

**Audited Consolidated Financial Statements
and Supplementary Information**

**National Pest Management Association, Inc. &
Affiliate**

June 30, 2014

National Pest Management Association, Inc. & Affiliate

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Independent Auditor's Report on the Consolidated Financial Statements

To the Board of Directors
National Pest Management Association, Inc. & Affiliate

We have audited the accompanying consolidated financial statements of National Pest Management Association, Inc. & Affiliate (collectively, the Organization), which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements. The financial statements as of and for the year ended June 30, 2013 were audited by other auditors whose report thereon, dated October 22, 2013, expressed an unmodified opinion on those statements. We also audited the changes described in Note K that were applied to restate the 2013 financial statements. In our opinion, such changes are appropriate and have been properly applied.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Pest Management Association, Inc. & Affiliate as of June 30, 2014, and the changes in net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Washington, DC
October 9, 2014

**National Pest Management Association, Inc.
& Affiliate**

Consolidated Statements of Financial Position

<i>June 30,</i>	2014	(as restated) 2013
Assets		
Cash and cash equivalents	\$ 528,858	\$ 414,266
Investments	825,429	1,123,139
Accounts receivable, net	11,392	275,509
Accounts receivable - related parties	66,812	737
Pledges receivable	9,500	9,500
Inventory	137,908	139,567
Prepaid expenses and other	263,881	334,525
Investments held for deferred compensation	-	118,396
Property and equipment, net	3,518,312	3,633,277
Total assets	\$ 5,362,092	\$ 6,048,916
 Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 226,989	\$ 241,453
Deferred revenue	1,008,296	1,328,216
Deposit payable	2,598	-
Note payable	-	368,546
Deferred compensation obligation	-	118,396
Total liabilities	1,237,883	2,056,611
Net assets		
Unrestricted	4,044,576	3,937,559
Temporarily restricted (Note H)	79,633	54,746
Total net assets	4,124,209	3,992,305
Total liabilities and net assets	\$ 5,362,092	\$ 6,048,916

See notes to the consolidated financial statements.

**National Pest Management Association, Inc.
& Affiliate**

Consolidated Statements of Activities

<i>Year Ended June 30,</i>	2014	(as restated) 2013
Unrestricted activities		
Revenue		
Membership dues	\$ 1,904,581	\$ 1,762,391
Convention	1,578,653	1,529,120
Conferences	722,450	600,751
Sponsorship	669,892	587,979
Membership services	294,864	282,740
Management fees and other income	252,265	181,290
Communications	120,274	89,960
Rental income	31,597	41,991
Contributions	28,470	34,318
Interest income	1,426	2,516
Net assets released from restrictions	-	50,500
Total unrestricted revenue	5,604,472	5,163,556
Expenses		
Program services		
Conferences	932,943	680,293
Convention	804,377	853,396
Membership services	283,558	192,793
Committees	208,380	174,252
Communications	177,964	122,568
Membership	65,102	37,293
Government affairs	24,268	35,717
Technical	-	21,739
Total program services	2,496,592	2,118,051
Supporting services		
General and administration	3,000,863	2,980,786
Total expenses	5,497,455	5,098,837
Change in unrestricted net assets	107,017	64,719
Temporarily restricted activities		
Contributions	24,887	7,899
Net assets released from restrictions	-	(50,500)
Change in temporarily restricted net assets	24,887	(42,601)
Change in net assets	131,904	22,118
Net assets, beginning of year	3,992,305	3,970,187
Net assets, end of year	\$ 4,124,209	\$ 3,992,305

See notes to the consolidated financial statements.

**National Pest Management Association, Inc.
& Affiliate**

Consolidated Statements of Cash Flows

Year Ended June 30,	2014	(as restated) 2013
Cash flows from operating activities		
Change in net assets	\$ 131,904	\$ 22,118
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	224,414	215,137
Provision for doubtful accounts	-	(1,650)
Loss on disposal of property and equipment	-	25,200
Inventory obsolescence	120,000	29,370
Changes in assets and liabilities:		
Accounts receivable	264,117	(104,075)
Accounts receivable - related party	(66,075)	39,622
Inventory	(118,341)	(47,734)
Prepaid expenses and other	70,644	(9,944)
Investments held for deferred compensation	118,396	(17,514)
Accounts payable and accrued expenses	(14,464)	84,513
Deferred revenue	(319,920)	58,980
Deposit payable	2,598	(3,107)
Deferred compensation obligation	(118,396)	17,514
Total adjustments	162,973	286,312
Net cash provided by operating activities	294,877	308,430
Cash flows from investing activities		
Purchases of investments	-	(753,420)
Proceeds from redemption of investments	297,710	300,929
Purchases of property and equipment	(109,449)	(53,382)
Net cash provided by (used in) investing activities	188,261	(505,873)
Cash flows from financing activities:		
Payments on note payable	(368,546)	(8,584)
Net cash used in financing activities	(368,546)	(8,584)
Net increase (decrease) in cash and cash equivalents	114,592	(206,027)
Cash and cash equivalents, beginning of year	414,266	620,293
Cash and cash equivalents, end of year	\$ 528,858	\$ 414,266
Supplemental Disclosure of Cash Flow Information		
Interest paid	\$ 15,757	\$ 22,573

See notes to the consolidated financial statements.

National Pest Management Association, Inc. & Affiliate

Notes to Consolidated Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: National Pest Management Association, Inc. (the Association) was organized to promote improvement of business conditions in the pest control industry and to provide information and services to its members. The Association is located in Fairfax, Virginia; there are approximately forty-seven domestic and eight international chapters who operate independently, but with some chapters voluntarily electing to be Joint State chapters sharing membership with the Association. There are seven different classes of membership, including active members for pest management firms, allied members for suppliers and vendors involved in the industry, and associate members for individuals in a related field to pest management.

The Buettner Pest Control Foundation (dba Pest Management Foundation), an affiliate of the Association, was organized for the purpose of receiving and administering funds for scientific, literary and educational activities. These activities are designed to encourage and foster research and study and provide scholarships in the field of pest control and allied pursuits in the United States and Canada.

Principles of consolidation: The accompanying consolidated financial statements include the accounts of the Association and its subsidiary, the Pest Management Foundation (collectively, the Organization). All significant intra-entity balances and transactions have been eliminated in consolidation. As discussed in Note J, the financial statements of the National Pest Control Association Political Action Committee have been excluded from consolidation.

Income tax status: The Association is exempt from federal income taxes under Section 501(c)(6) of the Internal Revenue Code (IRC), except on net income derived from unrelated business activities.

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the IRC, except on net income derived from unrelated business activities. The Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization that is not a private foundation under Section 509(a)(1) of the IRC.

The Association and the Foundation believe that they have appropriate support for any tax positions taken, and therefore do not have any uncertain tax positions that are material to the consolidated financial statements. The Association's and the Foundation's income tax returns are generally subject to examination by the Internal Revenue Service and state and local taxing authorities for three years after they were filed.

Basis of accounting: The consolidated financial statements have been prepared on the accrual basis of accounting. As such, revenue is recognized when earned and expense when the underlying obligation is incurred.

Use of estimates: The preparation of consolidated 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 estimates.

National Pest Management Association, Inc. & Affiliate

Notes to Consolidated Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Cash and cash equivalents: For consolidated financial statement purposes, the Organization considers all demand deposits and highly liquid investments purchased with an original maturity of three months or less to be cash equivalents except those held in outside investment portfolios.

Accounts receivable: Accounts receivable consists primarily of amounts due for membership services, advertising and sponsorships, and from related parties for net agency transactions. The face amount of accounts receivable is reduced by an allowance for doubtful accounts. The allowance for doubtful accounts reflects management's best estimate of probable losses determined principally on the basis of historical experience and specific allowances for known troubled accounts. All accounts or portions thereof that are deemed to be uncollectible or that require an excessive collection cost are written off to the allowance for doubtful accounts. An allowance for uncollectible accounts of \$2,742 was recorded at June 30, 2014 and 2013.

Inventory: Inventory consists of resources and educational publications and is stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

Investments: Investments consist of money market funds and a certificate of deposit which are carried at cost which approximates fair value.

Property and equipment: Acquisitions of property and equipment greater than \$500 are recorded at cost. The building and building improvements are depreciated over twenty-seven and a half years using the straight-line method. Equipment and furniture is depreciated over its useful life of three to ten years using the straight-line method.

Membership dues and membership services: Membership dues are recognized as revenue over the applicable membership period. Membership dues collected in advance are included in deferred revenue. Membership services include the sales of inventory, which are recorded as revenue at the time the item is shipped or delivered.

Convention, sponsorship, and conference revenue: Convention, sponsorship, and conference revenue collected in advance of the related event are deferred and recognized in the period when the event takes place.

Communications: Communications revenue is comprised of subscription and publication revenue. Subscriptions are recognized as revenue on a monthly basis over the term of the subscription. Amounts collected in advance are included in deferred revenue. Publication revenue is recognized when the publication is shipped.

Rental income: The Association rents a portion of its office building to third parties. Rental income is recognized ratably over the term of the lease.

Contributions: Contributions are recorded as unrestricted or temporarily restricted support depending upon the existence and/or nature of any donor restrictions. Support that is not restricted by the donor is reported as an increase in unrestricted net assets. Donor-restricted support is reported as an increase in temporarily restricted net assets and then reclassified to unrestricted net assets when the restriction expires.

National Pest Management Association, Inc. & Affiliate

Notes to Consolidated Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Management fees and other income: The Association earns a management fee for administrative services provided to other associations with related missions.

Net assets: Net assets are comprised of the following categories:

Unrestricted: Unrestricted net assets are available for general operations.

Temporarily restricted: Temporarily restricted net assets are restricted by donor-imposed stipulations that expire either with the passage of time or satisfaction of program requirements.

Functional allocation of expense: Expenses have been summarized on a functional basis in the consolidated statements of activities. Salaries and other benefit costs have not been allocated to program and supporting services.

Reclassification: Certain 2013 balances have been reclassified to conform with the 2014 presentation.

Subsequent events: Subsequent events have been evaluated through October 9, 2014, which is the date the consolidated financial statements were available to be issued.

B. CONCENTRATIONS

Credit risk: The Organization maintains demand deposits with commercial banks and money market funds with financial institutions. At times, certain balances held within these accounts may not be fully guaranteed or insured by the U.S. federal government. The uninsured portions of cash and money market accounts are backed solely by the assets of the underlying institution. As such, the failure of an underlying institution could result in financial loss to the Organization.

However, the Organization's cash management policies limit exposure to credit risk by maintaining cash accounts at financial institutions whose deposits are insured by the Federal Deposit Insurance Corporation (FDIC) and by maintaining money market accounts which invest exclusively in short-term marketable securities that are direct obligations of the United States Treasury.

C. INVESTMENTS

Investments recorded at cost include money market funds and a certificate of deposit. Investments at cost are not required to be classified in one of the levels prescribed by the fair value hierarchy.

Investments consist of the following at June 30,:

	2014	2013
Investments, at cost		
Money market funds	\$ 713,053	\$ 1,123,139
Certificate of deposit	112,376	-
	<u>\$ 825,429</u>	<u>\$ 1,123,139</u>

National Pest Management Association, Inc. & Affiliate

Notes to Consolidated Financial Statements

D. ACCOUNTS RECEIVABLE

Accounts receivable consists of the following at June 30,:

	2014	2013
Accounts receivable	\$ 14,134	\$ 278,251
Less: allowance for doubtful accounts	<u>(2,742)</u>	<u>(2,742)</u>
	<u>\$ 11,392</u>	<u>\$ 275,509</u>

E. PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of June 30,:

	2014	2013
Land	\$ 609,948	\$ 609,948
Building	3,463,404	3,463,404
Building improvements	103,531	93,213
Furniture and equipment	<u>986,513</u>	<u>887,382</u>
	5,163,396	5,053,947
Less: accumulated depreciation	<u>(1,645,084)</u>	<u>(1,420,670)</u>
	<u>\$ 3,518,312</u>	<u>\$ 3,633,277</u>

F. DEFERRED REVENUE

Deferred revenue consists of the following at June 30,:

	2014	2013
Membership dues	\$ 262,686	\$ 613,042
Conventions and conferences	<u>745,610</u>	<u>715,174</u>
	<u>\$ 1,008,296</u>	<u>\$ 1,328,216</u>

G. NOTE PAYABLE

The Association had a note payable secured by the building. The note payable was a five-year balloon mortgage that was due on May 22, 2014. On December 4, 2013, the Association paid the balance in its entirety. The note had an interest rate of 5.99%, with payments calculated on a 30-year amortization schedule.

The Association incurred total interest expense of \$15,757 and \$22,573 for the years ended June 30, 2014 and 2013, respectively.

National Pest Management Association, Inc. & Affiliate

Notes to Consolidated Financial Statements

H. TEMPORARILY RESTRICTED NET ASSETS

The Organization's temporarily restricted net assets activity consists of the following at June 30,:

	2014	2013
Issues Defense Fund	\$ 75,633	\$ 54,746
Norman Goldenberg Research Fund	4,000	-
	<u>\$ 79,633</u>	<u>\$ 54,746</u>

I. RETIREMENT PLANS

401(k) Profit Sharing Plan: The Association has a defined contribution plan, covering substantially all employees. In addition to employee deferral contributions, employer contributions are made at the discretion of the Executive Committee. Pension expense was \$102,893 and \$51,787 for the years ended June 30, 2014 and 2013, respectively.

457(b) plan: The Association had a 457(b) non-qualified deferred compensation agreement with the former executive director who left the Association in September 2012. The agreement had called for payments to be set aside each year up to \$10,000 and these amounts plus earnings (losses) thereon would accumulate in an account to be paid out at some point after his separation from service. The former executive director was only entitled to the value of the assets at the time of his leaving. At June 30, 2013, \$118,396 was recorded as an asset and a liability for this arrangement. In December 2013, a final distribution of the investments related to the 457(b) plan was paid out in full to the former executive director.

J. RELATED PARTIES

The Professional Pest Management Alliance (PPMA) is a 501(c)(6) organization that receives administrative support from the Association. The Association charges a \$33,333 administrative management fee per year to PPMA. At June 30, 2014 the net amount due from PPMA was \$21,357 and at June 30, 2013, the net amount due to PPMA was \$731. These amounts are recorded in accounts receivable and accounts payable – related parties at June 30, 2014 and 2013, respectively.

The Association also provides administrative support to the Foundation for Professional Pest Management, Inc. (Quality Pro), a 501(c)(6) organization which promotes qualified pest management professionals. The Association charged an administrative fee for these services of \$85,000 and \$75,000 for the years ended June 30, 2014 and 2013, respectively. At June 30, 2014 and 2013, the balance due from Quality Pro was \$24,010 and \$1,468, respectively. These amounts were included in accounts receivable – related parties at June 30, 2014 and 2013.

National Pest Control Association Political Action Committee (PAC) exists to conduct political activities on behalf of the Association's members. The PAC is a separate segregated fund as defined under Section 527(f) of the Internal Revenue Code. The PAC's assets totaled \$181,398 and \$198,033, as of June 30, 2014 and 2013, respectively. While the Association has control and economic interest in the PAC, its financial information has not been included in the accompanying consolidated financial statements given its limited operations. However, certain administrative activities engaged in by the Association in support of the PAC were included in the consolidated financial statements.

National Pest Management Association, Inc. & Affiliate

Notes to Consolidated Financial Statements

K. RESTATEMENT OF PRIOR YEAR CONSOLIDATED FINANCIAL STATEMENTS

The June 30, 2013 consolidated financial statements have been restated from amounts originally reported to reflect the reclassification of restricted contributions which were originally recorded as deferred revenue rather than temporarily restricted revenue. The Organization's net assets and changes in net assets were restated as follows:

Net assets as of July 1, 2012, as previously reported	\$ 3,923,340
Net assets adjustment from restatement	<u>46,847</u>
Net assets as of July 1, 2012, as restated	<u>\$ 3,970,187</u>
Change in net assets as previously reported for the year ended June	\$ 14,219
Adjustment to change in net assets	<u>7,899</u>
Change in net assets, 2013, as restated	<u>\$ 22,118</u>

L. COMMITMENTS AND CONTINGENCIES

Hotel & conference center contracts: The Organization has entered into several agreements with hotels providing room accommodations and service for future meetings and conferences. Many of the agreements contain a clause whereby the Organization could be held liable for liquidated damages in the event of cancellation, or lower than expected attendance, as calculated in accordance with the terms of the agreements.

Rental income: During the year ended June 30, 2013, the Association renewed the lease for its tenant for space in the building it owns. The term of the renewed lease agreement is July 1, 2013 through June 30, 2015 with a right to extend through June 30, 2016. The lease terms are for \$31,179 annually with a 3% increase in subsequent years. The expected future minimum lease income for 2015 is \$32,115.

T A T E



T R Y O N

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Independent Auditor's Report on the Supplementary Information

To the Board of Directors
National Pest Management Association, Inc. & Affiliate

We have audited the consolidated financial statements of National Pest Management Association, Inc. & Affiliate as of and for the year ended June 30, 2014 and have issued our report thereon dated October 9, 2014, which expressed an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statement of financial position and the consolidating statement of activities (collectively referred to as supplementary information) on pages 12 and 13 are presented for purposes of additional analysis of the consolidated financial statements, rather than to present the financial position and results of operations of the individual companies, and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information on pages 12 and 13 is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

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October 9, 2014

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**National Pest Management Association, Inc.
& Affiliate**

Consolidating Statement of Financial Position

June 30, 2014

	NPMA	Foundation	Eliminations	Total
Assets				
Cash and cash equivalents	\$ 499,233	\$ 29,625	\$ -	\$ 528,858
Investments	825,429			825,429
Accounts receivable, net	15,524		(4,132)	11,392
Accounts receivable - related parties	66,812			66,812
Pledges receivable		5,368	4,132	9,500
Inventory	137,908			137,908
Prepaid expenses and other	263,881			263,881
Property and equipment, net	3,518,312			3,518,312
Total assets	\$ 5,327,099	\$ 34,993	\$ -	\$ 5,362,092
Liabilities and Net Assets				
Liabilities				
Accounts payable and accrued expenses	\$ 222,381	\$ 4,608	\$ -	\$ 226,989
Deferred revenue	1,008,296			1,008,296
Deposit payable	2,598			2,598
Total liabilities	1,233,275	4,608	-	1,237,883
Net assets				
Unrestricted	4,018,191	26,385		4,044,576
Temporarily restricted (Note H)	75,633	4,000		79,633
Total net assets	4,093,824	30,385	-	4,124,209
Total liabilities and net assets	\$ 5,327,099	\$ 34,993	\$ -	\$ 5,362,092

**National Pest Management Association, Inc.
& Affiliate**

Consolidating Statement of Activities

Year Ended June 30, 2014

	NPMA	Foundation	Eliminations	Total
Unrestricted activities				
Revenue				
Membership dues	\$ 1,904,581	\$ -	\$ -	\$ 1,904,581
Convention	1,578,653			1,578,653
Conferences	722,450			722,450
Sponsorship	669,892			669,892
Membership services	294,864			294,864
Management fees and other income	252,265			252,265
Communications	120,274			120,274
Rental income	31,597			31,597
Contributions		29,470	(1,000)	28,470
Interest income	1,426			1,426
Net assets released from restrictions	-	-		-
Total unrestricted revenue	5,576,002	29,470	(1,000)	5,604,472
Expenses				
Program services				
Conferences	932,943			932,943
Convention	804,377			804,377
Membership services	243,409	40,149		283,558
Committees	208,380			208,380
Communications	177,964			177,964
Membership	71,102		(6,000)	65,102
Government affairs	24,268			24,268
Total program services	2,462,443	40,149	(6,000)	2,496,592
Supporting services				
General and Administration	2,998,148	2,715		3,000,863
Total expenses	5,460,591	42,864	(6,000)	5,497,455
Change in unrestricted net assets	115,411	(13,394)	5,000	107,017
Temporarily restricted activities				
Contributions	20,887	9,000	(5,000)	24,887
Change in temporarily restricted net a	20,887	9,000	(5,000)	24,887
Change in net assets	136,298	(4,394)	-	131,904
Net assets, beginning of year	3,957,526	34,779	-	3,992,305
Net assets, end of year	\$ 4,093,824	\$ 30,385	\$ -	\$ 4,124,209