

Financial Statements and Report of  
Independent Certified Public Accountants

**THE STUDENT CONSERVATION ASSOCIATION, INC.**

March 31, 2017 and 2016

# THE STUDENT CONSERVATION ASSOCIATION, INC.

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## **REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

Board of Directors

### **The Student Conservation Association, Inc.:**

We have audited the accompanying financial statements of The Student Conservation Association, Inc. (the “Association”), which comprise the statements of financial position as of March 31, 2017 and 2016, and the related statements of activities, 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 these financial statements based on our audits. 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 Association’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 Association’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of March 31, 2017 and 2016, 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.

*Grant Thornton LLP*

Boston, Massachusetts

December 8, 2017

**THE STUDENT CONSERVATION ASSOCIATION, INC.**  
**Statements of Financial Position**  
**As of March 31, 2017 and 2016**

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	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 996,858	\$ 805,977
Billed and unbilled contracts receivable, net	6,854,271	5,651,829
Foundation and corporate grants receivable	1,873,327	909,470
Charitable remainder trusts	243,598	236,452
Prepaid expenses and other assets	1,505,737	2,006,076
Investments	11,489,467	8,858,743
Property and equipment, net	<u>3,926,282</u>	<u>4,250,336</u>
Total assets	<u>\$ 26,889,540</u>	<u>\$ 22,718,883</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 597,223	\$ 887,546
Accrued expenses	1,198,725	1,562,219
Line of credit	694,772	4,081,453
Notes payable, net	2,988,972	3,709,322
Liability under split-interest agreements	<u>1,099,976</u>	<u>1,084,920</u>
Total liabilities	<u>6,579,668</u>	<u>11,325,460</u>
<b>NET ASSETS</b>		
Unrestricted	8,925,432	3,782,348
Temporarily restricted	6,104,965	3,199,999
Permanently restricted	<u>5,279,475</u>	<u>4,411,076</u>
Total net assets	<u>20,309,872</u>	<u>11,393,423</u>
Total liabilities and net assets	<u>\$ 26,889,540</u>	<u>\$ 22,718,883</u>

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

# THE STUDENT CONSERVATION ASSOCIATION, INC.

## Statement of Activities

For the year ended March 31, 2017

	Unrestricted			Temporarily Restricted	Permanently Restricted	Total
	Undesignated	Board Designated	Total			
<b>OPERATING REVENUES</b>						
Contract and agency revenue	\$ 33,892,295	\$ -	\$ 33,892,295	\$ -	\$ -	\$ 33,892,295
Foundation and corporate gifts and grants	3,953,382	-	3,953,382	5,374,025	-	9,327,407
Individual giving	4,481,747	2,327,721	6,809,468	-	868,399	7,677,867
Other income	422,288	-	422,288	-	-	422,288
Total operating revenues	42,749,712	2,327,721	45,077,433	5,374,025	868,399	51,319,857
Net assets released from restrictions and designations	4,109,018	(1,122,458)	2,986,560	(2,986,560)	-	-
Total operating revenues	46,858,730	1,205,263	48,063,993	2,387,465	868,399	51,319,857
<b>OPERATING EXPENSES</b>						
Program expenses:						
Field expenses	26,038,569	-	26,038,569	-	-	26,038,569
Program support and development	9,327,035	-	9,327,035	-	-	9,327,035
Participant recruitment	953,112	-	953,112	-	-	953,112
Total program expenses	36,318,716	-	36,318,716	-	-	36,318,716
<b>SUPPORTING EXPENSES</b>						
General and administrative	3,498,956	-	3,498,956	-	-	3,498,956
Fundraising	3,415,697	-	3,415,697	-	-	3,415,697
Total supporting expenses	6,914,653	-	6,914,653	-	-	6,914,653
Total operating expenses	43,233,369	-	43,233,369	-	-	43,233,369
Change in net assets from operations	3,625,361	1,205,263	4,830,624	2,387,465	868,399	8,086,488
<b>NON-OPERATING ACTIVITIES</b>						
Net gain on investments	-	425,996	425,996	517,501	-	943,497
Change in actuarial value and amortization of split-interest agreements	-	(113,536)	(113,536)	-	-	(113,536)
Total non-operating activities	-	312,460	312,460	517,501	-	829,961
Change in net assets	3,625,361	1,517,723	5,143,084	2,904,966	868,399	8,916,449
Net assets, beginning of year	502,976	3,279,372	3,782,348	3,199,999	4,411,076	11,393,423
Net assets, end of year	\$ 4,128,337	\$ 4,797,095	\$ 8,925,432	\$ 6,104,965	\$ 5,279,475	\$ 20,309,872

The accompanying notes are an integral part of this financial statement.

# THE STUDENT CONSERVATION ASSOCIATION, INC.

## Statement of Activities

For the year ended March 31, 2016

	Unrestricted			Temporarily Restricted	Permanently Restricted	Total
	Undesignated	Board Designated	Total			
<b>OPERATING REVENUES</b>						
Contract and agency revenue	\$ 29,644,787	\$ -	\$ 29,644,787	\$ -	\$ -	\$ 29,644,787
Foundation and corporate gifts and grants	2,659,365	217,500	2,876,865	1,332,702	-	4,209,567
Individual giving	3,254,822	884,956	4,139,778	91,596	57,473	4,288,847
Other income	146,542	-	146,542	-	-	146,542
Total operating revenues	35,705,516	1,102,456	36,807,972	1,424,298	57,473	38,289,743
Net assets released from restrictions and designations	2,745,520	(315,800)	2,429,720	(2,429,720)	-	-
Total operating revenues	38,451,036	786,656	39,237,692	(1,005,422)	57,473	38,289,743
<b>OPERATING EXPENSES</b>						
Program expenses:						
Field expenses	22,535,969	-	22,535,969	-	-	22,535,969
Program support and development	8,650,937	-	8,650,937	-	-	8,650,937
Participant recruitment	892,457	-	892,457	-	-	892,457
Total program expenses	32,079,363	-	32,079,363	-	-	32,079,363
<b>SUPPORTING EXPENSES</b>						
General and administrative	2,687,571	-	2,687,571	-	-	2,687,571
Fundraising	2,900,117	-	2,900,117	-	-	2,900,117
Total supporting expenses	5,587,688	-	5,587,688	-	-	5,587,688
Total operating expenses	37,667,051	-	37,667,051	-	-	37,667,051
Change in net assets from operations	783,985	786,656	1,570,641	(1,005,422)	57,473	622,692
<b>NON-OPERATING ACTIVITIES</b>						
Net loss on investments	-	(173,951)	(173,951)	(213,104)	-	(387,055)
Change in actuarial value and amortization of split-interest agreements	-	(114,555)	(114,555)	(1,025)	-	(115,580)
Total non-operating activities	-	(288,506)	(288,506)	(214,129)	-	(502,635)
Change in net assets	783,985	498,150	1,282,135	(1,219,551)	57,473	120,057
Net (deficits) assets, beginning of year	(281,009)	2,781,222	2,500,213	4,419,550	4,353,603	11,273,366
Net assets, end of year	\$ 502,976	\$ 3,279,372	\$ 3,782,348	\$ 3,199,999	\$ 4,411,076	\$ 11,393,423

The accompanying notes are an integral part of this financial statement.

**THE STUDENT CONSERVATION ASSOCIATION, INC.**  
**Statement of Functional Expenses**  
**For the year ended March 31, 2017**

	Program Services					General, Administrative and Fundraising				Total Expenses
	Field Expenses	Program Support and Development	Participant Recruitment	Program Support	Total	General and Administrative	Fundraising	Fundraising Support	Total	
<b>COMPENSATION RELATED</b>										
Salaries and wages	\$ 5,388,006	\$ 3,151,326	\$ 707,831	\$ 1,491,926	\$ 10,739,089	\$ 912,971	\$ 1,258,939	\$ -	\$ 2,171,910	\$ 12,910,999
Group medical insurance	166,558	270,689	38,546	208,755	684,548	70,222	96,781	-	167,003	851,551
Payroll taxes	327,185	338,443	56,297	97,917	819,842	84,101	115,909	-	200,010	1,019,852
Contracted services	137,689	34,496	-	-	172,185	82,884	109,229	-	192,113	364,298
Retirement expense	41,213	75,871	10,505	22,791	150,380	15,427	21,261	-	36,688	187,068
Total compensation related	6,060,651	3,870,825	813,179	1,821,389	12,566,044	1,165,605	1,602,119	-	2,767,724	15,333,768
<b>OTHER OPERATING EXPENSES</b>										
Participant subsistence, housing, and health insurance	3,585,759	-	-	-	3,585,759	-	-	-	-	3,585,759
Field travel and transportation	3,993,233	-	-	-	3,993,233	-	-	-	-	3,993,233
Participant grants and awards	9,470,926	-	-	-	9,470,926	-	-	-	-	9,470,926
Travel - staff	219,729	338,613	44,073	50,597	653,012	22,744	69,369	-	92,113	745,125
Postage and freight	103,583	20,738	4,627	13,825	142,773	8,736	111,474	-	120,210	262,983
Training, orientation, and career services	870,141	13,544	15	-	883,700	7,992	3,317	-	11,309	895,009
Supplies and equipment	555,007	23,086	3,361	18,889	600,343	8,511	16,941	7,261	32,713	633,056
Depreciation/amortization	-	-	-	502,468	502,468	154,546	-	47,630	202,176	704,644
Insurance	-	-	-	932,781	932,781	193,382	-	11,375	204,757	1,137,538
Rent and property expenses	224,809	456,432	-	53,654	734,895	29,266	14,633	-	43,899	778,794
Interest, finance, and bank charges	-	-	-	-	-	305,322	-	-	305,322	305,322
Printing	14,584	11,031	14,357	26,196	66,168	26,196	60,168	-	86,364	152,532
Telephone	70,117	172,345	16,549	43,086	302,097	41,597	8,714	8,714	59,025	361,122
Uniforms	328,642	-	-	-	328,642	-	-	-	-	328,642
Technology operations (nonstaff)	-	-	-	496,960	496,960	62,119	2,515	62,120	126,754	623,714
Conferences	-	20,722	10,668	-	31,390	110,603	37,609	-	148,212	179,602
Audit and legal fees	-	-	-	79,998	79,998	125,824	-	-	125,824	205,822
Risk management (nonstaff)	245,921	-	-	-	245,921	-	-	-	-	245,921
Equipment rental	-	51,544	10,685	-	62,229	6,411	-	4,274	10,685	72,914
Dues, publications and subscriptions	1,208	27,899	155	-	29,262	20,416	25,080	-	45,496	74,758
Consulting and processing	130,356	82,025	5,547	10,170	228,098	958,849	453,205	9,245	1,421,299	1,649,397
All other expenses	163,903	151,990	29,896	36,228	382,017	250,837	776,626	83,308	1,110,771	1,492,788
Total noncompensation	19,977,918	1,369,969	139,933	2,264,852	23,752,672	2,333,351	1,579,651	233,927	4,146,929	27,899,601
Total expenses	\$ 26,038,569	\$ 5,240,794	\$ 953,112	\$ 4,086,241	\$ 36,318,716	\$ 3,498,956	\$ 3,181,770	\$ 233,927	\$ 6,914,653	\$ 43,233,369

*The accompanying notes are an integral part of this financial statement.*



**THE STUDENT CONSERVATION ASSOCIATION, INC.**  
**Statement of Functional Expenses**  
**For the year ended March 31, 2016**

	Program Services				General, Administrative and Fundraising				Total Expenses	
	Field Expenses	Program Support and Development	Participant Recruitment	Program Support	Total	General and Administrative	Fundraising	Fundraising Support		Total
<b>COMPENSATION RELATED</b>										
Salaries and wages	\$ 4,819,979	\$ 2,918,068	\$ 676,456	\$ 1,319,436	\$ 9,733,939	\$ 856,031	\$ 1,214,765	\$ -	\$ 2,070,796	\$ 11,804,735
Group medical insurance	133,625	228,265	34,415	156,322	552,627	58,289	82,661	-	140,950	693,577
Payroll taxes	263,342	279,310	47,993	75,892	666,537	70,304	99,699	-	170,003	836,540
Contracted services	88,164	20,238	-	-	108,402	48,186	76,010	-	124,196	232,598
Retirement expense	33,168	66,505	8,815	19,594	128,082	13,510	19,158	-	32,668	160,750
Total compensation related	<u>5,338,278</u>	<u>3,512,386</u>	<u>767,679</u>	<u>1,571,244</u>	<u>11,189,587</u>	<u>1,046,320</u>	<u>1,492,293</u>	<u>-</u>	<u>2,538,613</u>	<u>13,728,200</u>
<b>OTHER OPERATING EXPENSES</b>										
Participant subsistence, housing, and health insurance	2,862,010	-	-	-	2,862,010	-	-	-	-	2,862,010
Field travel and transportation	3,631,305	-	-	-	3,631,305	-	-	-	-	3,631,305
Participant grants and awards	8,020,830	-	-	-	8,020,830	-	-	-	-	8,020,830
Travel - staff	215,457	376,221	55,149	56,217	703,044	14,350	54,111	-	68,461	771,505
Postage and freight	88,341	14,173	5,793	9,449	117,756	9,108	253,160	-	262,268	380,024
Training, orientation, and career services	594,681	4,952	20	-	599,653	35,245	347	-	35,592	635,245
Supplies and equipment	607,054	47,556	7,802	38,910	701,322	22,106	23,246	9,963	55,315	756,637
Depreciation/amortization	-	-	-	531,094	531,094	169,349	-	50,826	220,175	751,269
Insurance	-	-	-	938,959	938,959	194,662	-	11,451	206,113	1,145,072
Rent and property expenses	216,870	440,311	-	43,624	700,805	23,795	11,897	-	35,692	736,497
Interest, finance, and bank charges	-	-	-	-	-	339,531	-	-	339,531	339,531
Printing	45,566	45,179	2,576	23,451	116,772	23,451	200,873	-	224,324	341,096
Telephone	52,913	157,935	14,762	39,484	265,094	35,549	8,023	8,024	51,596	316,690
Uniforms	484,519	-	-	-	484,519	-	-	-	-	484,519
Technology operations (nonstaff)	-	-	-	460,152	460,152	57,519	-	57,519	115,038	575,190
Conferences	5,611	17,911	8,470	-	31,992	160,977	3,010	-	163,987	195,979
Audit and legal fees	-	-	-	97,791	97,791	185,036	-	-	185,036	282,827
Risk management (nonstaff)	238,618	-	-	-	238,618	-	-	-	-	238,618
Equipment rental	-	46,924	10,310	-	57,234	6,186	-	4,124	10,310	67,544
Dues, publications and subscriptions	1,138	31,853	-	-	32,991	25,886	12,706	-	38,592	71,583
Consulting and processing	59,540	79,517	2,534	4,645	146,236	283,253	350,450	4,223	637,926	784,162
All other expenses	73,238	49,416	17,362	11,583	151,599	55,248	310,111	33,760	399,119	550,718
Total noncompensation	<u>17,197,691</u>	<u>1,311,948</u>	<u>124,778</u>	<u>2,255,359</u>	<u>20,889,776</u>	<u>1,641,251</u>	<u>1,227,934</u>	<u>179,890</u>	<u>3,049,075</u>	<u>23,938,851</u>
Total expenses	<u>\$ 22,535,969</u>	<u>\$ 4,824,334</u>	<u>\$ 892,457</u>	<u>\$ 3,826,603</u>	<u>\$ 32,079,363</u>	<u>\$ 2,687,571</u>	<u>\$ 2,720,227</u>	<u>\$ 179,890</u>	<u>\$ 5,587,688</u>	<u>\$ 37,667,051</u>

*The accompanying notes are an integral part of this financial statement.*

**THE STUDENT CONSERVATION ASSOCIATION, INC.**  
**Statements of Cash Flows**  
**For the years ended March 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 8,916,449	\$ 120,057
Noncash items included increase in net assets:		
Depreciation and amortization	704,644	751,269
Net realized and unrealized (gain) loss on investments	(824,205)	499,226
Earnings on matured split-interest agreements	(25,595)	(29,600)
Change in actuarial value and amortization of split-interest agreements	113,536	115,580
Proceeds from new obligations under split-interest agreements	83,881	153,965
Obligations paid under split-interest agreements	(156,766)	(157,070)
Contributions restricted for long-term endowment	(868,399)	(57,473)
Contributed assets	-	(217,500)
Provision for bad debt	(8,111)	(19,256)
Amortization of debt issuance costs	18,749	18,749
Changes in assets and liabilities:		
Receivables and charitable remainder trusts	(2,165,334)	(842,014)
Prepaid expenses and other assets	500,339	(310,851)
Accounts payable	(290,323)	17,869
Accrued expenses	<u>(363,494)</u>	<u>466,128</u>
Net cash provided by operating activities	<u>5,635,371</u>	<u>509,079</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions of property and equipment	(380,590)	(141,765)
Purchase of investments	(4,765,095)	(562,862)
Proceeds from sales of investments	<u>2,958,576</u>	<u>262,400</u>
Net cash used in investing activities	<u>(2,187,109)</u>	<u>(442,227)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
(Payments) proceeds from line of credit, net	(3,386,681)	1,007,282
Principal payments on long-term debt	(739,099)	(733,990)
Principal payments on capital lease obligations	-	(10,575)
Contributions restricted for long-term endowment	<u>868,399</u>	<u>57,473</u>
Net cash (used in) provided by financing activities	<u>(3,257,381)</u>	<u>320,190</u>
Net increase in cash and cash equivalents	190,881	387,042
Cash and cash equivalents, beginning of year	<u>805,977</u>	<u>418,935</u>
Cash and cash equivalents, end of year	<u>\$ 996,858</u>	<u>\$ 805,977</u>
Supplemental disclosures of cash flows information:		
Cash paid during the year for interest	<u>\$ 204,290</u>	<u>\$ 243,467</u>
Other non-cash investing and financing activities:		
In-kind contributions	<u>\$ 160,000</u>	<u>\$ 205,700</u>

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

**THE STUDENT CONSERVATION ASSOCIATION, INC.**  
**Notes to Financial Statements**  
**March 31, 2017 and 2016**

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**1. NATURE OF ACTIVITIES**

The Student Conservation Association, Inc. (the “Association”) is a not-for-profit organization incorporated in New York State for the purposes of building the next generation of conservation leaders and inspiring lifelong stewardship of our environment and communities. The Association engages young people in hands-on service to the land, offering opportunities for education, leadership and personal development in projects conducted throughout the United States of America.

The Association’s national headquarters is located in Arlington, VA. Additionally, the Association maintains offices in New Hampshire, New York, California, Illinois, Pennsylvania, Texas and Washington.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The Association reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

*Permanently restricted net assets:* Net assets subject to donor-imposed stipulations that they be maintained permanently by the Association. Generally, the donors of these assets permit the Association to use all or part of the income and gains, if any, on related investments for general or specific purposes.

*Temporarily restricted net assets:* Net assets subject to donor-imposed stipulations that will be met by actions of the Association and/or the passage of time.

*Unrestricted net assets:* Net assets not subject to donor-imposed stipulations which the Association may use at its discretion.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions or by law. Expenses are reported as decreases in unrestricted net assets except where related to donor-imposed restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or law. Expirations of temporary restrictions on net assets, that is, when the donor-imposed stipulated purpose has been accomplished and/or the stipulated time period has elapsed, are reported as net assets released from restrictions between the applicable classes of net assets.

**Cash and Cash Equivalents**

The Association considers all unrestricted, highly liquid investments with an initial maturity of three months or less to be cash equivalents.

**Billed and Unbilled Contracts Receivable**

Contracts receivable are recorded at the amount the Association expects to collect based on historical evidence. Receivables are primarily due from federal and state governmental agencies under the terms of various contracts. The Association maintains allowances for doubtful accounts for estimated losses resulting from the inability of its grantors and donors to make required payments. The Association provides

**THE STUDENT CONSERVATION ASSOCIATION, INC.**  
**Notes to Financial Statements**  
**March 31, 2017 and 2016**

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for estimated uncollectible amounts through a charge to operations and a credit to the allowance for doubtful accounts. Balances that remain outstanding after the Association has used reasonable collection efforts are written off through a charge to the allowance and a credit to accounts receivable.

**Revenue Recognition**

*Contract and Agency Revenue and Unbilled Revenue*

Contract and agency revenue is recognized when the corresponding program expenditures are incurred in accordance with the terms of the related contracts. Unbilled revenues are revenues that are accrued based upon estimated amounts earned, but not billed, on contracts for participants in the field at the end of the period.

*Foundation, Corporate and Individual Gifts and Grants*

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted revenue, depending on the existence and/or nature of any donor restrictions. Revenue that is restricted is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction.

Contributions are recognized when the donor makes a promise to give to the Association that is unconditional. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Gifts of land, buildings, and equipment are recorded at fair value at the date of the gift and are presented as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets, are reported as temporarily restricted revenue. Absent explicit donor stipulations concerning how long those long-lived assets must be maintained, the Association reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. Conditional promises to give are not included in revenue until the conditions are substantially met.

**Investments and Investment Income**

Investments in available for sale securities with readily determinable fair market values are measured at their fair market value in the statements of financial position. Unrealized gains and losses are included in the change in net assets, in addition to dividends and interest. Interest and dividends are recognized when earned.

**Debt Issuance Costs**

Administrative, legal, financing, underwriting discount, and other miscellaneous costs that were incurred in connection with establishing various credit facilities with are capitalized and are amortized over the length of the agreements.

In April 2015, the Financial Accounting Standards Board issued *Accounting Standards Update ("ASU") 2015-03, "Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs,"* ("ASU 2015-03"). ASU 2015-03 requires the debt issuance cost related to borrowings be presented in the statement of financial position as a direct deduction from the carrying amount of the borrowing, consistent with debt discounts. The ASU does not affect the amount or timing of expenses for debt issuance cost. The

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Association adopted this standard in fiscal 2017. As a result, debt issuance costs of \$29,684 and \$48,443, net of amortization expense, at March 31, 2017 and 2016, respectively, have been presented as a deduction from the related notes payable.

**Property and Equipment**

The Association's policy is to capitalize assets with useful lives greater than one year. Property and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the respective assets, as follows:

Building and improvements	30 years
Equipment and software	3 - 5 years
Equipment under capital leases	Lesser of estimated useful life or lease term

Repairs and maintenance costs are expensed when incurred.

**Functional Expense Allocation**

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Functionality is determined based on actual time and effort versus the natural departmental classification. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Methods used in allocating certain costs amongst the functional expense categories include specific identification and other bases for allocation deemed reasonably by the Association.

**Income Taxes**

The Association is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code, as amended (the "Code"), and is generally exempt from income taxes pursuant to Section 501(a) of the Code. The Association is required to assess uncertain tax positions and has determined that there were no such positions that are material to the financial statements.

**Use of Estimates**

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates. The more significant estimates made by the Association involve allowances for uncollectible accounts, net realizable values of pledges receivable, economic useful lives assigned to buildings and equipment, fair and present values of annuity payment liabilities.

**3. CONCENTRATIONS OF RISK AND CONTINGENCIES**

The Association maintains cash balances in financial institutions that, at times, may exceed federally insured limits. The Association has not experienced any losses in such accounts, and believes it is not exposed to any significant credit risk on cash.

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The Association contracts with state and federal agencies without collateral under various grant and cooperative agreements. Substantially all of the contracts and accounts receivable are concentrated in state and federal agencies. Approximately 59% and 71% of unrestricted operating revenues were from state and federal agencies in fiscal 2017 and 2016, respectively. Under the terms of these grants and agreements, the Association is to use these funds for the purposes specified in the grant and cooperative agreements. From time to time, the Association is subject to audits from federal, state and local agencies. If expenditures were found not to have been made in compliance with the grants or cooperative agreements in connection with an audit, the Association might be required to repay such funds. Management is of the opinion that disallowances, if any, would not have a significant effect on the financial position or changes in net assets of the Association.

As of March 31, 2017, one donor accounted for 53% of the Association's foundation and corporate grants receivable. As of March 31, 2016, one donor accounted for 8% of the Association's foundation and corporate grants receivable.

In the normal course of its operations, the Association is a party to various legal proceedings and complaints, some of which are covered by insurance. While it is not feasible to predict the ultimate resolution of such matters, management of the Association is not aware of any claims or contingencies which are not covered by insurance that would have a material adverse effect of the Association's financial position, changes in net assets or cash flows.

**4. CONTRACT RECEIVABLES, NET**

Contract receivables consist of the following at March 31:

	<u>2017</u>	<u>2016</u>
Billed receivables	\$ 3,858,778	\$ 2,819,402
Unbilled receivables	<u>3,006,734</u>	<u>2,851,780</u>
	6,865,512	5,671,182
Less: allowance for doubtful accounts	<u>(11,241)</u>	<u>(19,353)</u>
Contract receivables, net	<u>\$ 6,854,271</u>	<u>\$ 5,651,829</u>

The Association expects to collect all contract receivables within the next fiscal year.

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**5. FOUNDATION AND CORPORATE GRANTS RECEIVABLE**

At March 31, the Association had outstanding foundation and corporate grants receivable due at March 31, of:

	<u>2017</u>	<u>2016</u>
Less than one year	\$ 823,327	\$ 859,470
One to five years	<u>1,050,000</u>	<u>50,000</u>
Total	<u>\$ 1,873,327</u>	<u>\$ 909,470</u>

**6. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at March 31:

	<u>2017</u>	<u>2016</u>
Land	\$ 34,500	\$ 34,500
Buildings and improvements	5,491,827	5,407,196
Equipment under capital leases	-	180,267
Equipment and software	<u>8,111,950</u>	<u>7,673,221</u>
	13,638,277	13,295,184
Less: accumulated depreciation and amortization	<u>(9,711,995)</u>	<u>(9,044,848)</u>
Property and equipment, net	<u>\$ 3,926,282</u>	<u>\$ 4,250,336</u>

Depreciation expense of \$704,644 and \$751,269 was recorded for the years ended March 31, 2017 and 2016, respectively. Equipment not yet placed in service at March 31, 2017 and 2016 totaled \$110,243 and \$83,143, respectively, which is included under equipment and software in the table above.

**7. OPERATING LEASES**

The Association leases facilities in several locations under operating leases that expire at various dates through 2019. Total rent expense totaled \$579,788 and \$664,134 for the years ended March 31, 2017 and 2016, respectively. Deferred rent totaled \$36,032 and \$80,088 as of March 31, 2017 and 2016, respectively, due to escalation clauses within the various leases, and is included within accrued expenses on the accompanying statements of financial position. The Association had several non-cancelable operating leases for equipment requiring total monthly payments ranging from \$25 to \$2,305 that expire at various dates through May 2019. The total equipment rental expense for these leases was \$72,914 and \$67,543 for the years ended March 31, 2017 and 2016, respectively.

The following is a schedule of future minimum rental payments required under facilities and equipment non-cancelable operating leases:

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<u>Year Ending March 31,</u>	<u>Amount</u>
2018	\$ 288,314
2019	292,481
2020	<u>3,420</u>
	<u>\$ 584,215</u>

**8. INVESTMENTS**

The Association records investments at fair value. A summary of investments as of March 31 is as follows:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 1,615,933	\$ 529,306
Mutual funds:		
Large cap domestic equities	3,130,237	2,891,550
Small and mid cap domestic equities	1,179,899	-
International equities	1,457,508	246,518
Fixed income	3,691,109	2,276,190
Other mutual funds	<u>414,781</u>	<u>2,915,179</u>
Total investments	<u>\$ 11,489,467</u>	<u>\$ 8,858,743</u>

Included in investments above is a fund maintained for the purpose of satisfying obligations related to charitable gift annuities which cannot be applied toward the payment of other debts or obligations of the Association. New York Insurance Code requires the Association maintain a reserve fund adequate to meet the future payments under its outstanding charitable gift annuity contracts. In addition, the law requires that the reserve be invested in accordance with a prudent investor standard. As of March 31, 2017 and 2016, the Association had sufficient funds in its reserve and those funds were invested in accordance with the New York Insurance Code. The balance in the segregated fund totaled \$1,560,809 and \$1,524,818 as of March 31, 2017 and 2016, respectively.



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The following table summarizes the total investment return and its presentation in the statement of activities for the year ending March 31, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest and dividend income, net of fees	\$ 49,188	\$ 70,104	\$ 119,292
Net realized loss	(5,366)	-	(5,366)
Net unrealized gain	<u>382,174</u>	<u>447,397</u>	<u>829,571</u>
	<u>376,808</u>	<u>447,397</u>	<u>824,205</u>
Net gain on investments	<u>\$ 425,996</u>	<u>\$ 517,501</u>	<u>\$ 943,497</u>

The following table summarizes the total investment return and its presentation in the statement of activities for the year ended March 31, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest and dividend income, net of fees	\$ 45,984	\$ 66,187	\$ 112,171
Net realized loss	(55,009)	(117,533)	(172,542)
Net unrealized loss	<u>(164,926)</u>	<u>(161,758)</u>	<u>(326,684)</u>
	<u>(219,935)</u>	<u>(279,291)</u>	<u>(499,226)</u>
Net loss on investments	<u>\$ (173,951)</u>	<u>\$ (213,104)</u>	<u>\$ (387,055)</u>

**9. DEBT**

On September 30, 2013, the Association entered into agreements with U.S. Bank National Association (“US Bank”) consisting of a revolving line of credit, a term loan payable over five years and a standby letter of credit.

Debt secured by US Bank requires the Association to meet certain financial covenants, including a fixed charge coverage ratio. The Association was in compliance with all required covenants as of March 31, 2017 and 2016.

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As of March 31, notes payable consists of the following:

	<u>2017</u>	<u>2016</u>
<b>US Bank Term Loan</b>		
Term loan of \$3,000,000 dated September 30, 2013, payable over five years with principal and interest payments, which commenced November 1, 2013 at a fixed rate of 2.97%. The note is secured by unrestricted investments in the Association's investment portfolio, all billed and unbilled accounts receivable and all charitable remainder trusts and grants receivable.	\$ 950,000	\$ 1,550,000
<b>US Bank Term Loan No. 2</b>		
Term loan of \$2,500,000 dated November 15, 2013, amortized over 20 years with an accelerated balloon payment due December 1, 2018. Equal principal and interest payments commencing January 1, 2014 at a fixed rate of 3.54%. The note is secured by real property owned by the Association.	<u>2,068,656</u>	<u>2,207,755</u>
Total notes payable	3,018,656	3,757,755
Less unamortized debt issuance costs	<u>29,684</u>	<u>48,433</u>
Total notes payable, net	<u>\$ 2,988,972</u>	<u>\$ 3,709,322</u>

Principal payments of term notes are due as follows:

**Year Ending March 31,**

2018	\$ 744,173
2019	<u>2,274,483</u>
	<u>\$ 3,018,656</u>

**Line of Credit**

The Association has available a \$9,000,000 revolving line of credit. The line is secured by all billed and unbilled contracts receivable, all charitable remainder trusts and grants receivable, and unrestricted investments in the Association's investment portfolio. Interest on the outstanding principal balance which has accrued during the preceding interest period is payable monthly. The interest rate is variable based on the daily reset London Interbank Offered Rate ("LIBOR") rate plus 1.95%. The variable rate at March 31, 2017 and 2016 was 2.95% and 2.39%, respectively. The line expires October 1, 2018.

Interest expense related to the lines of credit and notes payable totaled \$204,290 and \$243,467 for the years ended March 31, 2017 and 2016, respectively.

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**10. SPLIT-INTEREST AGREEMENTS**

The Association administers various charitable gift annuities. A charitable gift annuity provides for the payment of distributions to the donor or other designated beneficiaries for a specified period of time. The assets remaining at termination of the agreement are available for the Association's use for various purposes as determined by the donor. The estimated net present value of the liability under the agreements is recorded at the date of the gift using applicable discount rates (ranging from 2.0% to 9.2%), and applicable mortality tables. The revenue attributable to the estimated present value of the future benefits to be received by the Association is recorded as an increase in the net assets of the Association in accordance with its policy for recording contribution revenue in the period in which the charitable gift annuity is established. The investment is reported in the Association's statements of financial position at the fair value of the underlying investments, based on quoted market prices. The Association makes distributions to the designated beneficiaries based on agreement provisions. The Association's estimated liability under these agreements totaled \$1,099,976 and \$1,084,920 for the years ended March 31, 2017 and 2016, respectively. The assets held by the Association under these arrangements are included as a component of investments in the accompanying financial statements (Note 8).

**11. FAIR VALUE MEASUREMENTS**

The Association follows guidance that established a framework for measuring fair value by utilizing a fair value hierarchy based on the inputs used to measure fair value and enhancing disclosure requirements for fair value measurements. The guidance maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing an asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows:

- Level 1 - Quoted prices are available in active markets for identical assets or liabilities. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.
- Level 2 - Pricing inputs other than quoted prices in active markets, which are either directly or indirectly observable. The nature of these securities include investments for which quoted prices are available but traded less frequently and investments that are fair valued traded using other securities, the parameters of which can be directly observed.
- Level 3 - Securities that have little to no pricing observability. These securities are measured using management's best estimate of fair value, where inputs into the determination of fair value are not observable and require significant management judgment or estimation.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is

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significant to the fair value measurement. However, the determination of what constitutes “observable” requires significant judgment by the Association. The Association considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based on the pricing transparency of the instrument and does not necessarily correspond to the Association’s perceived risk of that instrument.

The following table sets forth the financial assets and liabilities reported at fair value, measured on a recurring basis as of March 31:

**2017**

<b>Assets</b>	<b>Quoted Prices in Active Markets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total</b>
Investments (Note 8)	\$ 11,489,467	\$ -	\$ -	\$ 11,489,467
Charitable remainder trusts	-	-	243,598	243,598
Total assets	<u>\$ 11,489,467</u>	<u>\$ -</u>	<u>\$ 243,598</u>	<u>\$ 11,733,065</u>
<b>Liabilities</b>				
Liability under split-interest agreements	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,099,976</u>	<u>\$ 1,099,976</u>

**2016**

Investments (Note 8)	\$ 8,858,743	\$ -	\$ -	\$ 8,858,743
Beneficial interest in trusts	-	-	236,452	236,452
Total assets	<u>\$ 8,858,743</u>	<u>\$ -</u>	<u>\$ 236,452</u>	<u>\$ 9,095,195</u>
<b>Liabilities</b>				
Liability under split-interest agreements	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,084,920</u>	<u>\$ 1,084,920</u>

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The following tables disclose a reconciliation of assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs Level 3 during the years ended March 31, respectively:

**Charitable remainder trusts:**

<b>Balance at March 31, 2015</b>	\$ 258,482
Adjustment for market changes	<u>(22,030)</u>
<b>Balance at March 31, 2016</b>	236,452
Adjustment for market changes	<u>7,146</u>
<b>Balance at March 31, 2017</b>	<u>\$ 243,598</u>

**Liability under split interest agreements:**

	<u>2017</u>	<u>2016</u>
<b>Beginning Balance</b>	\$ 1,084,920	\$ 1,002,045
New agreements	83,881	153,965
Payments to beneficiaries	(156,766)	(157,070)
Terminated annuities	(20,740)	(29,600)
Change in fair value	<u>108,681</u>	<u>115,580</u>
<b>Ending balance</b>	<u>\$ 1,099,976</u>	<u>\$ 1,084,920</u>

**12. ENDOWMENTS**

The Association's endowment includes both donor restricted endowment funds and funds designated by the Board of Directors to function as quasi-endowments. As required by accounting principles generally accepted in the United States, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of Relevant Law**

The State of New York adopted the New York Uniform Prudent Management of Institutional Funds Act ("UPMIFA") and the Association has interpreted the New York UPMIFA as requiring the Association to preserve the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Association classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, if any, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, if any. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets and is regarded as "net appreciation" is classified as temporarily restricted net assets until they are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

1. The duration and preservation of the fund
2. The purposes of the Association and the donor restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Association
7. Where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the donor restricted endowment fund, giving due consideration to the effect that such alternatives may have on the Association
8. The investment policies of the Association

**Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or the Act requires the Association to retain as a fund of perpetual duration. Deficiencies of this nature are reported by a charge to unrestricted net assets and a corresponding increase to temporarily restricted net assets both reflected as a component of realized and unrealized gains (losses) in the statements of activities.

**Endowment Investment Policy**

The Association has adopted an investment philosophy which, combined with the spending rate, attempts to provide a predictable stream of returns thereby making funds available to programs that are supported by its endowment, while at the same time seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Association must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under the Association's Investment Policy and spending rate, both of which are approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce an inflation-adjusted return in excess of the spending rate over a long period of time. Actual returns in any given year may vary.

**Spending Policy**

All endowment investment income (including interest, dividends and gains/losses, net of related expenses) that has not been appropriated in accordance with the donors' intent has been reported as temporarily restricted. The Association's policy allows the appropriation for the spending of 4.5% of the average market value of the endowment fund at the end of the previous three fiscal years. The spending allocation amount for the year is determined at the beginning of the fiscal year and is released from the appreciated value of the endowment, which is classified as temporarily restricted. For the years ended March 31, 2017 and 2016, \$424,800 and \$384,885, respectively, was released from temporarily restricted funds related to the endowment spending policy.

In addition to the endowment spending policy, the board may designate spending from the non-donor restricted net assets into the general budget. This spending is part of the finance committee decisions as outlined in the budget. In fiscal 2017, the board designated \$350,000 as a special spending line item. In fiscal 2016, there were no special board designations. These amounts are included in the total amount of net assets released from restriction.

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**Strategies Employed for Achieving Objectives**

To satisfy its long-term rate-of-return objectives, the Association relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Association's Board of Directors decided to utilize a third-party investment advisor and professional investment managers with proven investment strategies that supported the investment policy. The Investment sub-committee of the Finance and Administration Committee of the Board is responsible for selecting the investment advisor and managers. See Notes 8 and 11 for more detail on how these are valued.

**Endowment Net Assets Balances**

	<b>2017</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor restricted endowment funds	\$ -	\$ 270,107	\$ 5,279,475	\$ 5,549,582
Board designated funds	<u>4,797,095</u>	<u>-</u>	<u>-</u>	<u>4,797,095</u>
Total endowment net assets	<u>\$ 4,797,095</u>	<u>\$ 270,107</u>	<u>\$ 5,279,475</u>	<u>\$ 10,346,677</u>
	<b>2016</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor restricted endowment funds	\$ -	\$ 177,406	\$ 4,411,076	\$ 4,588,482
Board designated funds	<u>3,279,372</u>	<u>-</u>	<u>-</u>	<u>3,279,372</u>
Total endowment net assets	<u>\$ 3,279,372</u>	<u>\$ 177,406</u>	<u>\$ 4,411,076</u>	<u>\$ 7,867,854</u>

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**Endowment Fund Activity**

	<b>2017</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Endowment assets, beginning of year</b>	\$ 3,279,372	\$ 177,406	\$ 4,411,076	\$ 7,867,854
Investment returns:				
Investment income	49,188	70,104	-	119,292
Realized and unrealized losses	376,808	447,397	-	824,205
Total investment return	425,996	517,501	-	943,497
Additions/new gifts	2,327,721	-	868,399	3,196,120
Appropriation of endowment assets for operations	(1,122,458)	(424,800)	-	(1,547,258)
Change in actuarial value and amortization of split-interest agreements	(113,536)	-	-	(113,536)
<b>Endowment assets, end of year</b>	<u>\$ 4,797,095</u>	<u>\$ 270,107</u>	<u>\$ 5,279,475</u>	<u>\$ 10,346,677</u>
	<b>2016</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Endowment assets, beginning of year</b>	\$ 2,781,222	\$ 776,420	\$ 4,353,603	\$ 7,911,245
Investment returns:				
Investment income	45,984	66,187	-	112,171
Realized and unrealized losses	(219,935)	(279,291)	-	(499,226)
Total investment return	(173,951)	(213,104)	-	(387,055)
Additions/new gifts	1,102,456	-	57,473	1,159,929
Appropriation of endowment assets for operations	(315,800)	(384,885)	-	(700,685)
Change in actuarial value and amortization of split-interest agreements	(114,555)	(1,025)	-	(115,580)
<b>Endowment assets, end of year</b>	<u>\$ 3,279,372</u>	<u>\$ 177,406</u>	<u>\$ 4,411,076</u>	<u>\$ 7,867,854</u>

The endowment fund activity table includes “Appropriation of endowment assets for operations.” During the years ended March 31, 2017 and 2016, this represented net assets released related to the endowment



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spending allocation as well as board designated expenditures related to planned giving, capital campaign and strategic plan activities.

**13. TEMPORARILY RESTRICTED NET ASSETS**

The following table summarizes temporarily restricted net assets at March 31:

	<u>2017</u>	<u>2016</u>
Time restricted	\$ 1,050,000	\$ 909,470
Purpose restricted	4,784,858	1,728,238
Accumulated earnings on endowment	<u>270,107</u>	<u>562,291</u>
Total temporarily restricted net assets	<u>\$ 6,104,965</u>	<u>\$ 3,199,999</u>

**14. RETIREMENT PLAN**

The Association maintains a deferred annuity plan (the “Plan”) that covers substantially all employees. The Plan calls for the Association to match up to 3% of each employee’s contribution to the Plan. Total plan expense amounted to \$187,068 and \$160,750 for the years ended March 31, 2017 and 2016, respectively.

**15. RELATED-PARTY TRANSACTIONS**

Included in individual giving are contributions received from the directors, officers, and staff of the Association in the amounts of \$145,051 and \$247,258 for the years ended March 31, 2017 and 2016, respectively.

**16. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through December 8, 2017, which is the date the financial statements were issued. The Association is not aware of any subsequent events which would require recognition or disclosure in the financial statements.