

Financial Statements and Report of
Independent Certified Public Accountants

THE STUDENT CONSERVATION ASSOCIATION, INC.

March 31, 2016 and 2015

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, 2016 and 2015, and the related statements of activities, functional expenses and cash flows for the years 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Student Conservation Association, Inc. as of March 31, 2016 and 2015, and the results of its operations 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

Melville, New York
January 13, 2017

THE STUDENT CONSERVATION ASSOCIATION, INC.
Statements of Financial Position
As of March 31, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|---|----------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 805,977 | \$ 418,935 |
| Billed and unbilled contracts receivable, less allowance for doubtful accounts of \$19,353 and \$38,608, respectively | 5,651,829 | 4,512,280 |
| Foundation and corporate grants receivable | 909,470 | 1,165,720 |
| Charitable remainder trusts | 236,452 | 258,482 |
| Prepaid expenses and other assets | 2,006,076 | 1,695,227 |
| Investments | 8,858,743 | 8,840,004 |
| Debt issuance costs, net of accumulated amortization of \$45,308 and \$26,560, respectively | 48,433 | 67,181 |
| Property and equipment, net | <u>4,250,336</u> | <u>4,859,842</u> |
| Total assets | <u>\$ 22,767,316</u> | <u>\$ 21,817,671</u> |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | |
| Accounts payable | \$ 887,546 | \$ 869,677 |
| Accrued expenses | 1,562,219 | 1,096,093 |
| Line of credit | 4,081,453 | 3,074,171 |
| Capital lease obligations | - | 10,575 |
| Notes payable | 3,757,755 | 4,491,745 |
| Liability under split-interest agreements | <u>1,084,920</u> | <u>1,002,044</u> |
| Total liabilities | <u>11,373,893</u> | <u>10,544,305</u> |
| NET ASSETS | | |
| Unrestricted | 3,782,348 | 2,500,213 |
| Temporarily restricted | 3,199,999 | 4,419,550 |
| Permanently restricted | <u>4,411,076</u> | <u>4,353,603</u> |
| Total net assets | <u>11,393,423</u> | <u>11,273,366</u> |
| Total liabilities and net assets | <u>\$ 22,767,316</u> | <u>\$ 21,817,671</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, 2016

| | Unrestricted | | | Temporarily Restricted | Permanently Restricted | Total |
|---|---------------|---------------------|---------------|---------------------------|---------------------------|---------------|
| | Undesignated | Board Designated | Total | | | |
| OPERATING REVENUES | | | | | | |
| 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 | 1,332,701 | - | 4,209,566 |
| 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 | 1,424,297 | 57,473 | 38,289,742 |
| 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 | (1,005,423) | 57,473 | 38,289,742 |
| OPERATING EXPENSES | | | | | | |
| Program expenses: | | | | | | |
| Field expenses | 22,535,969 | - | 22,535,969 | - | - | 22,535,969 |
| Program support and development | 8,650,938 | - | 8,650,938 | - | - | 8,650,938 |
| Participant recruitment | 892,457 | - | 892,457 | - | - | 892,457 |
| Total program expenses | 32,079,363 | - | 32,079,363 | - | - | 32,079,363 |
| SUPPORTING EXPENSES | | | | | | |
| 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 |
| Income (loss) from operations | 783,985 | 786,656 | 1,570,641 | (1,005,423) | 57,473 | 622,691 |
| NON-OPERATING ACTIVITIES | | | | | | |
| 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) |
| Increase (decrease) 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 Activities

For the year ended March 31, 2015

| | Unrestricted | | | Temporarily Restricted | Permanently Restricted | Total |
|---|---------------|---------------------|---------------|---------------------------|---------------------------|---------------|
| | Undesignated | Board Designated | Total | | | |
| OPERATING REVENUES | | | | | | |
| Contract and agency revenue | \$ 24,064,651 | \$ - | \$ 24,064,651 | \$ - | \$ - | \$ 24,064,651 |
| Foundation and corporate gifts and grants | 2,238,610 | 240,000 | 2,478,610 | 2,529,720 | - | 5,008,330 |
| Individual giving | 2,909,654 | 1,590,997 | 4,500,651 | 4,896 | 94,210 | 4,599,757 |
| Other income | 153,338 | - | 153,338 | - | - | 153,338 |
| Total operating revenues | 29,366,253 | 1,830,997 | 31,197,250 | 2,534,616 | 94,210 | 33,826,076 |
| Net assets released from restrictions and designations | 3,249,364 | (53,417) | 3,195,947 | (3,195,947) | - | - |
| Total operating revenues | 32,615,617 | 1,777,580 | 34,393,197 | (661,331) | 94,210 | 33,826,076 |
| OPERATING EXPENSES | | | | | | |
| Program expenses: | | | | | | |
| Field expenses | 21,393,412 | 374,252 | 21,767,664 | - | - | 21,767,664 |
| Program support and development | 5,505,836 | 961,529 | 6,467,365 | - | - | 6,467,365 |
| Participant recruitment | 1,229,223 | 154,366 | 1,383,589 | - | - | 1,383,589 |
| Total program expenses | 28,128,471 | 1,490,147 | 29,618,618 | - | - | 29,618,618 |
| SUPPORTING EXPENSES | | | | | | |
| General and administrative | 2,531,429 | 201,444 | 2,732,873 | - | - | 2,732,873 |
| Fundraising | 1,485,816 | 796,985 | 2,282,801 | - | - | 2,282,801 |
| Total supporting expenses | 4,017,245 | 998,429 | 5,015,674 | - | - | 5,015,674 |
| Total operating expenses | 32,145,716 | 2,488,576 | 34,634,292 | - | - | 34,634,292 |
| Income (loss) from operations | 469,901 | (710,996) | (241,095) | (661,331) | 94,210 | (808,216) |
| NON-OPERATING ACTIVITIES | | | | | | |
| Net return on investments | - | 74,819 | 74,819 | 73,393 | - | 148,212 |
| Change in actuarial value and amortization of split-interest agreements | - | (114,763) | (114,763) | - | (1,465) | (116,228) |
| Total non-operating activities | - | (39,944) | (39,944) | 73,393 | (1,465) | 31,984 |
| Increase (decrease) in net assets | 469,901 | (750,940) | (281,039) | (587,938) | 92,745 | (776,232) |
| Net (deficits) assets, beginning of year | (750,910) | 3,532,162 | 2,781,252 | 5,007,488 | 4,260,858 | 12,049,598 |
| Net (deficits) assets, end of year | \$ (281,009) | \$ 2,781,222 | \$ 2,500,213 | \$ 4,419,550 | \$ 4,353,603 | \$ 11,273,366 |

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 & Development | Participant Recruitment | Program Support | Total | General and Administrative | Fundraising | Fundraising Support | Total | |
| COMPENSATION RELATED | | | | | | | | | | |
| 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> |
| OTHER OPERATING EXPENSES | | | | | | | | | | |
| 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 | 49,417 | 17,362 | 11,583 | 151,600 | 55,248 | 310,111 | 33,760 | 399,119 | 550,719 |
| Total noncompensation | <u>17,197,691</u> | <u>1,311,949</u> | <u>124,778</u> | <u>2,255,359</u> | <u>20,889,777</u> | <u>1,641,251</u> | <u>1,227,934</u> | <u>179,890</u> | <u>3,049,075</u> | <u>23,938,852</u> |
| Total expenses | <u>\$ 22,535,969</u> | <u>\$ 4,824,335</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.
Statement of Functional Expenses
For the year ended March 31, 2015

| | Program Services | | | | | General, Administrative and Fundraising | | | | Total Expenses |
|--|------------------|-------------------------------|-------------------------|-----------------|---------------|---|--------------|---------------------|--------------|----------------|
| | Field Expenses | Program Support & Development | Participant Recruitment | Program Support | Total | General and Administrative | Fundraising | Fundraising Support | Total | |
| COMPENSATION RELATED | | | | | | | | | | |
| Salaries and wages | \$ 4,876,737 | \$ 2,756,396 | \$ 598,757 | \$ 1,365,092 | \$ 9,596,982 | \$ 788,248 | \$ 1,053,678 | \$ - | \$ 1,841,926 | \$ 11,438,908 |
| Group medical insurance | 149,317 | 230,633 | 30,770 | 199,244 | 609,964 | 60,837 | 81,323 | - | 142,160 | 752,124 |
| Payroll taxes | 287,186 | 289,814 | 46,598 | 89,010 | 712,608 | 71,074 | 95,007 | - | 166,081 | 878,689 |
| Contracted services | 115,585 | 31,398 | - | - | 146,983 | 76,020 | 83,691 | - | 159,711 | 306,694 |
| Retirement expense | 36,767 | 62,372 | 9,020 | 19,111 | 127,270 | 12,694 | 16,968 | - | 29,662 | 156,932 |
| Total compensation related | 5,465,592 | 3,370,613 | 685,145 | 1,672,457 | 11,193,807 | 1,008,873 | 1,330,667 | - | 2,339,540 | 13,533,347 |
| OTHER OPERATING EXPENSES | | | | | | | | | | |
| Participant subsistence, housing, and health insurance | 2,453,503 | - | - | - | 2,453,503 | - | - | - | - | 2,453,503 |
| Field travel and transportation | 3,277,391 | - | - | - | 3,277,391 | - | - | - | - | 3,277,391 |
| Participant grants and awards | 6,260,262 | - | - | - | 6,260,262 | - | - | - | - | 6,260,262 |
| Travel - staff | 191,690 | 427,884 | 54,624 | 57,491 | 731,689 | 14,373 | 57,813 | - | 72,186 | 803,875 |
| Postage and freight | 110,378 | 27,455 | 2,371 | 16,003 | 156,207 | 8,497 | 183,434 | 834 | 192,765 | 348,972 |
| Training, orientation, and career services | 672,942 | 3,969 | 60 | - | 676,971 | 54,616 | 537 | - | 55,153 | 732,124 |
| Supplies and equipment | 508,399 | 17,552 | 20 | 12,856 | 538,827 | 2,766 | 1,485 | 651 | 4,902 | 543,729 |
| Depreciation/amortization | - | - | - | 567,150 | 567,150 | 174,198 | - | 52,017 | 226,215 | 793,365 |
| Insurance | - | - | - | 1,027,366 | 1,027,366 | 212,990 | - | 12,529 | 225,519 | 1,252,885 |
| Rent and property expenses | 178,804 | 363,025 | - | 43,300 | 585,129 | 23,618 | - | 11,809 | 35,427 | 620,556 |
| Interest, finance, and bank charges | - | - | - | - | - | 369,906 | - | - | 369,906 | 369,906 |
| Printing | 42,929 | 24,267 | 2,812 | 32,640 | 102,648 | 32,640 | 191,499 | - | 224,139 | 326,787 |
| Telephone | 84,671 | 138,602 | 7,340 | 35,660 | 266,273 | 28,528 | 7,083 | 7,132 | 42,743 | 309,016 |
| Uniforms | 482,896 | - | - | - | 482,896 | - | - | - | - | 482,896 |
| Technology operations (nonstaff) | - | - | - | 473,454 | 473,454 | 59,182 | - | 59,182 | 118,364 | 591,818 |
| Conferences | 16,540 | 9,239 | 3,998 | - | 29,777 | 90,285 | 3,087 | - | 93,372 | 123,149 |
| Audit and legal fees | - | - | - | 55,734 | 55,734 | 145,847 | - | - | 145,847 | 201,581 |
| Risk management (nonstaff) | 238,664 | - | - | - | 238,664 | - | - | - | - | 238,664 |
| Equipment rental | - | 24,518 | - | 24,541 | 49,059 | 4,908 | - | 3,272 | 8,180 | 57,239 |
| Dues, publications and subscriptions | - | 32,785 | 375 | - | 33,160 | 26,066 | 17,959 | - | 44,025 | 77,185 |
| Consulting and processing | - | 80,550 | - | 156,350 | 236,900 | 313,742 | 284,617 | 6,086 | 604,445 | 841,345 |
| All other expenses | 45,945 | 67,457 | 6,275 | 62,074 | 181,751 | 161,838 | 43,472 | 7,636 | 212,946 | 394,697 |
| Total noncompensation | 14,565,014 | 1,217,303 | 77,875 | 2,564,619 | 18,424,811 | 1,724,000 | 790,986 | 161,148 | 2,676,134 | 21,100,945 |
| Total expenses | \$ 20,030,606 | \$ 4,587,916 | \$ 763,020 | \$ 4,237,076 | \$ 29,618,618 | \$ 2,732,873 | \$ 2,121,653 | \$ 161,148 | \$ 5,015,674 | \$ 34,634,292 |

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, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|---|-------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Increase (decrease) in net assets | \$ 120,057 | \$ (776,232) |
| Noncash items included increase/(decrease) in net assets: | | |
| Depreciation and amortization | 751,269 | 774,617 |
| Net realized and unrealized loss on investments | 499,226 | 19,448 |
| Earnings on matured split-interest agreements | (29,600) | (30,263) |
| Amortization of discount on split-interest agreements | 53,821 | 53,464 |
| Change in actuarial valuation of split-interest agreements | 61,759 | 62,764 |
| Contributions restricted for long-term endowment | (57,473) | (94,210) |
| Contributed assets | (217,500) | (259,833) |
| Provision for bad debt | (19,256) | 11,619 |
| Changes in assets and liabilities: | | |
| Receivables and charitable remainder trusts | (842,014) | 2,160,045 |
| Prepaid expenses and other assets | (292,102) | 278,830 |
| Accounts payable | 17,869 | (172,589) |
| Accrued expenses | <u>466,128</u> | <u>(29,101)</u> |
| Net cash provided by operating activities | <u>512,184</u> | <u>1,998,559</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions of property and equipment | (141,765) | (337,418) |
| Purchase of investments | (562,862) | (529,303) |
| Proceeds from sales of investments | <u>262,400</u> | <u>436,749</u> |
| Net cash used in investing activities | <u>(442,227)</u> | <u>(429,972)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds (payments) from line of credit, net | 1,007,282 | (709,603) |
| Principal payments on long-term debt | (733,990) | (729,484) |
| Principal payments on capital lease obligations | (10,575) | (16,709) |
| Proceeds from new obligations under split-interest agreements | 153,965 | 60,373 |
| Obligations paid under split-interest agreements | (157,070) | (154,595) |
| Contributions restricted for long-term endowment | <u>57,473</u> | <u>94,210</u> |
| Net cash provided by (used in) financing activities | <u>317,085</u> | <u>(1,455,808)</u> |
| Net increase in cash and cash equivalents | 387,042 | 112,779 |
| Cash and cash equivalents, beginning of year | <u>418,935</u> | <u>306,156</u> |
| Cash and cash equivalents, end of year | <u>\$ 805,977</u> | <u>\$ 418,935</u> |
| Supplemental disclosures of cash flows information: | | |
| Cash paid during the year for interest | <u>\$ 243,467</u> | <u>\$ 271,801</u> |
| Other non-cash investing and financing activities: | | |
| In-kind contributions | <u>\$ 205,700</u> | <u>\$ 340,896</u> |

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

THE STUDENT CONSERVATION ASSOCIATION, INC.

Notes to Financial Statements

March 31, 2016 and 2015

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. 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 for estimated uncollectible

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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 is recognized when earned. Dividends are accrued as of the ex-dividend date.

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

The amortization expense of debt issuance costs totaled \$18,748 for the years ending March 31, 2016 and 2015, respectively, and is reflected within interest expense on the accompanying statements of activities.

In 2015, the Financial Accounting Standards Board (“FASB”) issued guidance to simplify the presentation of debt issuance costs by requiring debt issuance costs related to a recognized debt liability to be presented

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as a direct deduction from the carrying amount of that debt liability. The amendments within this update must be applied retrospectively to all periods presented and is effective for fiscal years beginning after December 31, 2015. As such, the Association is evaluating the impact that this update will have on the financial statements but does not expect it will have a material effect and will not be early adopting this new standard

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 |

Donations of property and equipment are recorded as revenue at their estimated fair market value. 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. The schedule of functional expenses is presented as a supplemental schedule.

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. Estimates and assumptions are used for the following accounts: unbilled contracts receivable, allowance for doubtful accounts, investments, depreciation of property and equipment, accrued expenses, capital lease obligations and liability for split-interest agreements.

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 60% and 70% of unrestricted operating revenues were from state and federal agencies in fiscal 2016 and 2015, 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, 2016, one donor accounted for 8% of the Association's foundation and corporate grants receivable. As of March 31, 2015, one donor accounted for 9% of the Association's foundation and corporate grants receivable.

Due to the significant number of people paid from the Association, from several funding sources and under different contractual terms, the Association has decided to conduct a review of its payroll policies and procedures. The policies and procedures under review include, but are not limited to, employee versus independent contractor classification, accountable plan procedures, and payroll withholding and reporting for US citizens, resident aliens and non-residents.

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

Contract receivables consist of the following at March 31:

| | <u>2016</u> | <u>2015</u> |
|---------------------------------------|---------------------|---------------------|
| Billed receivables | \$ 2,819,402 | \$ 2,395,872 |
| Unbilled receivables | <u>2,851,780</u> | <u>2,155,016</u> |
| | 5,671,182 | 4,550,888 |
| Less: allowance for doubtful accounts | <u>(19,353)</u> | <u>(38,608)</u> |
| Contract receivables, net | <u>\$ 5,651,829</u> | <u>\$ 4,512,280</u> |

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5. CHARITABLE REMAINDER TRUSTS AND GRANTS RECEIVABLE

At March 31, the Association's charitable remainder trusts were due as follows:

| | <u>2016</u> | <u>2015</u> |
|-------------------|-------------|-------------|
| One to five years | \$ 236,452 | \$ 258,482 |

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

| | <u>2016</u> | <u>2015</u> |
|--------------------|-------------------|---------------------|
| Less than one year | \$ 859,470 | \$ 900,720 |
| One to five years | <u>50,000</u> | <u>265,000</u> |
| Total | <u>\$ 909,470</u> | <u>\$ 1,165,720</u> |

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at March 31:

| | <u>2016</u> | <u>2015</u> |
|---|---------------------|---------------------|
| Land | \$ 34,500 | \$ 34,500 |
| Buildings and improvements | 5,407,196 | 5,407,196 |
| Equipment under capital leases | 180,267 | 180,267 |
| Equipment and software | <u>7,673,221</u> | <u>7,531,456</u> |
| | 13,295,184 | 13,153,419 |
| Less: accumulated depreciation and amortization | <u>(9,044,848)</u> | <u>(8,293,577)</u> |
| Property and equipment, net | <u>\$ 4,250,336</u> | <u>\$ 4,859,842</u> |

Depreciation expense of \$751,271 and \$774,617 was recorded for the years ending March 31, 2016 and 2015, respectively, and includes depreciation of capitalized leased assets. Accumulated depreciation related to capitalized leased assets totaled \$180,267 and \$180,267 at March 31, 2016 and 2015, respectively. There are no future capital leases. Equipment not yet placed in service at March 31, 2016 and 2015 totaled \$83,143 and \$160,934, 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 \$664,134 and \$614,566 for the years ended March 31, 2016 and 2015, respectively. Deferred rent totaled \$80,088 and \$103,840 as of March 31, 2016 and 2015 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

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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 \$67,543 and \$62,199 for the years ended March 31, 2016 and 2015, respectively.

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

| <u>Year Ending March 31,</u> | <u>Amount</u> |
|------------------------------|---------------------|
| 2017 | \$ 452,877 |
| 2018 | 355,518 |
| 2019 | <u>286,814</u> |
| | <u>\$ 1,095,209</u> |

8. INVESTMENTS

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

| | <u>2016</u> | <u>2015</u> |
|---|---------------------|---------------------|
| Cash and cash equivalents | \$ 529,306 | \$ 90,800 |
| Domestic equities | 2,891,550 | 757,782 |
| International equities | 246,518 | 157,394 |
| Fixed income, including corporate and governmental bonds | 2,276,190 | 436,306 |
| Mutual funds | <u>2,915,179</u> | <u>7,397,722</u> |
| Total investments | <u>\$ 8,858,743</u> | <u>\$ 8,840,004</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 (the "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, 2016 and 2015, the Association had sufficient funds in its reserve and those funds were invested in accordance with the Code. The balance in the segregated fund totaled \$1,524,818 and \$1,442,282 as of March 31, 2016 and 2015, respectively.

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The following table summarizes the total investment return and its presentation in the statement of activities for the period ending 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> |

The following table summarizes the total investment return and its presentation in the statement of activities for the period ending March 31, 2015:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-------------------|
| Interest and dividend income, net of fees | \$ 80,578 | \$ 87,082 | \$ 167,660 |
| Net realized gain | 204,604 | 229,182 | 433,786 |
| Net unrealized loss | <u>(210,363)</u> | <u>(242,871)</u> | <u>(453,234)</u> |
| | <u>(5,759)</u> | <u>(13,689)</u> | <u>(19,448)</u> |
| Net return on investments | <u>\$ 74,819</u> | <u>\$ 73,393</u> | <u>\$ 148,212</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, 2016 and 2015.

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Notes payable consists of the following:

| | <u>2016</u> | <u>2015</u> |
|---|---------------------|---------------------|
| US Bank Term Loan | | |
| 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. | \$ 1,550,000 | \$ 2,150,000 |
| US Bank Term Loan No. 2 | | |
| 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>2,207,755</u> | <u>2,341,745</u> |
| Total debt | <u>\$ 3,757,755</u> | <u>\$ 4,491,745</u> |

Principal payments of term notes are due as follows:

Year Ending March 31,

| | |
|------|---------------------|
| 2017 | \$ 739,098 |
| 2018 | 744,173 |
| 2019 | <u>2,274,484</u> |
| | <u>\$ 3,757,755</u> |

Line of Credit

At March 31, 2016, the revolving line of credit includes total availability of \$9,000,000, which 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 LIBOR rate plus 1.95%. The variable rate at March 31, 2016 and 2015 was 2.387% and 2.1375%, respectively. The balance outstanding under this line of credit totaled \$4,081,453 and \$3,074,171 at March 31, 2016 and 2015, respectively, and the amount available at that date totaled \$4,918,547 and \$5,625,829, respectively. The line expires October 1, 2017.

Interest expense related to the lines of credit and notes payable totaled \$243,467 and \$238,234 for the years ending March 31, 2016 and 2015, respectively

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

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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 liability under these agreements totaled \$1,084,920 and \$1,002,044 for the years ending March 31, 2016 and 2015, 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. Also included in Level 2 are investments measured using a net asset value ("NAV") per share, or its equivalent, that may be redeemed at NAV at the statement of financial position date or in the near term, which the Association has determined to be within 90 days. The Association uses the NAV per share for purposes of reporting the fair value of its underlying investments which: (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company.
- 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

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financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is 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.

Investments in common stock equities, money market funds and U.S. government securities are stated at quoted prices in active markets.

The following table summarizes the Association's fair value hierarchy for its investments, measured at fair value, as of March 31:

| <u>2016</u> | <u>Level 1</u> | | |
|---------------------------|-----------------------|------------------|--|
| Cash and cash equivalents | \$ | 529,306 | |
| Domestic equities | | 2,891,550 | |
| International equities | | 246,518 | |
| Fixed income | | 2,276,190 | |
| Mutual funds | | <u>2,915,179</u> | |
| Total investments | <u>\$</u> | <u>8,858,743</u> | |

| <u>2015</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Total</u> |
|---------------------------|-----------------------|-----------------------|---------------------|
| Cash and cash equivalents | \$ 90,800 | \$ - | \$ 90,800 |
| Domestic equities | 757,782 | - | 757,782 |
| International equities | 157,394 | - | 157,394 |
| Fixed income | 436,306 | - | 436,306 |
| Mutual funds | <u>3,033,559</u> | <u>4,364,163</u> | <u>7,397,722</u> |
| Total investments | <u>\$ 4,475,841</u> | <u>\$ 4,364,163</u> | <u>\$ 8,840,004</u> |

The Association uses NAV to determine the fair value of all the underlying investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company.

The TIFF Multi-Asset Fund was closed in March of 2016 with the funds transferred to RW Baird. The RW Baird is a managed account with an investment strategy that is in keeping with the Association's investment policy (Note 12).

There were no investments valued at NAV as of March 31, 2016.

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Investments valued at NAV or its equivalent as of March 31, 2015, consisted of the following:

| | <u>Fair Value</u> | <u>Unfunded Commitments</u> | <u>Redemption Frequency (if Currently Eligible)</u> | <u>Redemption Notice Period</u> |
|--------------|-------------------|---------------------------------|---|-------------------------------------|
| Mutual funds | \$ 4,364,163 | \$ - | Daily | None |

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:

| | |
|----------------------------------|-------------------|
| Balance at March 31, 2014 | \$ 258,754 |
| Adjustment for market changes | <u>(272)</u> |
| Balance at March 31, 2015 | 258,482 |
| Adjustment for market changes | <u>(22,030)</u> |
| Balance at March 31, 2016 | <u>\$ 236,452</u> |

Liability under split interest agreements:

| | <u>2016</u> | <u>2015</u> |
|---------------------------|---------------------|---------------------|
| Beginning Balance | \$ 1,002,044 | \$ 1,010,301 |
| New agreements | 153,965 | 60,373 |
| Payments to beneficiaries | (157,070) | (154,595) |
| Terminated annuities | (29,600) | (30,263) |
| Change in fair value | <u>115,580</u> | <u>116,228</u> |
| Ending balance | <u>\$ 1,084,920</u> | <u>\$ 1,002,044</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

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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 the Act.

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

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value of the endowment, which is classified as temporarily restricted. For the years ending March 31, 2016 and 2015, \$384,885 and \$324,180, respectively, was released from temporarily restricted funds related to the endowment spending policy.

In addition to the endowment spending policy, in fiscal 2016 the board moved the board designated spending into the general budget. This spending is now part of the finance committee decisions as outlined in the budget. Thus for fiscal 2016 there are no board designated expenses. The Association spends amounts from board designated funds which is based on the same method as described above for the endowment spending policy. For the year ending March 31, 2015, the spending allocation from board designated funds was \$53,417. These amounts are included in the total amount of net assets released from restriction.

In addition, withdrawals from board designated funds may occur subject to the approval of the Board of Directors. Board approved withdrawals of \$0 and \$1,100,000 were transferred during the years ending March 31, 2016 and 2015, respectively.

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

| | 2016 | | | |
|----------------------------------|---------------------|-----------------------------------|-----------------------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Donor restricted endowment funds | \$ - | \$ 177,406 | \$ 4,411,076 | \$ 4,588,482 |
| Board designated funds | <u>3,279,374</u> | <u>-</u> | <u>-</u> | <u>3,279,374</u> |
| Total endowment net assets | <u>\$ 3,279,374</u> | <u>\$ 177,406</u> | <u>\$ 4,411,076</u> | <u>\$ 7,867,856</u> |
| | 2015 | | | |
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Donor restricted endowment funds | \$ - | \$ 776,420 | \$ 4,353,603 | \$ 5,130,023 |
| Board designated funds | <u>2,781,222</u> | <u>-</u> | <u>-</u> | <u>2,781,222</u> |
| Total endowment net assets | <u>\$ 2,781,222</u> | <u>\$ 776,420</u> | <u>\$ 4,353,603</u> | <u>\$ 7,911,245</u> |

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March 31, 2016 and 2015

Endowment Fund Activity

| | 2016 | | | |
|---|---------------------|-----------------------------------|-----------------------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Endowment assets, beginning of year | \$ 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 | <u>(219,935)</u> | <u>(279,291)</u> | <u>-</u> | <u>(499,226)</u> |
| Total investment return | (173,951) | (213,104) | - | (387,055) |
| New gifts | 1,102,456 | - | 57,473 | 1,159,929 |
| Appropriation of endowment assets for operations | (315,799) | (384,885) | - | (700,684) |
| Change in actuarial value and amortization of split interest agreements | <u>(114,555)</u> | <u>(1,025)</u> | <u>-</u> | <u>(115,580)</u> |
| Endowment assets, end of year | <u>\$ 3,279,374</u> | <u>\$ 177,406</u> | <u>\$ 4,411,076</u> | <u>\$ 7,867,856</u> |
| | 2015 | | | |
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Endowment assets, beginning of year | \$ 3,532,162 | \$ 1,027,207 | \$ 4,260,858 | \$ 8,820,227 |
| Investment returns: | | | | |
| Investment income | 80,578 | 87,082 | - | 167,660 |
| Realized and unrealized losses | <u>(5,759)</u> | <u>(13,689)</u> | <u>-</u> | <u>(19,448)</u> |
| Total investment return | 74,819 | 73,393 | - | 148,212 |
| New gifts | 1,830,997 | - | 94,210 | 1,925,207 |
| Appropriation of endowment assets for operations | (2,541,993) | (324,180) | - | (2,866,173) |
| Change in actuarial value and amortization of split interest agreements | <u>(114,763)</u> | <u>-</u> | <u>(1,465)</u> | <u>(116,228)</u> |
| Endowment assets, end of year | <u>\$ 2,781,222</u> | <u>\$ 776,420</u> | <u>\$ 4,353,603</u> | <u>\$ 7,911,245</u> |

The endowment fund activity table includes “Appropriation of endowment assets for operations”. During the years ending March 31, 2016 and 2015, this represented net assets released related to the endowment spending allocation as well as board designated expenditures related to planned giving, capital campaign and strategic plan activities.

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13. TEMPORARILY RESTRICTED NET ASSETS

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

| | <u>2016</u> | <u>2015</u> |
|---|---------------------|---------------------|
| Time restricted | \$ 909,470 | \$ 1,165,720 |
| Purpose restricted | 1,728,238 | 2,477,410 |
| Accumulated earnings on endowment | <u>562,291</u> | <u>776,420</u> |
| Total temporarily restricted net assets | <u>\$ 3,199,999</u> | <u>\$ 4,419,550</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 \$160,750 and \$154,089 for the years ending March 31, 2016 and 2015, 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 \$247,258 and \$347,561 for the years ended March 31, 2016 and 2015, respectively.

16. SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 13, 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.