement expenses were \$1,225,324 and \$1,158,640 for the years ended December 31, 2005 and 2004, respectively.

**9. Post retirement benefits other than pension**

APS sponsors a post-retirement health plan which provides medical benefits for all eligible employees and their eligible dependents upon the retirement of the employee. The cost of these benefits, which are primarily for health benefits, is recognized in the financial statements over the employees' active working careers. The following table presents the funded status of the post-retirement health plan at December 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Accumulated post retirement benefit obligation:		
Benefit obligation, at end of the year	\$ 8,914,077	\$ 9,343,610
Fair value of plan assets at end of the year	-	-
Funded status (unfunded)	<u>(8,914,077)</u>	<u>(9,343,610)</u>
Unrecognized prior service cost	(1,121,766)	-
Unrecognized net loss	<u>1,704,580</u>	<u>2,093,029</u>
Accrued post-retirement benefit obligation (included in liabilities)	<u>\$ (8,331,263)</u>	<u>\$ (7,250,581)</u>

Weighted-average assumptions as of end of the year:		
Discount rate	5.75%	6.00%
Health care cost trend rate assumption:		
Initial trend rates-		
Medical	8.0%	9.0%
Drug	10.0%	12.0%
Ultimate trend rates-		
Medical	5.0%	5.0%
Drug	6.0%	6.0%
Year ultimate trend rate is achieved	2009	2009

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**Notes to Financial Statements**  
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	<u>2005</u>	<u>2004</u>
Net periodic post-retirement benefit:		
Service cost	\$ 669,839	\$ 632,174
Interest cost	506,735	499,310
Amortization	27,722	77,188
Net periodic post-retirement benefit cost	<u>\$ 1,204,296</u>	<u>\$ 1,208,672</u>
Benefits paid:		
Employer contributions	\$ 123,614	\$ 96,527
Participant contributions	21,631	16,273
Benefits paid	<u>\$ 145,245</u>	<u>\$ 112,800</u>

The plan was modified effective December 31, 2005 to limit the increase in APS' benefit costs to 5.0% per year. As of December 31, 2005, the accumulated post retirement benefits obligation reflects this change.

After taking into consideration the 5% limitation, the effect of a 1% increase in the assumed health care cost trend rate would be to increase the accumulated post-retirement benefit obligation by approximately \$28,000 and increase the service and interest cost by approximately \$4,900. The effect of a 1% decrease in the assumed health care cost trend rate would be to decrease the accumulated post-retirement benefit obligation by approximately \$23,500 and decrease the service and interest cost by approximately \$4,000.

APS funds its post-retirement health plan benefits on a pay-as-you-go basis. Approximate expected future payments are as follows:

<u>Year Ending December 31,</u>	
2006	\$ 220,000
2007	222,000
2008	232,000
2009	246,000
2010	266,000
Years 2011 - 2015	1,812,000

On December 8, 2003, the President signed into law the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (the "Act"). The Act introduces a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. The subsidy program was postponed until 2006, so the above measures of the beginning of year accumulated postretirement benefit obligation or net periodic postretirement benefit cost in the financial statements do not

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reflect any amount associated with the subsidy. APS estimates that the subsidy in 2006 will be \$8,500.

**10. Significant transactions with other Societies**

The American Institute of Physics, Inc. ("AIP") is a not-for-profit corporation, which, in addition to administering its own programs, services ten member societies, among them, the American Physical Society. Under several agreements between APS and AIP, AIP performs certain publishing and other services for APS. APS paid AIP \$8,736,660 and \$8,482,616 during the years ended December 31, 2005 and 2004, respectively. As of December 31, 2005 and 2004, APS had a receivable due from AIP of \$6,715,387 and \$5,700,479, respectively, representing subscriptions that AIP collected on APS' behalf.

The American Center for Physics, Inc. ("ACP") was founded in 1991 by APS, AIP, and another member society. ACP is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. ACP purchased land and constructed, furnished and operates a building in College Park, Maryland which it leases to its founders. Financing for this project was obtained by ACP through an issue of tax-exempt bonds by the Maryland Industrial Development Financing Authority. Payment of the bonds has been guaranteed by AIP. APS relocated its operations to the College Park facility in November 1993. Pursuant to a lease and an agreement, each dated October 1, 1992, APS occupies space for which it is obligated to pay ACP 21.847% of ACP's base costs and 25.299% of building operating expense and real estate taxes, if any. These percentages are subject to modification by agreement of ACP and the founders. In addition, costs, expenses and any other financial obligations of ACP which are not covered by lease payments or other funding, may be assessed by ACP to its founders in accordance with predetermined ratios. In the event of dissolution or wind-up of the affairs of ACP, net assets, if any, will be distributed to the founders in accordance with the predetermined ratios. At December 31, 2005, APS' interest in ACP is \$66,867, which is included in other assets. APS paid rent to ACP in the amount of \$1,063,824 and \$1,113,914 for the years ended December 31, 2005 and 2004, respectively.

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**Notes to Financial Statements**  
**For the Years Ended December 31, 2005 and 2004**

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**11. Restricted net assets**

At December 31, 2005 and 2004, temporarily restricted net assets are available for the following purposes:

	<u>2005</u>	<u>2004</u>
To provide awards to distinguished individuals in the field of physics	\$ 5,670,364	\$ 5,406,907
To promote scientific interest and learning among students and to improve science education at all levels	<u>1,660,189</u>	<u>1,857,667</u>
	<u>\$ 7,330,553</u>	<u>\$ 7,264,574</u>

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable for the following purpose:

	<u>2005</u>	<u>2004</u>
To provide an annual scholarship for women physicists	\$ 1,535,813	\$ 1,406,889
To provide awards to distinguished individuals in the field of physics	<u>510,343</u>	<u>503,273</u>
	<u>\$ 2,046,156</u>	<u>\$ 1,910,162</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose as follows:

	<u>2005</u>	<u>2004</u>
To promote scientific interest and learning among students and to improve science education at all levels	\$ 297,702	\$ 200,675
To provide awards to distinguished individuals in the field of physics	<u>324,428</u>	<u>250,453</u>
	<u>\$ 622,130</u>	<u>\$ 451,128</u>

## **SUPPLEMENTAL INFORMATION**



**Report of Independent Auditors  
on Accompanying Supplemental Information**

To the Council of  
The American Physical Society

The report on our audit of the basic financial statements of the American Physical Society (the Society) as of December 31, 2005 and 2004 and for the years then ended appears on page 1 of this document. These audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedules of Restricted Net Assets are presented for purposes of additional analysis and are 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.

February 24, 2006

**AMERICAN PHYSICAL SOCIETY**  
**SCHEDULE OF RESTRICTED NET ASSETS**  
**For The Year Ended December 31, 2005**

	Net Assets December 31, 2004	Additions		Withdrawals		Net Assets December 31, 2005
		Contributions	Investment Income	Prizes	Related Costs	
<u>Temporarily Restricted</u>						
Prize and Award Funds:						
Acrivios Dissertation Award	\$ 62,494	\$ -	\$ 4,518	\$ -	\$ -	\$ 67,012
Adler Award	53,062	2,915	3,827	-	-	59,804
Allis Prize	72,012	-	5,205	-	-	77,217
Apker Award	1,095,539	-	77,306	(38,000)	(16,443)	1,118,402
Beam Physics Dissertation Award	1,393	3,000	62	(2,500)	(338)	1,617
Beller Lectureship	154,706	-	11,033	(500)	(2,867)	162,372
Bethe Prize	215,859	-	15,210	(7,500)	(328)	223,241
Biological Physics Prize	5,252	-	380	-	-	5,632
Blewett Scholarship Fund	-	-	21,264	(8,639)	-	12,625
Bonner Prize	166,659	-	12,033	-	(328)	178,364
Bouchet Award	35,083	730	165	(3,500)	(2,548)	29,930
Broida Prize	49,180	-	3,253	(5,000)	(328)	47,105
Buckley Prize	200,317	159	13,720	(10,000)	(3,572)	200,624
Burton Forum Award	83,546	-	5,808	(3,000)	(1,795)	84,559
DAMOP Thesis Award	61,766	-	4,350	(2,500)	(1,069)	62,547
Davisson-Germer Prize	8,438	5,328	448	(5,000)	(1,055)	8,159
Dillon Medal Award	98	3,000	1	(2,000)	(1,038)	61
Excellence in Physics Educ Award	23,246	24,670	2,281	-	-	50,197
Fluid Dynamics Prize	138,876	-	9,887	(10,000)	(620)	138,143
Goepfert-Mayer Award	58,070	7,000	3,883	(2,500)	(835)	65,618
Einstein Prize	128,488	39	8,533	(10,000)	(2,509)	124,551
Polymer Physics Prize	37,027	-	2,053	(10,000)	(328)	28,752
Pais History of Physics Prize	155,681	56,650	13,642	(10,000)	(3,387)	212,586
Isakson Prize	20,703	(112)	20	-	-	20,611
Keithley Award	83,016	-	5,699	(5,000)	(328)	83,387
Langmuir Prize	9,795	1,530	-	(10,000)	(1,325)	-
Laporte Award	58,994	-	4,265	-	-	63,259
Lilienfeld Prize	10,335	13,281	444	(10,000)	(2,265)	11,795
Marshak Lectureship	51,558	-	3,727	-	-	55,285
Maxwell Prize	2	5,300	-	(5,000)	(302)	-
McGrody New Materials Prize	161,380	-	11,364	(5,000)	(328)	167,416
Metropolis Award	3,937	(2)	-	(1,500)	-	2,435
Nicholson Medal Award	4,267	32,766	1,526	-	(328)	38,231
Nuclear Physics Award	50,473	-	3,532	(2,000)	(328)	51,677
Onsager Prize	229,898	-	15,609	(15,000)	(3,457)	227,050
Pake Prize	105,130	-	7,273	(5,000)	(806)	106,597
Panofsky Prize	112,807	-	7,887	(5,000)	(328)	115,366
Pipkin Award	37,531	-	2,569	(2,000)	(968)	37,132
Rosenbluth Thesis Award	53,391	-	3,818	(2,000)	(1,182)	54,027
Plasma Excellence Award	134,622	-	9,655	(5,000)	(335)	138,942
Plyler Prize	7,740	-	298	-	(328)	7,710
Primakoff Lectureship	46,889	-	3,390	-	-	50,279
Rabi Prize	119,538	-	8,292	(7,500)	(338)	119,992
Rahman Prize	19,223	6,720	919	(5,000)	(1,720)	20,142
Ramavataram Fund	44,495	-	3,217	-	-	47,712
Sakharov Prize	77,510	11,892	5,764	-	(23)	95,143
Sakurai Prize	324,493	10,348	23,656	(5,000)	(635)	352,862
Schawlow Award	187,992	-	13,498	(4,912)	(380)	196,198
Shock Award	50,477	-	3,599	(2,804)	-	51,272
Szilard Award	91,221	-	6,594	-	-	97,815
Tanaka Dissertation Award	26,984	-	1,951	-	-	28,935
Undergrad Research Faculty Awd	31,820	(334)	123	(10,000)	(1,270)	20,339
Valley Prize	240,389	-	16,187	(20,000)	(1,034)	235,542
Katherine Weimer Award	14,578	-	1,054	-	-	15,632
Wheatley Award	34,412	-	2,355	(2,000)	(328)	34,439
Wilson Prize	154,515	5,002	10,856	(5,000)	(1,349)	164,024
Campaigns for Physics	1,857,667	6,569	93,655	-	(297,702)	1,660,189
	<u>\$ 7,264,574</u>	<u>\$ 196,451</u>	<u>\$ 491,658</u>	<u>\$ (265,355)</u>	<u>\$ (356,775)</u>	<u>\$ 7,330,553</u>
<u>Permanently Restricted</u>						
Prize and Award Funds:						
Anderson Fellowship	\$ 74,625	\$ 2,638	\$ -	\$ -	\$ -	\$ 77,263
Blewett Scholarship	1,406,889	128,924	-	-	-	1,535,813
Lilienfeld Trust	428,648	4,432	-	-	-	433,080
	<u>\$ 1,910,162</u>	<u>\$ 135,994</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,046,156</u>

**AMERICAN PHYSICAL SOCIETY**  
**SCHEDULE OF RESTRICTED NET ASSETS**  
**For The Year Ended December 31, 2004**

	Net Assets December 31, 2003	Additions		Withdrawals		Net Assets December 31, 2004
		Contributions	Investment Income	Prizes	Related Costs	
<b>Temporarily Restricted</b>						
<b>Prize and Award Funds:</b>						
Acrivios Dissertation Award	\$ 59,733	\$ -	\$ 4,313	\$ -	\$ (1,552)	\$ 62,494
Adler Award	48,940	585	3,537	-	-	53,062
Allis Prize	72,836	-	5,011	(5,000)	(835)	72,012
Apker Award	1,069,195	-	75,497	(38,000)	(11,153)	1,095,539
Beam Physics Dissertation Award	1,688	3,000	4	(2,500)	(799)	1,393
Beller Lectureship	144,276	-	10,430	-	-	154,706
Bethe Prize	209,895	-	14,742	(7,500)	(1,278)	215,859
Biological Physics Prize	10,021	250	417	(5,000)	(436)	5,252
Bonner Prize	163,197	-	11,398	(7,500)	(436)	166,659
Bouchet Award	6,162	35,850	215	(3,500)	(3,644)	35,083
Broida Prize	45,892	-	3,316	-	(28)	49,180
Buckley Prize	185,559	2,572	13,499	(1,000)	(313)	200,317
Burton Forum Award	82,520	-	5,770	(3,000)	(1,744)	83,546
DAMOP Thesis Award	59,539	-	4,227	(2,000)	-	61,766
Davisson-Germer Prize	2,646	10,597	493	(5,000)	(298)	8,438
Dillon Medal Award	96	3,235	2	(2,000)	(1,235)	98
Fluid Dynamics Prize	-	22,756	490	-	-	23,246
Goepfert-Mayer Award	133,450	-	9,634	(3,879)	(329)	138,876
Einstein Prize	48,120	14,000	3,265	(2,500)	(4,815)	58,070
Polymer Physics Prize	119,039	980	8,482	-	(13)	128,488
Pais History of Physics Prize	7,255	40,000	70	(10,000)	(298)	37,027
Isakson Prize	117,104	29,209	9,434	-	(66)	155,681
Keithley Award	272	25,426	5	(5,000)	-	20,703
Langmuir Prize	82,641	-	5,673	(5,000)	(298)	83,016
Laporte Award	-	9,795	-	-	-	9,795
Lilienfeld Prize	55,017	-	3,977	-	-	58,994
Marshak Lectureship	8,651	12,766	376	(10,000)	(1,458)	10,335
Maxwell Prize	48,082	-	3,476	-	-	51,558
McGrody New Materials Prize	346	5,300	14	(5,000)	(658)	2
Metropolis Award	155,874	-	10,963	(5,000)	(457)	161,380
Nicholson Medal Award	2,375	5,418	17	(3,000)	(873)	3,937
Nuclear Physics Award	1,724	2,700	236	-	(393)	4,267
Onsager Prize	49,320	-	3,451	(2,000)	(298)	50,473
Pake Prize	233,881	-	15,818	(15,000)	(4,801)	229,898
Panofsky Prize	103,264	-	7,164	(5,000)	(298)	105,130
Pipkin Award	111,469	50	7,746	(5,000)	(1,458)	112,807
Rosenbluth Thesis Award	35,001	-	2,530	-	-	37,531
Plasma Excellence Award	51,982	-	3,738	(2,000)	(329)	53,391
Plyler Prize	135,507	-	9,709	(5,000)	(5,594)	134,622
Primakoff Lectureship	3,464	9,500	158	(4,000)	(1,382)	7,740
Rabi Prize	43,728	-	3,161	-	-	46,889
Rahman Prize	111,538	-	8,061	-	(61)	119,538
Ramavataram Fund	18,328	6,909	957	(5,000)	(1,971)	19,223
Sakharov Prize	41,496	-	2,999	-	-	44,495
Sakurai Prize	5,529	70,431	1,550	-	-	77,510
Schawlow Award	299,251	10,044	21,808	(5,000)	(1,610)	324,493
Shock Award	175,395	-	12,677	-	(80)	187,992
Szilard Award	47,074	-	3,403	-	-	50,477
Tanaka Dissertation Award	86,004	50	6,167	(1,000)	-	91,221
Undergrad Research Faculty Awd	26,805	1,000	1,853	(1,500)	(1,174)	26,984
Valley Prize	41,079	890	149	(10,000)	(298)	31,820
Katherine Weimer Award	224,255	-	16,210	-	(76)	240,389
Wheatley Award	13,546	50	982	-	-	14,578
Wilson Prize	32,092	-	2,320	-	-	34,412
Campaigns for Physics	149,713	-	10,537	(5,000)	(735)	154,515
	1,780,836	188,085	89,421	-	(200,675)	1,857,667
	<u>\$ 6,762,702</u>	<u>\$ 511,448</u>	<u>\$ 441,552</u>	<u>\$ (196,879)</u>	<u>\$ (254,249)</u>	<u>\$ 7,264,574</u>
<b>Permanently Restricted</b>						
<b>Prize and Award Funds:</b>						
Anderson Fellowship	\$ 72,287	\$ 2,338	\$ -	\$ -	\$ -	\$ 74,625
Blewett Scholarship	-	1,406,889	-	-	-	1,406,889
Lilienfeld Trust	403,725	24,923	-	-	-	428,648
	<u>\$ 476,012</u>	<u>\$ 1,434,150</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,910,162</u>

# AMERICAN PHYSICAL SOCIETY

## OTHER INFORMATION

December 31, 2005

### Elected Officers

Marvin L. Cohen  
*President*

John J. Hopfield  
*President Elect*

Leo P. Kadanoff  
*Vice President*

Helen R. Quinn  
*Past President*

### Corporate Headquarters

One Physics Ellipse  
College Park, Maryland 20740-3844  
(301) 209-3200

### Office of Public Affairs

National Press Building  
529 14th Street, N.W.  
Suite 1050  
Washington, DC 20045-2001  
(202) 662-8700

### Research Journals Published by the American Physical Society

*Physical Review A: Atomic, Molecular and Optical Physics*

*Physical Review B: Condensed Matter and Materials Physics*

*Physical Review C: Nuclear Physics*

*Physical Review D: Particles, Fields, Gravitation and Cosmology*

*Physical Review E: Statistical, Nonlinear, and Soft Matter Physics*

*Physical Review Letters*

*Reviews of Modern Physics*

*Physical Review Special Topics—Accelerators and Beams*

*Physical Review Special Topics—Physics Education Research*

### Other Publications of the American Physical Society

*Bulletin of the American Physical Society*

*APS News*

*Physical Review Focus*

### Educational Website

[www.physicscentral.com](http://www.physicscentral.com)

### Web Address

[www.aps.org](http://www.aps.org)

### Operating Officers

Judy R. Franz  
*Executive Officer*

Thomas J. McIlrath  
*Treasurer*

Martin Blume  
*Editor-in-Chief*

### Editorial Offices

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Ridge, New York 11961-9000  
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**AMERICAN PHYSICAL SOCIETY**  
**REPORT TO MANAGEMENT**  
**For the year ended December 31, 2005**

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February 24, 2006

Audit Committee Members  
American Physical Society  
One Physics Ellipse  
College Park, MD 20740-3844

Dear Committee Members:

In planning and performing our audit of the financial statements of American Physical Society ("APS") for the year ended December 31, 2005, in accordance with auditing standards generally accepted in the United States of America, we considered its 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 internal control over financial reporting. Accordingly, we express no such opinion.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily disclose all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses as defined in the proposed amendment to AU 325, *Communication of Internal Control Related Matters Noted In An Audit*, of the *AICPA Professional Standards* and shown below:

Control deficiency – 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 misstatements on a timely basis.

Significant deficiency - a control deficiency, or combination of control deficiencies, that adversely affects the company's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.

Material weakness - a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

We noted certain matters involving the system of internal control and its operation, and are submitting for your consideration recommendations to help APS improve the system of internal control and achieve operational efficiencies.

This letter is intended solely for the information and use of the Audit Committee, the Council, management and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

PricewaterhouseCoopers LLP

**American Physical Society  
Report to Management  
December 31, 2005**

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## **1. Develop Policies and Procedures for Disposal of Fixed Assets**

The Society does not have formal policies and procedures to identify, process and account for fixed asset disposals. This could result in inconsistent practices, inaccurate financial reporting, unauthorized disposals or misappropriation of assets.

We recommend the Society develop and implement policies and procedures for the proper and timely identification and disposal of fixed assets no longer in use. These procedures should address matters such as criteria for disposal, the manner in which assets are disposed, required authorizations, and the appropriate accounting for such transactions. We further recommend that the Society train its employees on the disposal policies to help ensure awareness and compliance.

### **Management comments**

Management will develop such policies and procedures for the disposal of fixed assets.

## **2. Develop policies and procedures to ensure timely recognition of indirect costs for grants**

APS did not charge any indirect cost to the "NSF World Year of Physics" grant for the year ended December 31, 2005. According to the indirect cost reimbursement rate approved in the grant document, APS could have charged \$39,654 as indirect cost for the year 2005. The grant term is from April 1, 2005 to March 31, 2007. We understand from the management that APS will claim \$27,790, the remaining unspent grant funds, in the first quarter of 2006, as the indirect cost allocation for the direct expenses incurred in 2005. This will result in an irrecoverable indirect cost of \$11,864.

We recommend management establish policies and procedures to ensure all direct and indirect costs, where permitted by the grant document, are charged appropriately to the respective grant on a timely basis. In the event of management deciding not to charge indirect costs, it should be evidenced by management approval.

### **Management comments**

A blanket statement that all indirect cost will be collected on a timely basis would not be appropriate. As a non-profit institution whose goal is the diffusion of the knowledge of physics, there are instances in which management may not want to charge an indirect cost that would reduce the actual program expenditures. The accounting department will work more closely with the grants' principal investigators to determine proper accounting within the grants' budgets.

### **3. Formalize Policies & Procedures related to Change Management and Computer Operations**

During our review of information technology controls, we noted there were no formal policies and procedures related to key areas in change management and computer operations. Also, formal test plans evidencing performance of test procedures, before upgrading the "Association Anywhere" system were not prepared and/or maintained.

Absence of formal policies and procedures relating to change management or computer operations may result in inconsistent practices and standards.

We recommend that APS continue to formalize, enhance and document its operational policies and procedures, particularly in the area of change management and computer operations. Management should also maintain test plans and related documentation to evidence user testing and validation. Written policies and procedures will also help APS in case of personnel turnover.

#### **Management comments**

APS will continue to formalize, enhance and document its operational policies and procedures, particularly in the area of change management and computer operations.

### **4. Document Changes to Password of Terminated Employees**

When an employee terminates from APS, the current practice is to change the user's password in the computer system to restrict access. However, there is no documentation evidencing that a terminated user's password has in fact been changed. This lack of documentation reduces any assurance that a user's password was changed properly and timely.

We recommend management establish a practice to properly document any password changes related to a terminated user's access. Where system functionality would permit, management should consider disabling all terminated user accounts.

#### **Management comments**

Management will document any password changes related to a terminated user's access. As the audit revealed, all terminated user accounts have been disabled, except those where system functionality does not permit. We will continue this practice.

### **5. Assess and Strengthen Internal Controls over Electronic Accounting Spreadsheets**

Organizations often use electronic spreadsheets for key financial statement balances or transactions when existing IT systems do not have the functionality needed for certain activities. Many spreadsheets rely on macros and links from one to another. Often, there is minimal or no documentation of a spreadsheet's purpose, calculations, edit checks or logic. Moreover, assumptions built into formulas may not be updated

over time, and there are few, if any, controls to restrict access. These conditions represent various accounting control weaknesses which could lead to inappropriate activities going undetected or inaccurate financial reporting.

We recommend the Society conduct a thorough evaluation of the controls over spreadsheets by taking the following steps:

- Inventory key accounting related spreadsheets;
- Evaluate them for complexity, materiality, and linkage to the financial reporting process;
- Determine the controls that should be in place for each spreadsheet, such as:
  - Segregation of duties and access
  - Accuracy of input controls
  - Formula protection
  - Use of control totals
  - Back up considerations
- Take action to enhance controls

We believe management can enhance controls over spreadsheets without a significant investment of time or money. The level of controls should be commensurate with the spreadsheet's use and complexity as well as required reliability of the information. The Society should also consider whether spreadsheets related to significant accounts or higher complexity should be migrated to a more formally controlled IT applications.

#### **Management comments**

Management agrees with the importance of the comment, and that is why the Society maintains most of its financial statement balances and transactions in formally controlled IT applications rather than spreadsheets. Management will continue to monitor control over the spreadsheets used.

### Status of Prior Year Comments

Prior Year Comment	Management's Response
<ul style="list-style-type: none"> <li>• Continue to Improve Procedures Relating to Accounting for Pledges and Gifts</li> </ul>	<p>Pledges and gifts are reconciled between the accounting department and the development department on a monthly basis.</p>
<ul style="list-style-type: none"> <li>• Establish Formal Policies and Procedures to Review Collectibility of Pledges Receivable</li> </ul>	<p>Those monthly reconcilements referenced above allow us to see which pledges have a lack of activities, and actions are taken as necessary.</p>
<ul style="list-style-type: none"> <li>• Recognize Bequests on a Timely Basis</li> </ul>	<p>With the first bequest for APS, we now know how to recognize another bequest, should we get one.</p>
<ul style="list-style-type: none"> <li>• Establish Procedures to Ensure Accrual of All Federal Expenditures</li> </ul>	<p>We have now developed a separate grant fund for accruals that will not disrupt our grant accounting to the Federal agencies.</p>
<ul style="list-style-type: none"> <li>• Strengthen Password Parameters</li> </ul>	<p>As discussed during the Audit, the strength of our passwords is restricted by the functionality of both the Lawson and Association Anywhere software. Should future versions permit stronger password enforcement, we will implement the upgrade and enforce stronger passwords.</p>