



**FINANCIAL STATEMENTS IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS AND  
UNIFORM GUIDANCE  
MARCH 31, 2018**

**THE STUDENT CONSERVATION ASSOCIATION, INC.**

Contents  
March 31, 2018

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**Unmodified Opinion on Financial Statements Accompanied by Other  
Information – Not-For-Profit Entity**

**Independent Auditor's Report**

To the Board of Directors of  
The Student Conservation Association, Inc.:

**Report on the Financial Statements**

We have audited the accompanying financial statements of The Student Conservation Association, Inc. (a New York corporation, not for profit) (the Association), which comprise the statement of financial position as of March 31, 2018, and the related statements of activities, changes in net assets, cash flows and functional expenses for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 on page one present fairly, in all material respects, the financial position of The Student Conservation Association, Inc. as of March 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of a Matter**

As disclosed in Note 2, during fiscal year 2018, the Association early adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954): Presentation of Financial Statements of Not-for-Profit Entities*, which provides, among other items, clarity over the Association's classification of net assets, methods used to allocate costs to programmatic and support functions, as well as information concerning liquidity and availability of resources. Our opinion is not modified with respect to this matter.

## **Other Matters**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards for the year ended March 31, 2018, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2018, on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Association's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

  
Westborough, Massachusetts  
October 27, 2018

**THE STUDENT CONSERVATION ASSOCIATION, INC.**

Statement of Financial Position  
March 31, 2018

<b>Assets</b>	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Current Assets:			
Cash	\$ 1,038,625	\$ -	\$ 1,038,625
Contract and other receivables, net	7,196,204	-	7,196,204
Current portion of pledges receivable	18,696	2,088,977	2,107,673
Prepaid expenses and other assets	1,144,814	-	1,144,814
Due (to) from	(3,485,392)	3,485,392	-
Total current assets	5,912,947	5,574,369	11,487,316
Other Assets:			
Pledges receivable, net of current portion	-	50,357	50,357
Investments	5,313,006	6,693,057	12,006,063
Beneficial interests in trusts	-	256,333	256,333
Cash surrender value of life insurance policy	144,406	-	144,406
Property and equipment, net	4,454,914	-	4,454,914
Total assets	\$ 15,825,273	\$ 12,574,116	\$ 28,399,389
<b>Liabilities and Net Assets</b>			
Current Liabilities:			
Line of credit	\$ 3,032,829	\$ -	\$ 3,032,829
Current portion of notes payable	500,382	-	500,382
Current portion of capital lease obligations	356,163	-	356,163
Accounts payable	1,158,108	-	1,158,108
Accrued expenses	791,288	-	791,288
Total current liabilities	5,838,770	-	5,838,770
Other Liabilities:			
Notes payable, net of current portion and unamortized debt issuance costs	1,761,902	-	1,761,902
Capital lease obligations, net of current portion	302,629	-	302,629
Split-interest agreements	1,360,058	-	1,360,058
Total liabilities	9,263,359	-	9,263,359
Net Assets:			
Without donor restrictions:			
Operating	(1,487,924)	-	(1,487,924)
Board designated	4,754,098	-	4,754,098
Property and equipment	3,295,740	-	3,295,740
Total without donor restrictions	6,561,914	-	6,561,914
With donor restrictions	-	12,574,116	12,574,116
Total net assets	6,561,914	12,574,116	19,136,030
Total liabilities and net assets	\$ 15,825,273	\$ 12,574,116	\$ 28,399,389

The accompanying notes are an integral part of these statements.

**THE STUDENT CONSERVATION ASSOCIATION, INC.**

Statement of Activities  
For the Year Ended March 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Operating Revenue:</b>			
Contract revenue	\$ 30,744,349	\$ -	\$ 30,744,349
Foundation and corporate grants	2,674,289	4,225,810	6,900,099
Individual giving	3,366,351	-	3,366,351
Investment return designated for current operations	191,632	-	191,632
Other income	181,153	-	181,153
Investment return	21,737	-	21,737
Net assets released from restrictions	3,975,109	(3,975,109)	-
	<u>41,154,620</u>	<u>250,701</u>	<u>41,405,321</u>
<b>Operating Expenses:</b>			
Program expenses:			
Community	5,597,241	-	5,597,241
Corps	11,206,501	-	11,206,501
Crew	1,842,258	-	1,842,258
Internship	14,848,070	-	14,848,070
Leader	553,362	-	553,362
Training	506,109	-	506,109
Youth conservation corps	80,780	-	80,780
	<u>34,634,321</u>	<u>-</u>	<u>34,634,321</u>
General and administrative	6,341,278	-	6,341,278
Fundraising	2,509,327	-	2,509,327
	<u>43,484,926</u>	<u>-</u>	<u>43,484,926</u>
Changes in net assets from operations	<u>(2,330,306)</u>	<u>250,701</u>	<u>(2,079,605)</u>
<b>Non-Operating Revenue (Expenses):</b>			
Investment return, net	315,061	619,353	934,414
Charitable gift annuity contributions	-	642,951	642,951
Endowment contributions	-	176,477	176,477
Change in value of beneficial interests in trusts	-	12,735	12,735
Investment return on cash surrender value of life insurance policy	6,347	-	6,347
Investment return designated for current operations	-	(191,632)	(191,632)
Change in value of split-interest agreements	-	(373,375)	(373,375)
	<u>321,408</u>	<u>886,509</u>	<u>1,207,917</u>
Changes in net assets	<u>\$ (2,008,898)</u>	<u>\$ 1,137,210</u>	<u>\$ (871,688)</u>

**THE STUDENT CONSERVATION ASSOCIATION, INC.**

Statement of Changes in Net Assets  
For the Year Ended March 31, 2018

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	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Net Assets, March 31, 2017, as previously stated</b>	\$ 8,925,432	\$ 11,384,440	\$ 20,309,872
Prior period adjustments	<u>(354,620)</u>	<u>52,466</u>	<u>(302,154)</u>
<b>Net Assets, March 31, 2017, as restated</b>	8,570,812	11,436,906	20,007,718
Changes in net assets	<u>(2,008,898)</u>	<u>1,137,210</u>	<u>(871,688)</u>
<b>Net Assets, March 31, 2018</b>	<u><u>\$ 6,561,914</u></u>	<u><u>\$ 12,574,116</u></u>	<u><u>\$ 19,136,030</u></u>

**THE STUDENT CONSERVATION ASSOCIATION, INC.**Statement of Cash Flows  
For the Year Ended March 31, 2018**Cash Flows from Operating Activities:**

Changes in net assets	\$ (871,688)
Adjustments to reconcile changes in net assets to net cash used in operating activities:	
Depreciation	1,018,695
Amortization of debt issuance costs	17,485
Bad debts	29,959
Realized and unrealized gains on investments	(683,351)
Endowment contributions	(176,477)
Charitable gift annuity contributions	(642,951)
Change in value of split-interest agreements	373,375
Change in value of beneficial interests in trusts	(12,735)
Donated revenue in excess of expense	(74,366)
Changes in operating assets and liabilities:	
Contracts and other receivables	(268,741)
Pledges receivable	(284,703)
Prepaid expenses and other assets	(173,412)
Accounts payable	560,885
Accrued expenses	(373,868)
Net cash used in operating activities	<u>(1,561,893)</u>

**Cash Flows from Investing Activities:**

Purchase of property and equipment	(458,255)
Charitable gift annuity contributions	642,951
Purchase of investments	(3,489,201)
Proceeds from sale of investments	3,655,956
Investment return on cash surrender value of life insurance policy	(6,347)
Payments to annuitants	(113,293)
Net cash provided by investing activities	<u>231,811</u>

**Cash Flows from Financing Activities:**

Net proceeds from line of credit	2,338,057
Endowment contributions	176,477
Principal payments on capital lease obligations	(398,512)
Principal payments on notes payable	(744,173)
Net cash provided by financing activities	<u>1,371,849</u>

**Net Change in Cash** 41,767**Cash:**

Beginning of year	<u>996,858</u>
End of year	<u>\$ 1,038,625</u>

**Supplemental Disclosure of Cash Flow Information:**

Cash paid for interest	<u>\$ 284,278</u>
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**Supplemental Disclosure of Non-Cash Transactions:**

Property and equipment acquired through capital leases	<u>\$ 39,651</u>
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The accompanying notes are an integral part of these statements.

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**THE STUDENT CONSERVATION ASSOCIATION, INC.**

Statement of Functional Expenses  
For the Year Ended March 31, 2018

	Program						Support					Total
	Community	Corps	Crew	Internship	Leader	Training	Youth Conservation Corps	Total Program	General and Administrative	Fundraising	Total Support	
<b>Personnel and Related Costs:</b>												
Salaries and wages	\$ 1,364,487	\$ 2,731,469	\$ 449,009	\$ 3,619,508	\$ 134,702	\$ 123,477	\$ 19,955	\$ 8,442,607	\$ 2,867,418	\$ 1,162,436	\$ 4,029,854	\$ 12,472,461
Payroll taxes	150,392	301,060	49,489	398,940	14,847	13,609	2,199	930,536	316,046	128,123	444,169	1,374,705
Fringe benefits	96,620	193,417	31,794	256,299	9,539	8,743	1,413	597,825	203,043	82,312	285,355	883,180
Contracted services	41,192	82,459	13,555	109,267	4,067	3,727	603	254,870	86,563	35,092	121,655	376,525
<b>Total personnel and related costs</b>	<b>1,652,691</b>	<b>3,308,405</b>	<b>543,847</b>	<b>4,384,014</b>	<b>163,155</b>	<b>149,556</b>	<b>24,170</b>	<b>10,225,838</b>	<b>3,473,070</b>	<b>1,407,963</b>	<b>4,881,033</b>	<b>15,106,871</b>
<b>Occupancy:</b>												
Rent	77,964	156,071	25,656	206,812	7,697	7,055	1,140	482,395	163,839	66,419	230,258	712,653
Depreciation	-	-	-	-	-	-	-	-	134,554	54,547	189,101	189,101
Utilities	16,428	32,886	5,406	43,579	1,622	1,487	240	101,648	34,523	13,994	48,517	150,165
Interest	-	-	-	-	-	-	-	-	76,707	31,096	107,803	107,803
Repairs and maintenance	6,819	13,651	2,244	18,089	673	617	100	42,193	14,330	5,810	20,140	62,333
Property insurance	2,979	5,963	980	7,901	294	270	44	18,431	6,259	2,537	8,796	27,227
<b>Total occupancy</b>	<b>104,190</b>	<b>208,571</b>	<b>34,286</b>	<b>276,381</b>	<b>10,286</b>	<b>9,429</b>	<b>1,524</b>	<b>644,667</b>	<b>430,212</b>	<b>174,403</b>	<b>604,615</b>	<b>1,249,282</b>
<b>Other:</b>												
Participant grants and awards	1,387,133	2,777,700	456,655	3,679,852	137,340	125,323	19,743	8,583,746	-	-	-	8,583,746
Participant housing and meals	538,507	1,078,348	177,281	1,428,578	53,318	48,652	7,664	3,332,348	-	-	-	3,332,348
Field travel and transportation	532,524	1,066,367	175,311	1,412,705	52,725	48,112	7,580	3,295,324	-	-	-	3,295,324
Insurance	276,923	554,351	91,126	734,579	27,338	25,060	4,050	1,713,427	581,942	235,916	817,858	2,531,285
Conferences and training	301,330	603,360	99,190	799,368	29,814	27,235	4,317	1,864,614	149,079	60,436	209,515	2,074,129
Professional fees	221,725	443,856	72,963	588,160	21,889	20,065	3,243	1,371,901	465,948	188,892	654,840	2,026,741
Staff travel	95,796	191,768	31,524	254,115	9,457	8,669	1,401	592,730	201,313	81,610	282,923	875,653
Depreciation	90,758	181,681	29,865	240,748	8,960	8,213	1,327	561,552	190,724	77,318	268,042	829,594
Supplies and equipment	75,319	150,777	24,785	199,796	7,436	6,816	1,102	466,031	158,281	64,166	222,447	688,478
Technology	72,416	144,965	23,830	192,095	7,149	6,553	1,059	448,067	152,180	61,692	213,872	661,939
Advertising	50,186	100,463	16,515	133,125	4,954	4,541	734	310,518	105,464	42,755	148,219	458,737
Uniforms	63,716	127,591	20,976	169,030	6,309	5,757	906	394,285	-	-	-	394,285
Telephone	40,906	81,886	13,461	108,508	4,038	3,702	598	253,099	85,962	34,848	120,810	373,909
Miscellaneous	37,963	75,995	12,492	100,702	3,748	3,435	555	234,890	79,777	32,341	112,118	347,008
Printing and postage	29,232	58,518	9,619	77,543	2,886	2,645	428	180,871	61,430	24,904	86,334	267,205
Interest	4,655	9,318	1,532	12,347	460	421	68	28,801	161,195	3,964	165,159	193,960
Memberships and subscriptions	15,955	31,940	5,250	42,324	1,575	1,444	233	98,721	33,530	13,594	47,124	145,845
Bad debts	3,278	6,561	1,079	8,694	324	297	48	20,281	6,888	2,790	9,678	29,959
Equipment rental	2,038	4,080	671	5,406	201	184	30	12,610	4,283	1,735	6,018	18,628
<b>Total other</b>	<b>3,840,360</b>	<b>7,689,525</b>	<b>1,264,125</b>	<b>10,187,675</b>	<b>379,921</b>	<b>347,124</b>	<b>55,086</b>	<b>23,763,816</b>	<b>2,437,996</b>	<b>926,961</b>	<b>3,364,957</b>	<b>27,128,773</b>
<b>Total expenses</b>	<b>\$ 5,597,241</b>	<b>\$ 11,206,501</b>	<b>\$ 1,842,258</b>	<b>\$ 14,848,070</b>	<b>\$ 553,362</b>	<b>\$ 506,109</b>	<b>\$ 80,780</b>	<b>\$ 34,634,321</b>	<b>\$ 6,341,278</b>	<b>\$ 2,509,327</b>	<b>\$ 8,850,605</b>	<b>\$ 43,484,926</b>

The accompanying notes are an integral part of these statements.

## THE STUDENT CONSERVATION ASSOCIATION, INC.

Notes to Financial Statements  
March 31, 2018

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### 1. OPERATIONS AND NONPROFIT STATUS

#### Operations

The Student Conservation Association, Inc. (the Association) is a New York nonprofit corporation established 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.

#### Nonprofit Status

The Association is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). The Association is also exempt from state income taxes. Donors may deduct contributions made to the Association within IRC requirements.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Association prepares its financial statements in accordance with generally accepted accounting standards and principles (U.S. GAAP) established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

#### Adoption of a New Accounting Standard

During fiscal year 2018, the Association early adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities Topic 958: Presentation of Financial Statements of Not-for-Profit Entities*. This ASU modified the current guidance over several criteria, of which the following affected the Association's financial statements:

- Net assets are to be segregated into two categories, "with donor restrictions" and "without donor restrictions", as opposed to the previous requirement of three classes of net assets (see pages 10 and 11).
- Qualitative and quantitative information relating to management of liquidity and the availability of financial assets to cover short-term cash needs within one year from the statement of financial position date (see Note 3).
- An explanation of the methods used to allocate costs among program and supporting (general and administrative and fundraising) functions (see page 12).

#### Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Contracts and Other Receivables and Allowance for Doubtful Accounts

Contracts and other receivables are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts, if any, is based on management's best estimate of the amount of probable credit losses in accounts receivable, specific identification of probable losses, and an estimate of additional losses based on historical write-off experience. The allowance for doubtful accounts at March 31, 2018, totaled \$41,242.

## THE STUDENT CONSERVATION ASSOCIATION, INC.

Notes to Financial Statements  
March 31, 2018

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Pledges Receivable and Allowance for Uncollectible Pledges

Pledges receivable at March 31, 2018, consist of unconditional grants and contributions committed to the Association (see Note 14). Pledges are recorded at their net present value when unconditionally committed. The reserve for uncollectible pledges is based on past collection experience together with a review of the current status of the existing pledges. Pledge balances are charged off against the reserve when it is probable the pledge will not be recovered. There was no allowance for uncollectible pledges at March 31, 2018.

#### Investment Return

Interest, dividends and mutual fund distributions are recorded when earned. Gains and losses are recognized as incurred upon sale or based on fair value changes during the period. Investment return on the Association's endowment is included in net assets with donor restriction (see Note 5). Investments without donor restriction are classified as long-term based on management's intent to hold these investments for long-term purposes.

#### Property and Equipment and Depreciation

Property and equipment (see Note 6) having a value of \$10,000 or more and a useful life of greater than one year are capitalized, while repairs and maintenance are expensed as incurred. Property and equipment are recorded at cost when purchased or constructed and at fair value when donated. Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings and improvements	30 years
Computer and office equipment	2 - 10 years
Program equipment	2 - 5 years
Motor vehicles	5 years
Leasehold improvements	Life of the lease
Equipment under capital lease	Lesser of estimated useful life or lease term

The Association accounts for the carrying value of its property and equipment in accordance with ASC Topic, *Impairment and Disposal of Long-Lived Assets*. The Association has not recognized any reduction in the carrying value of its property and equipment when considering this standard during fiscal year 2018.

#### Split-Interest Agreements

Charitable remainder trusts were donated to the Association on the condition that the Association commit to making periodic stipulated payments to the donor or other designated individuals at a stated percentage of the fair value of the trust. Gift annuities were given to the Association also on the condition that the Association commit to making periodic stipulated payments to the donor or other designated individuals. Payments terminate at a time specified in the gift annuity and charitable remainder trust agreements, usually upon death of the donor or designated individuals.

#### Debt Issuance Costs

Debt issuance costs are amortized using the effective interest method over the term of the related notes payable (see Note 7).

## THE STUDENT CONSERVATION ASSOCIATION, INC.

Notes to Financial Statements  
March 31, 2018

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Fair Value Measurements

The Association follows the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that the Association would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

The Association uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of the Association. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.

Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

#### *Investments*

The Association records investments at fair value (see Note 4) using Level 1 inputs. Marketable securities are recorded at fair values as derived directly from quotations on major trading exchanges. Split-interest planned giving instruments (see Note 4) are stated at fair value of the underlying investments. Reported fair values of shares in mutual funds are based on share prices reported by the funds as of the last business day of the fiscal year. The Association maintains a portion of its investments with and without donor restrictions in a common pool. The unit-share (market value) method of accounting is used for additions to and withdrawals from the pool and for allocating income and gains and losses. Investments are not insured and are subject to ongoing market fluctuations.

#### *Beneficial Interests in Trusts*

The Association has beneficial interests in charitable remainder trusts held and invested by third party trustees (see Note 10). Gains and losses on investments are considered changes in the present value of expected cash flows and are recognized as gains or losses in net assets with donor restriction. These inputs to the fair value estimate are considered Level 3 in the fair value hierarchy.

## THE STUDENT CONSERVATION ASSOCIATION, INC.

Notes to Financial Statements  
March 31, 2018

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Fair Value Measurements** (Continued)

##### *Cash Surrender Value of Life Insurance Policy*

The Association records the cash surrender value of its life insurance policy using Level 2 inputs which includes valuations provided by insurance companies (see Note 13).

##### *Split-Interest Liabilities*

The Association has entered into charitable gift annuity contracts with various donors (see Note 9). Under these contracts, donors transfer assets to the Association in return for promises by the Association to pay specific annuities to designated beneficiaries for their lifetimes. Upon the death of a beneficiary, the annuity payment obligation ceases.

Contributions implicit in these split-interest agreements are generally recorded as increases in net assets with donor restriction given the inherent time limitation imposed on the transferred assets.

The present value of payments to beneficiaries of charitable gift annuities are calculated based on the donors' life expectancies and discount rates which represent the risk adjusted rates in existence at the date of the gifts. Gains or losses resulting from changes in actuarial assumptions and accretions of the discount are recorded as increases or decreases in net assets with donor restrictions in the statement of activities. These inputs to the fair value estimate are considered Level 3 in the fair value hierarchy.

##### *All Other Assets and Liabilities*

The carrying value of all other assets and liabilities, including notes payable, does not differ materially from its estimated fair value and are considered Level 1 in the fair value hierarchy.

#### **Net Assets**

##### ***Without Donor Restrictions***

Net assets without donor restrictions are those net resources that bear no external restrictions and are generally available for use by the Association. The Association has grouped its net assets without donor restrictions into the following categories:

***Operating*** - represent funds available to carry on the operations of the Association.

***Property and equipment*** - represent resources that serve as collateral and expended on property and equipment, net of related notes payable and capital lease obligations.

***Board designated*** - consists of the following:

***Board designated funds functioning as endowment*** - consists of net assets which are part of the endowment set aside by the Board of Directors for various purposes. These funds may only be used with the approval of the Board of Directors (see Note 5) and totaled \$4,129,425 at March 31, 2018. A portion of the Board designated funds have been used as collateral for certain notes payable as disclosed in Notes 7 and 8.

***Board designated other*** - consists of non-endowment net assets of the Association that have been set aside by its Board of Directors for various purposes. These funds may only be used with the approval of the Board of Directors and totaled \$624,673 at March 31, 2018.

## THE STUDENT CONSERVATION ASSOCIATION, INC.

Notes to Financial Statements  
March 31, 2018

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Net Assets (Continued)

##### *With Donor Restrictions*

Net assets with donor restrictions represent amounts received or committed with donor restrictions which have not yet been expended for their designated purposes (purpose restricted), amounts for unrestricted use in future periods (time restricted), and amounts received from donors with the stipulation that the principal will be held in perpetuity and only the investment income can be spent. In accordance with New York State law, all earnings and appreciation of a donor restricted endowment are restricted until appropriated by the Board of Directors.

Net assets with donor restrictions are restricted as follows at March 31, 2018:

<b>Subject to expenditure for specific purposes:</b>	
Program development	\$ 2,150,752
Crews	1,152,418
Restricted to geographic region and position	488,847
Restricted to geographic region	380,000
Tree conservation project	287,965
Sustainability initiative	230,000
Other programmatic functions	<u>154,375</u>
	<u>4,844,357</u>
<b>Subject to the passage of time:</b>	
Net position in charitable gift annuities, inherently restricted for future use	879,449
Restricted for use in fiscal years 2019 - 2020	695,369
Beneficial interests in trusts, inherently restricted for future use	256,333
Promises to give that are not restricted by donors, but which are unavailable for expenditure until collected	<u>85,000</u>
	<u>1,916,151</u>
<b>Subject to the Association's endowment spending policy and appropriation:</b>	
Investment in perpetuity	5,310,547
Accumulated earnings on endowment	<u>503,061</u>
	<u>5,813,608</u>
	<u>\$ 12,574,116</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the year ended March 31, 2018:

Satisfaction of purpose restrictions	\$ 3,925,109
Expiration of time restrictions	<u>50,000</u>
	<u>3,975,109</u>
Investment return designated for current operations	<u>191,632</u>
	<u>\$ 4,166,741</u>

## THE STUDENT CONSERVATION ASSOCIATION, INC.

Notes to Financial Statements  
March 31, 2018

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Revenue Recognition

Contract revenue is recognized as expenditures are incurred or services rendered.

Grants and contributions received or unconditionally committed are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Grants and contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the grant or contribution is recognized. All other donor restricted grants and contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is met), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

All other revenue is recognized when earned.

#### Donated Goods and Services

The Association received donated advertising services and airline tickets totaling \$418,484 and \$172,500 respectively, for the year ended March 31, 2018. These amounts, which are based upon information provided by donors who contributed these goods and services, are recorded at their estimated fair value determined on the date of contribution and are included in foundation and corporate grants in the accompanying statement of activities. A portion of the donated airline tickets totaling \$12,850 were not used as of March 31, 2018, and are included in prepaid expenses and other assets in the accompanying statement of financial position. The remainder totaling \$159,650 was expended and is included in staff travel in the accompanying statement of functional expenses.

The Association also receives the services of volunteers who have made significant contributions of their time in furtherance of the Association's mission. These services were not reflected in the accompanying statement of activities because they do not meet the necessary criteria for recognition under US GAAP.

#### Advertising Costs

Advertising costs are expensed as incurred by the Association.

#### Expense Allocation

Expenses related directly to a program are distributed to that program, while other expenses are allocated to programs based upon management's estimate of the percentage attributable to each function. The financial statements contain certain categories of expenses that are attributable to program and supporting functions. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include personnel and related costs, technology, telephone, and printing and postage, which are allocated based on an estimate of time and level of effort spent on the Association's program and supporting functions. In addition, occupancy and depreciation are allocated on a square footage basis.

## THE STUDENT CONSERVATION ASSOCIATION, INC.

Notes to Financial Statements  
March 31, 2018

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Income Taxes

The Association accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the financial statements regarding a tax position taken or expected to be taken in a tax return. The Association has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the financial statements at March 31, 2018. The Association's information returns are subject to examination by the federal and state jurisdictions.

#### Statements of Activities

Transactions deemed by management to be ongoing, major, or central to the provision of program services are reported as operating revenue and operating expenses in the accompanying statement of activities. Non-operating revenue (expenses) include activities relating to the Association's investment portfolio and planned giving instruments.

#### Subsequent Events

Subsequent events have been evaluated through October 27, 2018, which is the date the financial statements were available to be issued. See Note 7 for an event that met the criteria for disclosure in the financial statements.

### 3. LIQUIDITY

Financial assets available for use by the Association within one year from the statement of financial position date are as follows:

Cash	\$ 1,038,625
Contracts and other receivables, net	7,196,204
Current portion of pledges receivable	<u>2,107,673</u>
	10,342,502
Add - investment return designated for fiscal year 2019 operations	241,170
Less - donor contributions restricted for a specific time period - 2020	(33,571)
Less - donor contributions restricted for specific purposes (see page 11)	<u>(4,844,357)</u>
Financial assets available to meet cash needs for service expenses within one year	<u>\$ 5,705,744</u>

The Association has a policy to structure its financial assets to be available and liquid as its obligations become due. As of March 31, 2018, the Association has financial assets equal to approximately three months of operating expenses. In addition, the Association has a line of credit agreement (see Note 8) which allows for available borrowings up to \$9,000,000.

## THE STUDENT CONSERVATION ASSOCIATION, INC.

Notes to Financial Statements  
March 31, 2018

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### 4. INVESTMENTS

Investments consist of the following at March 31, 2018:

Cash and equivalents	\$ 312,232
Fixed income funds	4,422,044
Equity funds:	
Large cap domestic equities	2,793,508
International equities	1,899,743
Small and mid cap domestic equities	1,496,352
Other mutual funds	<u>1,082,184</u>
	<u>\$ 12,006,063</u>

Included in investments are two funds that are restricted in nature and cannot be applied toward payment of other obligations of the Association, whereby one is maintained for satisfying the Association's obligation under its split-interest liabilities and the second serves as collateral on one of the Association's notes payable (see Note 7) and line of credit (see Note 8). These funds consisted of the following at March 31, 2018:

Collateralized investment fund	\$ 3,548,575
Charitable gift annuities fund	<u>2,239,507</u>
	<u>\$ 5,788,082</u>

New York Insurance Code requires the Association to 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, 2018, the Association had sufficient funds in its reserve and those funds were invested in accordance with the New York Insurance Code.

### 5. ENDOWMENT

The Association's endowment fund (the Fund) includes donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by U.S. GAAP, 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 Board of Directors of the Association has interpreted the New York Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of 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 net assets with donor restrictions (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with UPMIFA, 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 various funds, (2) the purposes of the donor-restricted endowment funds, (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, and (7) the Association's investment policies.

## THE STUDENT CONSERVATION ASSOCIATION, INC.

Notes to Financial Statements  
March 31, 2018

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### 5. ENDOWMENT (Continued)

#### *Investment Return Objectives, Risk Parameters and Strategies*

The Association has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and fixed income securities that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 4.5%, while growing the funds if possible. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

#### *Spending Policy*

The Association has a policy of appropriating for distribution each year 4.5% of its endowment fund's average fair value of the prior three fiscal years through the calendar year-end preceding the fiscal year in which the distribution is planned. The spending policy appropriation is calculated at the beginning of each fiscal year. In establishing this policy, the Association considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. For the year ended March 31, 2018, the Association appropriated a total of \$191,632 for operations which is reflected as investment return designated for current operations in the accompanying statement of activities.

In addition to the endowment spending policy, the Board of Directors may designate spending from net assets without donor restriction, into its general budget. This spending is part of the Finance Committee's decisions as outlined in the budget. In fiscal year 2018, there were no special Board designations.

#### *Endowment Funds with Deficiencies*

From time-to-time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Board of Directors of the Association has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. However, the Association has a policy that prohibits spending from endowments funds that are underwater. The endowment funds of the Association were not underwater at March 31, 2018.

**THE STUDENT CONSERVATION ASSOCIATION, INC.**Notes to Financial Statements  
March 31, 2018

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**5. ENDOWMENT (Continued)***Endowment Activity*

Changes in endowment net assets as of March 31, 2018, are as follows:

	<b><u>Without Donor Restrictions</u></b>	<b><u>With Donor Restrictions</u></b>	<b><u>Total Net Endowment Assets</u></b>
Endowment net assets, March 31, 2017, as previously stated	\$ 3,406,290	\$ 5,549,582	\$ 8,955,872
Prior period adjustments (see Note 18)	<u>191,132</u>	<u>(191,132)</u>	<u>-</u>
Endowment net assets, March 31, 2017, as restated	3,597,422	5,358,450	8,955,872
Contributions	213,363	176,477	389,840
Investment return, net	318,640	470,313	788,953
Amounts appropriated for expenditure	<u>-</u>	<u>(191,632)</u>	<u>(191,632)</u>
Endowment net assets, March 31, 2018	<u>\$ 4,129,425</u>	<u>\$ 5,813,608</u>	<u>\$ 9,943,033</u>

**6. PROPERTY AND EQUIPMENT**

Property and equipment, net consists of the following:

Building and improvements	\$ 5,500,111
Computer and office equipment	2,420,439
Motor vehicles	1,378,808
Program equipment	266,671
Land	<u>34,500</u>
	9,600,529
Less - accumulated depreciation	<u>5,145,615</u>
Property and equipment, net	<u>\$ 4,454,914</u>

For the year ended March 31, 2018, depreciation expense totaled \$1,018,695.

The cost of motor vehicles and office equipment acquired under capital leases (see Note 11) as of March 31, 2018, was \$1,338,108 and \$261,026, respectively. Accumulated depreciation of motor vehicles and office equipment acquired under capital leases as of March 31, 2018, was \$768,531 and \$129,928, respectively. Depreciation expense on motor vehicles and office equipment acquired under capital leases for the year ended March 31, 2018, was \$336,192 and \$52,205, respectively.

## THE STUDENT CONSERVATION ASSOCIATION, INC.

Notes to Financial Statements  
March 31, 2018

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### 7. NOTES PAYABLE

Notes payable consists of the following:

3.54% note payable to a bank, due in monthly principal and interest installments of \$18,007, with an initial maturity date of December 1, 2018. In October 2018, the bank extended the note under the same terms through December 2019. This note is secured by a first security interest in property located at 689 River Road, Charlestown, New Hampshire. \$ 1,924,483

2.97% note payable to a bank, due in monthly principal and interest installments of \$50,000, maturing on October 1, 2018. This note is secured by a shared first security interest in certain investment assets (see Note 2), contracts and other receivables, beneficial interest in trusts, and pledges receivable. In October 2018, all outstanding principal and accrued interest were repaid in full. 350,000

Less - unamortized debt issuance costs 2,274,483

Total notes payable 2,262,284

Less - current portion 500,382

\$ 1,761,902

Debt issuance costs of \$93,741 are shown net of accumulated imputed interest of \$81,542 as of March 31, 2018. Imputed interest totaled \$17,485 for the year ended March 31, 2018, which is included in interest in the accompanying statement of functional expenses. Estimated future imputed interest is \$12,199 for the year ended March 31, 2019.

Future minimum payments of notes payable, including the refinance (see above), are as follows for the years ending March 31:

2019	\$ 500,382
2020	\$ 1,761,902

The notes payable have certain financial and non-financial covenants with which the Association must comply. The Association was not in compliance with its covenants as of March 31, 2018, and obtained a waiver from the bank.

Interest expense on the Association's notes payable totaled \$90,318 for the year ended March 31, 2018, which is included in interest in the accompanying statement of functional expenses.

## THE STUDENT CONSERVATION ASSOCIATION, INC.

Notes to Financial Statements  
March 31, 2018

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### 8. LINE OF CREDIT

The Association has a revolving line of credit agreement with a bank which allows for borrowings up to \$9,000,000. Outstanding principal bears interest at the thirty-day London Interbank Offer Rate (LIBOR), plus 1.95% (3.89% at March 31, 2018) through October 1, 2019 (maturity). The balance outstanding on this line of credit totaled \$3,032,829 at March 31, 2018. Interest expense totaled \$151,413 for the year ended March 31, 2018, which is included in interest in the accompanying statement of functional expenses. This note is secured by a shared first security interest in certain investment assets (see Note 2), contracts and other receivables, beneficial interest in trusts, and pledges receivable. The line of credit agreement contains certain financial and non-financial covenants in which the Association must comply. As of March 31, 2018, the Association was in compliance with these covenants.

The available borrowings on this line of credit agreement at March 31, 2018, is as follows:

Maximum borrowings	\$ 9,000,000
Less - outstanding balance	<u>(3,032,829)</u>
Available borrowings	<u>\$ 5,967,171</u>

### 9. 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 Association's charitable gift annuity assets as of March 31, 2018, do not contain restrictions by the donor as to use upon termination of the agreement. 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 2.03% to 18.64%, and applicable mortality rates. The revenue attributable to the estimated present value of future benefits to be received by the Association is recorded as an increase in the net assets with donor restrictions of the Association in accordance with its policy for recording contribution revenue in the period in which the charitable gift annuity is established. The assets held by the Association are included in investments in the accompanying statement of financial position and are recorded at fair value, based on quoted market prices. The Association makes distributions to the designated beneficiaries based on agreement provisions.

The changes in split-interest liabilities were as follows for the fiscal year ended March 31, 2018:

Beginning Balance	\$ 1,099,976
Payments	(113,293)
Change in value	<u>373,375</u>
Ending Balance	<u>\$ 1,360,058</u>

Split-interest agreements are reflected in the accompanying financial statements as follows:

Investments (see page 14)	\$ 2,239,507
Split-interest liabilities	<u>(1,360,058)</u>
Net position in charitable gift annuities, restricted for future use (see page 11)	<u>\$ 879,449</u>

## THE STUDENT CONSERVATION ASSOCIATION, INC.

Notes to Financial Statements  
March 31, 2018

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### 10. BENEFICIAL INTERESTS IN TRUSTS

The Association is named as a beneficiary in two charitable remainder trusts. The income generated is paid to a designated beneficiary over their lifetime or for a predetermined period of time (the Benefit Period), as outlined in the trust documents. Upon the beneficiary's death or passage of the Benefit Period, the value of the donor's assets in the fund is transferred to the Association's net assets without donor restrictions, unless the donor has designated these funds for a restricted purpose. As of March 31, 2018, the trusts' assets have not been restricted by the donors. The charitable remainder trust funds are included in net assets with donor restrictions at March 31, 2018, based on the inherent time restriction associated with these funds. These funds have been discounted to their net present value based upon the donor's expected life or the remaining Benefit Period, the IRS Federal rate for determining the present value of an annuity (3% at March 31, 2018), and expected future obligations to beneficiaries, as well as an estimated rate of return on the trust assets.

The changes in beneficial interests in trusts were as follows for the fiscal year ended March 31, 2018:

Beginning Balance	\$ 243,598
Change in value	<u>12,735</u>
Ending Balance	<u>\$ 256,333</u>

### 11. LEASE AGREEMENTS

#### Operating Leases

The Association rents its facilities under various operating lease agreements. These leases expire at various dates through fiscal year 2021, with options to extend in some cases. Monthly payments under these lease agreements range from approximately \$500 to \$22,000. The Association is also responsible for certain operating costs under these lease agreements. In addition, in March 2018, the Association entered into a lease agreement for new facility space in Arlington, Virginia, which is set to commence on June 1, 2019. Monthly payments under this lease will range from \$32,300 to \$41,347 through March 31, 2030. Upon execution of the lease, the Association was obligated to provide a security deposit totaling \$32,300, which is included in prepaid and other expenses in the accompanying statement of financial position. This lease also provides for twelve months of free rent beginning in July 2019.

Future minimum cash payments under the non-cancellable portions of these operating leases are as follows for the fiscal years ending March 31:

2019	\$ 600,794
2020	\$ 124,706
2021	\$ 414,618
2022	\$ 405,567
2023	\$ 415,706
Thereafter	\$ 3,298,644

Facility rent expense was \$712,653 for the year ended March 31, 2018, and is reflected as rent in the accompanying statement of functional expenses.

## THE STUDENT CONSERVATION ASSOCIATION, INC.

Notes to Financial Statements  
March 31, 2018

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### 11. LEASE AGREEMENTS (Continued)

#### Capital Leases

The Association leases certain motor vehicles and office equipment under capital lease obligations, which are included in property and equipment, net (see Note 6). Discount rates ranging from 1.26% to 13.06% for the year ended March 31, 2018, representing the interest rates implicit in the respective lease agreements, were used to discount the future minimum payments under these lease arrangements. Total capital lease interest expense was \$42,547 for the year ended March 31, 2018, which is included in interest in the accompanying statement of functional expenses. These agreements expire at various dates through April 2021.

Future minimum payments under the non-cancellable portions of these capital leases are as follows for the fiscal years ending March 31:

	<u>Motor Vehicles</u>	<u>Office Equipment</u>	<u>Total</u>
2019	\$ 363,382	\$ 54,250	\$ 417,632
2020	173,342	54,250	227,592
2021	118,706	27,310	146,016
2022	<u>5,722</u>	<u>345</u>	<u>6,067</u>
Total future minimum payments	661,152	136,155	797,307
Less - amount representing interest	<u>130,941</u>	<u>7,574</u>	<u>138,515</u>
	530,211	128,581	658,792
Less - current portion	<u>304,400</u>	<u>51,763</u>	<u>356,163</u>
Capital lease obligations, net	<u>\$ 225,811</u>	<u>\$ 76,818</u>	<u>\$ 302,629</u>

### 12. CONCENTRATIONS

#### Credit Risk

The Association maintains its operating cash balances in certain banks in Virginia and New Hampshire, which are insured by the Federal Deposit Insurance Corporation (FDIC) up to certain amounts. At certain times during the year, cash balances exceeded the insured amounts. The Association has not experienced any losses in such accounts.

#### Funding

The Association receives funding under Federal and state contracts, which totaled approximately 74% of the Association's operating revenue for the year ended March 31, 2018. Payments to the Association are subject to audit by the appropriate government agency. In the opinion of management, the results of such audits, if any, will not have a material effect on the financial position of the Association as of March 31, 2018, or on its results of operations for the year then ended. As of March 31, 2018, one agency represented 11% of net contracts and other receivables.

Approximately 85% of pledges receivable at March 31, 2018, was due from two donors.

## THE STUDENT CONSERVATION ASSOCIATION, INC.

Notes to Financial Statements  
March 31, 2018

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### 13. CASH SURRENDER VALUE OF LIFE INSURANCE POLICY

The Association is the owner and beneficiary of a life insurance policy with an aggregate face value of \$268,342. As of March 31, 2018, the cash surrender value of the policy was \$144,406. Investment return on the cash value of this life insurance policy totaled \$6,347 for the year ended March 31, 2018, and is included in non-operating revenue (expenses) in the accompanying statement of activities.

### 14. PLEDGES RECEIVABLE

The Association's outstanding pledges receivable at March 31, 2018, are due as follows:

Due in less than one year	\$ 2,107,673
Due in two years	<u>50,357</u>
	<u>\$ 2,158,030</u>

These amounts are not discounted to present value as discounts would be immaterial to the accompanying financial statements.

### 15. RETIREMENT PLAN

The Association maintains a defined contribution retirement plan (the Plan) under IRC Section 403(b) covering all eligible employees who had attained the age of twenty-one and provided a minimum expected work schedule of 1,000 hours annually. The Plan calls for the Association to match up to 3% of an employee's salary. For the year ended March 31, 2018, the Association's contributions to the plan totaled approximately \$150,000, which is included in fringe benefits in the accompanying statement of functional expenses.

### 16. CONTINGENCIES

The Association is engaged in legal cases that have arisen in the normal course of its operations, some of which are covered by insurance. The Association believes that the outcome of these cases will not have a material adverse effect on the financial position of the Association.

### 17. RELATED PARTY TRANSACTION

During fiscal year 2018, the Association had the following related party transaction:

- A member of the Association's Board of Directors is the managing director of a company with which the Association paid \$353,106 for technology services.

These Board member abstains from discussions and does not vote on matters relating to technology services.

**THE STUDENT CONSERVATION ASSOCIATION, INC.**Notes to Financial Statements  
March 31, 2018

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**18. PRIOR PERIOD ADJUSTMENTS**

During fiscal year 2018, the Association became aware of certain amounts within the statement of financial position at March 31, 2017, that were improperly stated. The effect of these misstatements resulted in a net \$302,154 overstatement of the Association's net asset balance at March 31, 2017. In addition, these misstatements resulted in a net \$54,594 understatement in the Association's changes in net assets for the year ended March 31, 2017. Net assets as of March 31, 2017, have been restated as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Net assets, March 31, 2017, as previously stated	\$ 8,925,432	\$ 11,384,440	\$ 20,309,872
Adjustment to write-off a net reserve against accounts receivable, where the composition is unknown	103,151	-	103,151
Adjustment to recognize foundation grant revenue earned prior to fiscal year 2018	99,569	-	99,569
Adjustment to record motor vehicle and office equipment leases as capital, based on terms in the agreements (see Note 11)	31,768	-	31,768
Adjustment to classify the Association's beneficial interest in trusts as net assets with donor restrictions (see Note 10)	(243,598)	243,598	-
Adjustment to properly classify accumulated earnings on donor restricted endowment funds that should have been released to net assets without donor restrictions prior to 2018	191,132	(191,132)	-
Adjustment to record rent expense for the period of January - March 2017, associated with a program site, not invoiced until fiscal year 2018	(66,000)	-	(66,000)
Adjustment to expense prepaid insurance pertaining to fiscal years prior to 2018	<u>(470,642)</u>	<u>-</u>	<u>(470,642)</u>
Effect of prior period adjustments	<u>(354,620)</u>	<u>52,466</u>	<u>(302,154)</u>
Net assets, March 31, 2017, as restated	<u>\$ 8,570,812</u>	<u>\$ 11,436,906</u>	<u>\$ 20,007,718</u>

**THE STUDENT CONSERVATION ASSOCIATION, INC.**

Schedule of Expenditures of Federal Awards  
For the Year Ended March 31, 2018

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. Department of Agriculture:</b>			
Direct:			
Cooperative Forestry Assistance	10.664	N/A	\$ 3,137,528
Partnership Agreements	10.699	N/A	52,841
Agricultural Research Basic and Applied Research	10.001	N/A	17,625
Passed-Through Nature Conservancy, Inc.:			
National Fish and Wildlife Foundation	10.683	N/A	<u>287,376</u>
Total U.S. Department of Agriculture			<u>3,495,370</u>
<b>U.S. Department of Commerce:</b>			
Passed-Through Nature Conservancy, Inc.:			
Habitat Conservation	11.463	GulfCorps_SCA_Year 1_20171204 SCA_NOAAGulfCorps_08012017	<u>144,028</u>
<b>Corporation for National and Community Service:</b>			
AmeriCorps:			
Passed-Through the State of New York, Office of Children and Families	94.006	13AFHNY0010028 C027875	1,841,994
Passed-Through the Massachusetts Service Alliance, Inc.		16ESHMA001 16AC186601	524,272
Passed-Through Volunteer NH		15ESHNH0010001	329,227
Direct		N/A	274,454
Passed-Through the State of Idaho, Serve Idaho		14ESHID0010001	206,053
Passed-Through Conservation Legacy		N/A	<u>35,584</u>
Total Corporation for National and Community Service			<u>3,211,584</u>
<b>U.S. Department of Defense:</b>			
Direct:			
Youth Conservation Services	12.010	N/A	1,294,208
Basic and Applied Scientific Research	12.300	N/A	<u>556,519</u>
Total U.S. Department of Defense			<u>1,850,727</u>

**THE STUDENT CONSERVATION ASSOCIATION, INC.**

Schedule of Expenditures of Federal Awards  
For the Year Ended March 31, 2018

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. Department of Housing and Urban Development:</b>			
Passed-Through Partners4Work, Inc.			
Community Development Block Grant / Entitlement Grants (Entitlement Grants Cluster)	14.218	N/A	<u>119,836</u>
<b>U.S. Department of the Interior:</b>			
Direct:			
Conservation Activities by Youth Service Organizations	15.931	N/A	7,854,450
Youth Engagement, Education, and Employment	15.676	N/A	3,733,258
Fish, Wildlife and Plant Conservation Resource Management	15.231	N/A	510,854
Service Training and Technical Assistance (Generic Training)	15.649	N/A	213,875
Recreation and Visitor Services	15.225	N/A	139,025
Rangeland Resource Management	15.237	N/A	22,195
BLM Wildland Urban Interface Community Fire Assistance	15.228	N/A	21,814
Hurricane Sandy Disaster Relief Activities-FWS	15.677	N/A	16,777
Cultural Resources Management	15.946	N/A	11,150
Youth Conservation	15.546	N/A	4,371
Passed-Through the State of Texas, Department of Parks and Wildlife:			
Coastal Wetlands Planning Protection and Restoration Program	15.614	495585	<u>131,076</u>
Total U.S. Department of the Interior			<u>12,658,845</u>
<b>U.S. Department Transportation:</b>			
Recreational Trails Program (Highway Planning and Construction Cluster)	20.219	N/A	
Passed-Through the District of Columbia, Department of Transportation		N/A	25,703
Passed-Through the Commonwealth of Massachusetts, Department of Transportation		N/A	17,132
Passed-Through the State of New Hampshire, Department of Transportation		N/A	10,111
Passed-Through the State of Texas, Department of Transportation		N/A	<u>7,631</u>
Total U.S. Department of Transportation			<u>60,577</u>

**THE STUDENT CONSERVATION ASSOCIATION, INC.**

Schedule of Expenditures of Federal Awards  
For the Year Ended March 31, 2018

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. Environmental Protection Agency</b>			
Passed-Through Texas Commission of Environmental Quality:			
Nonpoint Source Implementation Grants	66.460	582-17-70298	118,178
Direct:			
Environmental Education Grants	66.951	N/A	<u>39,511</u>
Total U.S. Environmental Protection Agency			<u>157,689</u>
<b>Total Expenditures of Federal Awards</b>			<u><u>\$ 21,698,656</u></u>

**Note 1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the Federal assistance activity of the Association and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

**Note 2. Indirect Cost Rate**

The Association has elected not to use the 10% de minimis cost rate for its Federal programs.



50 Washington Street  
Westborough, MA 01581  
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**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance  
With Government Auditing Standards**

Independent Auditor's Report

To the Board of Directors of  
The Student Conservation Association, Inc.:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Student Conservation Association, Inc. (the Association), which comprise the statement of financial position as of March 31, 2018, and the related statements of activities, changes in net assets, cash flows and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 27, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Association's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be a material weakness and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2018-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2018-002 and 2018-003 to be significant deficiencies.

## **Compliance and Other Matters**

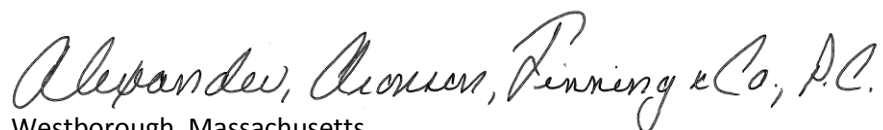
As part of obtaining reasonable assurance about whether the Association's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **The Association's Response to Findings**

The Association's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Association's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Association's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Westborough, Massachusetts  
October 27, 2018



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Westborough, MA 01581  
508.366.9100  
aafcpa.com

## **Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance**

### Independent Auditor's Report

To the Board of Directors of  
The Student Conservation Association, Inc.:

#### **Report on Compliance for Each Major Federal Program**

We have audited The Student Conservation Association, Inc.'s (the Association) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Association's major Federal programs for the year ended March 31, 2018. The Association's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

Management is responsible for compliance with the Federal statutes, regulations, and the terms and conditions of Federal awards applicable to its Federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Association's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the Association's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of the Association's compliance.

#### ***Opinion on Each Major Federal Program***

In our opinion, the Agency complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended March 31, 2018.

### **Other Matters**

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2018-004. Our opinion on each major Federal program is not modified with respect to this matter.

The Association's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Association's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control Over Compliance**

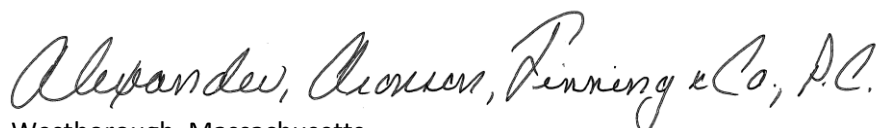
Management of the Association is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Association's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2018-004, that we consider to be a material weakness.

The Association's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Association's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Westborough, Massachusetts  
October 27, 2018

**THE STUDENT CONSERVATION ASSOCIATION, INC.**

Schedule of Findings and Questioned Costs  
 March 31, 2018

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**1. SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Is a "going concern" emphasis-of-matter paragraph included in the auditor's report?  Yes  No

Internal control over financial reporting:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified?  Yes  None reported

Noncompliance material to financial statements noted?  Yes  No

**Federal Awards**

Internal control over the major Federal programs:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified?  Yes  None reported

Type of auditor's report issued on compliance for the major Federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?  Yes  No

Identification of the major Federal programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Cooperative Forestry Assistance	10.664
AmeriCorps	94.006
Conservation Activities by Youth Service Organizations	15.931
Youth Conservation Services	12.010

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000.

Auditee qualified as low-risk auditee?  Yes  No

## THE STUDENT CONSERVATION ASSOCIATION, INC.

Schedule of Findings and Questioned Costs  
March 31, 2018

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### 2. FINANCIAL STATEMENT FINDINGS

#### Material Weakness

##### *Finding 2018-001: General Ledger Maintenance*

##### *Criteria*

In accordance with U.S. GAAP, the Association is required to maintain proper accounting records, which should be supported by completed and accurate reconciliations.

##### *Condition*

Management encountered difficulties in producing reconciliations and other supporting schedules throughout the audit process. Also, various transactions were not properly accounted for in the general ledger.

We also noted that the Association utilizes two suspense accounts, whereby certain transactions such as cash receipts and payroll are automatically posted to these accounts until such time that the Association reconciles the activity and applies the transactions to their proper accounts in the general ledger. The activity in these accounts were not reconciled on a monthly basis.

In addition, the Association was not able to produce an accounts receivable aging or schedule of contract revenue by funding source.

##### *Cause*

This was partly due to the conversion of the Association's financial reporting system in fiscal year 2018, as well as certain reconciliation processes were not being performed throughout the year.

##### *Effect*

We proposed a total of thirty-six audit adjustments to properly adjust various accounts, with a net impact of approximately \$(2,278,000) to the Association's changes in net assets without donor restrictions.

Also, the Association's use of the suspense accounts prevented cash receipts totaling \$7,383,000 from being applied against receivables prior to closing the fiscal year to begin the financial audit. In addition, there was another approximately \$1,100,000 of adjustments affecting the Association's net assets and various other accounts.

As a result of the Association not being able to produce an accounts receivable aging or schedule of contract revenue by funding source, the ability of the Association to verify the composition and quality of its receivables was hindered. Despite not having a detail of accounts receivable, we were able to rely on subsidiary records that were maintained by the billing department to conduct our audit. There were numerous adjustments required to the general ledger to reconcile to these records, which had large credit balances and debit balances dating back through fiscal year 2003.

## THE STUDENT CONSERVATION ASSOCIATION, INC.

Schedule of Findings and Questioned Costs  
March 31, 2018

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### 2. FINANCIAL STATEMENT FINDINGS (Continued)

#### Material Weakness (Continued)

#### *Finding 2018-001: General Ledger Maintenance* (Continued)

#### *Recommendations*

- The billing department should maintain records of its billings, collections and outstanding balances by date and funding source (the Reports).
- The finance team should perform a reconciliation between the activity relating to contract revenue and receivables recorded in the general ledger and the Reports maintained by the billing department on a monthly basis. This will help ensure the Association's books and records are complete and accurate throughout the fiscal year and will allow for the ability to evaluate collectability of its outstanding receivable balances.
- Management should review this aging and write off amounts which are not expected to be collected.
- The Association should implement a formal closing checklist to document its financial statement reporting process. The checklist should indicate who is to perform and review each task, and should include procedures to be performed at the end of each month such as account reconciliations, accrual calculations, payroll reconciliations, and monthly journal entries.
- All suspense accounts should be reconciled and adjusted to zero on a monthly basis.
- Management should also compile a list of monthly standard journal entries (i.e. prepaid account entries). This will help ensure that all monthly activity is captured and recorded appropriately, as well as provide a guide for what needs to be completed on a monthly basis.

#### *Management's Response*

The Association acknowledges the auditors comments and will address this deficiency by expediting our implementing of the Order Entry and Accounts Receivable modules of the Intacct financial system to electronically produce an accounts receivable aging report of contract revenue by funding source. Implementing these modules, the Association will be able to perform monthly reconciliations of the contract revenue and receivables in the general ledger. The Association's management team will review the accounts receivable aging report to identify amounts that may not be collected throughout the year. The Association will use a formal closing checklist to document the monthly financial statement reporting process. The checklist will identify the staff member to perform each activity and the management review process to insure timely completion of the activities. The Association will implement a process to properly reconcile and adjust to zero the three (3) suspense accounts on a monthly basis including a review of all journal entries necessary.

## THE STUDENT CONSERVATION ASSOCIATION, INC.

Schedule of Findings and Questioned Costs  
March 31, 2018

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### 2. FINANCIAL STATEMENT FINDINGS (Continued)

#### Significant Deficiencies

##### ***Finding 2018-002: Grant and Contribution and Board Designated Net Asset Accounting***

##### ***Criteria***

The Association is required to report its grants and contributions and Board Designated Net Assets (BDNA) activity in accordance with U.S. GAAP.

##### ***Condition***

During our audit, we discovered that the Association is recording all grants and contributions to net assets when unconditionally committed by the donor, regardless if the grant or contribution has a donor restriction.

We also noted that management does not maintain detail as to the composition of BDNA. Also, releases from BDNA are being recorded to revenue.

##### ***Cause***

This was partly due to the conversion of the Association's financial reporting system in fiscal year 2018, as well as certain reconciliation processes were not being performed throughout the year.

##### ***Effect***

We proposed a total of three audit adjustments to properly adjust the Association's foundation and corporate grants revenue, which had a net impact of approximately \$390,000 to the Association's changes in net assets.

##### ***Recommendation***

Unconditional grants and contributions that contain a donor restriction should be recorded to the Association's net asset (with donor restrictions) account, until such time that the restriction is met, and then should be transferred to revenue in the general ledger. However, unrestricted grants and contributions should be recorded to revenue accounts when unconditionally committed, and not the Association's net asset accounts.

In addition, given BDNAs reflects internal designation by the Board of Directors of previously recognized revenue, recording releases from BDNA in this manner results in the previously recorded revenue being recognized twice. The Association should develop a tracking of BDNA activity, whether directly in the financial reporting system as a component of its net asset account or outside of the system, that contains adequate detail over the additions and release from this net asset class. We also recommend that the Association conduct a review of the activity relating to BDNA recorded in the general ledger on a monthly basis to ensure the activity is being reflected properly in the Association's books and records.

## THE STUDENT CONSERVATION ASSOCIATION, INC.

Schedule of Findings and Questioned Costs  
March 31, 2018

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### 2. FINANCIAL STATEMENT FINDINGS (Continued)

#### Significant Deficiencies (Continued)

##### ***Finding 2018-002: Grant and Contribution and Board Designated Net Asset Accounting*** (Continued)

##### ***Management's Response***

The Association acknowledges this finding as identified by the auditors in fiscal year 2018. The Association's practice was to receive unrestricted and donor restricted amounts to the Association's Fund Balances account, General Ledger code 30000. The Association used this account as a suspense account until it was cleared by a specific journal entry for the grants and donations that contained a donor restriction according to purpose or time. The donated amount was segregated within this account using a unique fund restriction code. The account restriction codes include the categories board designated, temporary restricted and permanently restricted. When the donor restriction was met, the proper amount was transferred to a revenue account in the Association's operating budget. The temporarily restricted amounts were also segregated and reported as individual giving, corporate giving and foundation giving.

To address this deficiency and to add clarity to our accounting procedures regarding the management of Board Designated Net Assets, the Association will maintain two accounts. One account to record retained assets at the conclusion of each fiscal year. As well as a new account which will process the transfer of the Association's Board Designated funds to unrestricted net assets. The Association will continue our accounting process describe in the first paragraph to appropriately record donor restricted funds according to purpose and time restrictions by initially depositing into a revenue clearing account. At month end this clearing account will be reduced to a zero balance by which current revenue is reclassified to an individual giving, corporate giving or foundation giving revenue account and funds with donor restrictions will be reported with the appropriate time or purpose designation until the donor's restriction is met. At that time, the proper amount is transferred to a revenue account in the Association's operating budget.

##### ***Finding 2018-003: Information Technology***

##### ***Criteria***

Management of the Association is responsible for establishing and maintaining effective internal controls over accounting within the information technology environment.

##### ***Condition***

It has been identified that 1) functional users with administrative privileges to the general ledger system, although management does have a process to review access and no known breaches have occurred, 2) lack of formalized policies and procedures for provisioning and revoking user access, and 3) lack of documentation surrounding network penetration testing.

##### ***Cause***

Certain individuals may have the ability to gain undetected or unauthorized access to the Association's systems.

## THE STUDENT CONSERVATION ASSOCIATION, INC.

Schedule of Findings and Questioned Costs  
March 31, 2018

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### 2. FINANCIAL STATEMENT FINDINGS (Continued)

#### Significant Deficiencies (Continued)

##### *Finding 2018-003: Information Technology* (Continued)

##### *Effect*

The administrative privileges creates the possibility for a lack of segregation of duties related to this function, although there were no known breaches or instances detected through audit procedures performed.

##### **Was the Finding a repeat of a Finding**

Yes

##### *Recommendation*

We recommend that the Association consider removing access to administrator level accounts from non-IT personnel. Duties of security personnel should reside within an organization that promotes objectivity and does not include programming, management, or departments outside of IT. If segregation of duties is not attainable, management should consider implementing mitigating controls (e.g., an activity log report of the administrators' actions reviewed by an independent party on a regular basis) to compensate for the lack of segregation around operating and security related duties.

##### *Management's Response*

The Student Conservation Association will review and remove administrator access for non-IT personnel except for the SCA Controller, the CFO and the Senior Accountant in fiscal year 2019. These three senior staff members in the Finance Department will have full access to the financial system of record along with the SCA IT Manager. Over the fiscal year, the IT manager or CFO may need to temporarily delegate administrative access to the financial information system to IT or financial consultants to allow system structure changes to be implemented. In fiscal 2017, the Association was still in the beginning stages of the developing and implementing a new general ledger system. This system was fully implemented beginning April 1, 2017. Management has separately submitted a Corrective Action Plan intended to prevent the reoccurrence of this finding.

### 3. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

#### Material Instance of Noncompliance

##### *Finding 2018-004: Payroll Transactions - Internal Controls*

##### *Award Information*

The four programs listed in the Summary of Auditor's Results on page 30.

##### *Criteria*

To be in compliance with the Federal requirements, the time worked by employees whose salary costs were billed to the Association's Federal contracts must be verifiable from the recipient's records. This can include time sheets, attendance logs, or similar tracking of the time work by employees.

## THE STUDENT CONSERVATION ASSOCIATION, INC.

Schedule of Findings and Questioned Costs  
March 31, 2018

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### 3. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

#### Material Instance of Noncompliance (Continued)

#### *Finding 2018-004: Payroll Transactions - Internal Controls* (Continued)

##### **Condition**

During our testing of the Association's payroll cycle, we selected 174 transactions for testing and noted the following:

- In twenty-one instances, timesheets were not signed off on by the selected employee's supervisor or manager before the payroll was processed for the selected periods, and three instances where timesheets were not signed off on by the selected employee's supervisor or manager altogether.
- In three instances, a timesheet was not maintained to support the selected employee and time period. Through review of other documentation, such as a records maintained in Salesforce and programmatic reports submitted to the funding source, we were able to confirm that two of these employees worked during the selected time periods and the third employee was not billed to the Federal contract.

##### **Cause**

The Association's internal controls were unable to detect missing approval of timesheets in a timely manner, or in some cases, altogether. In addition, while the Association was able to produce supporting documenting verifying the selected employee worked in the period selected, their internal controls were unable to detect the missing time tracking records.

##### **Effect**

If adequate documentation is not maintained, the Association's funding sources may require awards to be repaid by the Association.

##### **Questioned Costs**

Not applicable

##### **Was the Sampling a Statistically Valid Sample?**

Not applicable

##### **Was the Finding a Repeat of a Finding in the Immediately Prior Year?**

No

##### **Recommendation**

Management should ensure that its payroll procedures are properly followed, including maintaining complete and accurate records over time worked for its employees.

##### **Management Response**

The Association has made considerable progress over fiscal year 2018 to achieve full compliance with the Association's time keeping policy as approved by the Department of Interior, National Park Service financial assistance personnel. And the Association did meet a National Park Service request for documentation of timekeeping compliance in November 2017. The Association will address the few remaining instances of non-compliance by providing training to specific staff ensuring that timekeeping and payroll procedures are properly followed.

**THE STUDENT CONSERVATION ASSOCIATION, INC.**

Schedule of Prior Year Findings and Questioned Costs  
March 31, 2018

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**PRIOR YEAR ITEMS**

**Financial Statement Findings - Significant Deficiency**

***Finding 2017-001: Information Technology***

This is a repeat finding. See 2018-003.

**Federal Award Finding and Questioned Costs**

***Finding 2017-002: In-kind Match of Volunteer Time - Material Weakness***

*Award Information*

Grantor: Department of the Interior

Program Names: Recreation and Visitor Services and Conservation Activities by Youth Services  
Organizations

CFDA #: 15.225 and 15.931

*Finding*

During the fiscal year 2017, that the Association was calculating their in-kind match based off budgeted/estimated volunteer hours and did not track actual hours volunteered to verify the match. The Association did not have a process or controls in place to verify actual hours until October 2016. Thirty-eight out of sixty selections for CFDA #15.931 and fifty-four out of sixty selections for CFDA #15.225, did not have the aforementioned matching support. The total amount of match related to these selections totaled \$17,126.

*Status*

Corrective action has been taken during fiscal year 2018.



## CORRECTIVE ACTION PLAN

12/31/2018

U.S. Department of Interior  
National Park Service  
1849 C. Street NW  
Washington, DC 20240

The Student Conservation Association, Inc. (the Association) respectfully submits the following corrective action plan for the year ended March 31, 2018.

**Name and address of independent public accounting firm:**

Alexander, Aronson, Finning & Co., P.C.  
50 Washington Street  
Westborough, MA 01581

**Audit period:** Fiscal year 2018 (April 1, 2017 – March 31, 2018)

The findings from the Schedule of Findings and Questioned Costs for the year ended March 31, 2018 are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

**Financial Statement Findings**

Material Weakness

*2018-001: General Ledger Maintenance*

*Recommendations:*

- a. The billing department should maintain records of its billings, collections and outstanding balances by date and funding source (the Reports).
- b. The finance team should perform a reconciliation between the activity relating to contract revenue and receivables recorded in the general ledger and the Reports maintained by the billing department on a monthly basis. This will help ensure the Association's books and records are complete and accurate throughout the fiscal year and will allow for the ability to evaluate collectability of its outstanding receivable balances.
- c. Management should review this aging and write off amounts which are not expected to be collected.
- d. The Association should implement a formal closing checklist to document its financial statement reporting process. The checklist should indicate who is to perform and review each task, and should include procedures to be performed at the end of each month such as account reconciliations, accrual calculations, payroll reconciliations, and monthly journal entries.

- e. All suspense accounts should be reconciled and adjusted to zero on a monthly basis.

#### **Financial Statement Findings (Continued)**

##### **Material Weakness (Continued)**

##### *2018-001: General Ledger Maintenance (Continued)*

##### *Recommendations (Continued)*

- f. Management should also compile a list of monthly standard journal entries (i.e. prepaid account entries). This will help ensure that all monthly activity is captured and recorded appropriately, as well as provide a guide for what needs to be completed on a monthly basis.

*Action Taken:* The Association acknowledges the auditors' comments and has made great stride in implementing a process by which the objectives associated with the recommendations made by the auditors are achieved. The status of each recommendation is as follows as of December 31, 2018:

- a. The billing department maintains records of its billings, collections and outstanding balances within the Association's financial reporting system.
- b. As a result of the billing department maintaining records of its billings, collections and outstanding balances directly within its financial reporting system, the finance department conducts a reconciliation between its books and records and the activity relating to contract revenue and receivables.
- c. Management regularly reviews the Association's accounts receivable aging schedule and works closely with the billing department to ensure the balances reported on the Association's books are collectible. In addition, the Association has written off balances that are considered uncollectible and has developed and implemented a formal policy over recording allowances for doubtful accounts.
- d. The Association has engaged a Certified Public Accountant to assist with implementing the recommendations made by the auditors, which includes the creation of a monthly closing checklist to be utilized with the monthly financial statement reporting process. This checklist will be developed and implemented by March 31, 2019.
- e. The Association has implemented a process to properly reconcile and adjust the three suspense accounts to zero on a monthly basis.
- f. In connection with developing a monthly closing checklist, the Association will compile a list of monthly standard journal entries that should be recorded to its books and records. This will be completed by March 31, 2019.

##### **Significant Deficiencies**

##### *2018-002: Grant and Contribution and Board Designated Net Asset Accounting*

*Recommendation:* Unconditional grants and contributions that contain a donor restriction should be recorded to the Association's net asset (with donor restrictions) account, until such time that the restriction is met, and then should be transferred to revenue in the general ledger. However, unrestricted grants and contributions should be recorded to revenue accounts when unconditionally committed, and not the Association's net asset accounts.

## Financial Statement Findings (Continued)

### Significant Deficiencies (Continued)

#### 2018-002: Grant and Contribution and Board Designated Net Asset Accounting (Continued)

##### Recommendation (Continued)

In addition, given Board Designated Net Assets (BDNA) reflect internal designation by the Board of Directors of previously recognized revenue, recording releases from BDNA in this manner results in the previously recorded revenue being recognized twice. The Association should develop a tracking of BDNA activity, whether directly in the financial reporting system as a component of its net asset account or outside of the system, that contains adequate detail over the additions and release from this net asset class. We also recommend that the Association conduct a review of the activity relating to BDNA recorded in the general ledger on a monthly basis to ensure the activity is being reflected properly in the Association's books and records.

*Action Taken:* The Association is in process of restructuring the manner by which grants and contributions are recorded in the financial reporting system, specifically, to ensure gifts without donor restrictions are being recorded to unrestricted revenue and not a net asset accounts. In the interim, the Association has implemented a process whereby the grants and contributions recorded to net assets are transferred to an individual giving, corporate giving or foundation giving revenue account when they do not contain donor-imposed restrictions and to the appropriate restricted net asset class when they do contain donor-imposed restrictions, until such time the donor's restriction is met. At that time, the proper amount is transferred to a revenue account in the Association's operating budget.

In addition, the Association has created a tracking over BDNA within their financial reporting system, whereby grants and contributions that do not contain a donor-imposed restriction but are internally designated by the Board of Directors are recorded as revenue in the Association's books and records in the year the grants and contributions are unconditionally committed and close to a BDNA sub-account of net assets. Withdrawals from BDNA approved by the Board of Directors are now reported as a transfer between net asset classes and no longer are reported as revenue.

The Association has implemented a review process over the aforementioned process changes, which requires a review of grant and contribution activity recorded to the Association's books and records to ensure amounts are reported in accordance with generally accepted accounting standards and principles (U.S. GAAP).

#### 2018-003: Information Technology

*Recommendation:* We recommend that the Association consider removing access to administrator level accounts from non-IT personnel. Duties of security personnel should reside within an organization that promotes objectivity and does not include programming, management, or departments outside of IT. If segregation of duties is not attainable, management should consider implementing mitigating controls (e.g., an activity log report of the administrators' actions reviewed by an independent party on a regular basis) to compensate for the lack of segregation around operating and security related duties.

*Action Taken:* The Student Conservation Association will remove administrator access for non-IT personnel except for the SCA Controller, the CFO and the Senior Accountant in fiscal year 2019. These three senior staff members in the Finance Department will have full access to the financial system of record along with the SCA IT Manager. Over the fiscal year, the IT manager or CFO may need to temporarily delegate administrative access to the financial information system to IT or financial consultants to allow system structure changes to be implemented. In fiscal 2017, the Association was still in the beginning stages of the developing and implementing a new general ledger system. This system was fully implemented beginning April 1, 2017. Management has separately submitted a Corrective Action Plan intended to prevent the reoccurrence of this finding.

## Federal Award Findings and Questioned Costs

### Material Instance of Noncompliance

#### *2018-004: Payroll Transactions - Internal Controls*

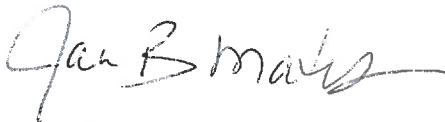
*Award Information:* The four programs listed in the Summary of Auditor's Results on page 30 of the fiscal year 2018 audited financial statements.

*Recommendation:* Management should ensure that its payroll procedures are properly followed, including maintaining complete and accurate records over time worked for its employees.

*Action Taken:* The Association has made considerable progress over fiscal year 2018 to achieve full compliance with the Association's time keeping policy as approved by the Department of Interior, National Park Service financial assistance personnel. And the Association did meet a National Park Service request for documentation of timekeeping compliance in November 2017. The Association will address the few remaining instances of non-compliance by providing additional training to specific staff ensuring that timekeeping and payroll procedures are properly followed. This will be completed by March 31, 2019.

If there are questions regarding this plan, please call Jaime Berman Matyas, President and CEO, at 703-842-4202.

Sincerely yours,



Jaime Berman Matyas  
President and CEO