

**Financial Statements and Report of Independent
Certified Public Accountants**

The Student Conservation Association, Inc.

March 31, 2011

Contents

	Page
Report of Independent Certified Public Accountants	3
Financial Statements	
Statement of Financial Position	4
Statement of Activities	5
Statement of Cash Flows	6
Notes to Financial Statements	7
Supplemental Information	
Schedule of Functional Expenses	23



Report of Independent Certified Public Accountants

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

Audit • Tax • Advisory

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We have audited the accompanying statement of financial position of The Student Conservation Association, Inc. (the Association), as of March 31, 2011, and the related statements of activities and cash flows for period from October 1, 2010 to March 31, 2011. These financial statements are the responsibility of the Association's management. 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 as established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Student Conservation Association, Inc., as of March 31, 2011, and the changes in its net assets and its cash flows for the period from October 1, 2010 to March 31, 2011 in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Grant Thornton LLP

Boston, Massachusetts
December 22, 2011

THE STUDENT CONSERVATION ASSOCIATION, INC.

Statements of Financial Position

March 31, 2011

ASSETS

Cash and cash equivalents	\$	222,551
Restricted cash - debt service		83,475
Billed and unbilled contracts receivable, less allowance for doubtful accounts of \$88,063		5,854,978
Foundation and corporate grants receivable		393,500
Charitable remainder trusts		225,083
Prepaid expenses and other assets		1,162,203
Investments		7,696,488
Bond issuance costs, net of accumulated amortization of \$18,185		88,264
Property and equipment, net		<u>5,231,628</u>
Total assets	\$	<u><u>20,958,170</u></u>

LIABILITIES AND NET ASSETS**Liabilities**

Accounts payable	\$	1,119,493
Accrued expenses		1,246,954
Line of credit		3,696,768
Capital lease obligations		53,834
Debt payable		2,900,000
Deferred revenue		81,800
Fair value of interest rate swap		296,906
Liability under split-interest agreements		<u>1,066,889</u>
Total liabilities		10,462,644

Net assets

Unrestricted		3,714,788
Temporarily restricted		2,937,473
Permanently restricted		<u>3,843,265</u>
Total net assets		<u><u>10,495,526</u></u>

Total liabilities and net assets	\$	<u><u>20,958,170</u></u>
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The accompanying notes are an integral part of these financial statements.

THE STUDENT CONSERVATION ASSOCIATION, INC.

Statement of Activities

Period from October 1, 2010 to March 31, 2011

	Unrestricted			Temporarily Restricted	Permanently Restricted	Total
	Undesignated	Board Designated	Total			
Operating revenues						
Contract and agency revenue	\$ 7,883,108	\$ -	\$ 7,883,108	\$ -	\$ -	\$ 7,883,108
Foundation and corporate gifts and grants	524,700	20,000	544,700	1,612,941	-	2,157,641
Individual giving	1,520,079	423,293	1,943,372	88,778	55,105	2,087,255
Other income	127,700	-	127,700	-	-	127,700
Total operating revenues	10,055,587	443,293	10,498,880	1,701,719	55,105	12,255,704
Net assets released from restrictions	400,805	(27,200)	373,605	(373,605)	-	-
Total operating revenues	10,456,392	416,093	10,872,485	1,328,114	55,105	12,255,704
Operating expenses						
Program expenses:						
Field expenses	7,573,643	-	7,573,643	-	-	7,573,643
Program support and development	2,693,824	-	2,693,824	-	-	2,693,824
Participant recruitment	699,927	-	699,927	-	-	699,927
Total program expenses	10,967,394	-	10,967,394	-	-	10,967,394
Supporting expenses:						
General and administrative	1,382,207	-	1,382,207	-	-	1,382,207
Fundraising	575,445	295,274	870,719	-	-	870,719
Total supporting expenses	1,957,652	295,274	2,252,926	-	-	2,252,926
Total operating expenses	12,925,046	295,274	13,220,320	-	-	13,220,320
Income (loss) from operations	(2,468,654)	120,819	(2,347,835)	1,328,114	55,105	(964,616)
Other income and gains (losses)						
Net return on investments	-	187,928	187,928	310,010	-	497,938
Change in value of interest rate swap	160,460	-	160,460	-	-	160,460
Change in actuarial value and amortization of split-interest agreements	-	(70,181)	(70,181)	-	(473)	(70,654)
Total other income and gains (losses)	160,460	117,747	278,207	310,010	(473)	587,744
Increase (decrease) in net assets	(2,308,194)	238,566	(2,069,628)	1,638,124	54,632	(376,872)
Net assets, beginning of year	1,238,096	4,546,320	5,784,416	1,299,349	3,788,633	10,872,398
Net assets, end of year	\$ (1,070,098)	\$ 4,784,886	\$ 3,714,788	\$ 2,937,473	\$ 3,843,265	\$ 10,495,526

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

THE STUDENT CONSERVATION ASSOCIATION, INC.

Statements of Cash Flows

Period from October 1, 2010 to March 31, 2011

Cash flows from operating activities	
Decrease in net assets	\$ (376,872)
Noncash items included in increase/decrease in net assets:	
Depreciation and amortization	321,368
Net realized and unrealized gains on investments	(391,596)
Earnings on matured split-interest agreements	(8,875)
Amortization of discount on split-interest agreements	30,303
Change in valuation of interest rate swap	(160,460)
Change in actuarial valuation of split-interest agreements	40,351
Contributions restricted for long term purposes	(55,105)
Changes in assets and liabilities:	
Receivables and split interest trusts	5,370,147
Prepaid expenses and other assets	(229,331)
Accounts payable	437,704
Accrued expenses	(558,300)
Deferred revenue	4,800
Net cash provided by operating activities	<u>4,424,134</u>
Cash flows from investing activities	
Additions of property and equipment	(336,138)
Purchase of investments	(2,822,423)
Proceeds from sales of investments	2,737,565
Net cash used in investing activities	<u>(420,996)</u>
Cash flows from financing activities	
Cash restricted for debt service	(50,038)
Net payments on line of credit	(3,817,968)
Principal payments on capital lease obligations	(19,779)
Proceeds from new obligations under split-interest agreements	31,723
Obligations paid under split-interest agreements	(86,483)
Contributions restricted for long term purposes	55,105
Net cash used in financing activities	<u>(3,887,440)</u>
Net decrease in cash	115,698
Cash and cash equivalents, beginning of year	<u>106,853</u>
Cash and cash equivalents, end of year	\$ <u><u>222,551</u></u>
<u>Supplemental disclosures of cash flows information</u>	
Cash paid during the year for interest	\$ <u><u>134,720</u></u>

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

THE STUDENT CONSERVATION ASSOCIATION, INC.

Notes to Financial Statements

March 31, 2011 and for the period from October 1, 2010 to March 31, 2011

NOTE A - NATURE OF ACTIVITIES AND ACCOUNTING POLICIES

Nature of Activities

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

Accounting Policies

A summary of the Association's significant accounting policies applied in the preparation of the accompanying financial statements follows:

Change in Fiscal Year

In June 2010, the Board of Directors approved a change to the Association's fiscal year end from September 30 to March 31. This change aligns the Association's fiscal year end more appropriately to the seasonal nature of its business. Accordingly, the Association is presenting audited financial statements for the six months ending March 31, 2011.

Financial Statement Presentation

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

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

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

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

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

THE STUDENT CONSERVATION ASSOCIATION, INC.

Notes to Financial Statements - Continued

March 31, 2011 and for the period from October 1, 2010 to March 31, 2011

NOTE A - NATURE OF ACTIVITIES AND ACCOUNTING POLICIES - Continued

Cash and Cash Equivalents

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

Restricted Cash

Cash restricted for the servicing of debt on the bond at March 31, 2011 was \$83,475. Terms of the debt reserve are further discussed in Note H.

Contracts Receivable

Contracts receivable are recorded at the amount the Association expects to collect. Receivables are primarily due from federal and state governmental agencies under the terms of various contracts. The Association maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The Association provides for estimated uncollectible amounts through a charge to operations and a credit to the allowance for doubtful accounts. Balances that remain outstanding after the Association has used reasonable collection efforts are written off through a charge to the allowance and a credit to accounts receivable.

Revenue Recognition

Contract and Agency Revenue, Unbilled Revenue and Deferred Revenue

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

Foundation, Corporate and Individual Gifts and Grants

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

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

THE STUDENT CONSERVATION ASSOCIATION, INC.

Notes to Financial Statements - Continued

March 31, 2011 and for the period from October 1, 2010 to March 31, 2011

NOTE A - NATURE OF ACTIVITIES AND ACCOUNTING POLICIES - Continued

Investments and Investment Income

Investments in available for sale securities with readily determinable fair market values are measured at their fair market value in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

All endowment investment income (including interest, dividends and gains/losses, net of related expenses) that has not been appropriated in accordance with the donors' intent has been reported as temporarily restricted. The Association's policy allows the appropriation for the spending of 4.5% of the average market value of the endowment fund at the end of the previous three years. The spending allocation amount for the year is determined at the beginning of the fiscal year and is released from the appreciated value of the endowment, which is classified as temporarily restricted. For the period from October 1, 2010 to March 31, 2011, there were no amounts released from temporarily restricted funds related to the endowment spending policy.

In addition to the endowment spending policy, the Association spends amounts from Board designated funds which is based on the same method as described above for the endowment spending policy.

Bond Issuance Costs

Administrative, legal, financing, underwriting discount, and other miscellaneous costs that were incurred in connection with the issuance of the Series 2007 bond were capitalized and are being amortized over the life of the bond. The amortization expense of debt issue costs was \$2,661 for the period from October 1, 2010 to March 31, 2011 and is reflected within interest expense on the accompanying statements of activities.

Property and Equipment

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

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

Donations of property and equipment are included in revenue at their estimated fair market value. Repairs and maintenance costs are expensed when incurred. Assets are recorded as capital leases when substantially all of the benefits and risks of ownership are transferred to the Association.

THE STUDENT CONSERVATION ASSOCIATION, INC.

Notes to Financial Statements - Continued

March 31, 2011 and for the period from October 1, 2010 to March 31, 2011

NOTE A - NATURE OF ACTIVITIES AND ACCOUNTING POLICIES - Continued

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Functionality is determined based on actual time and effort versus the natural departmental classification. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

The Internal Revenue Service has determined that the Association is exempt from income taxes under Section 501(c)(3), and under Section 509(a), of the Internal Revenue Code. However, certain activities of exempt organizations, to the extent profitable, may be subject to Federal and State taxation as unrelated business income. No provision for income taxes has been made in the financial statements.

The Association follows the provisions of ASC 740, *Income Taxes*. As required by ASC 740-10, the Association recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

The Association has applied ASC 740 to all tax positions for which the statute of limitations remained open and determined there were no material unrecognized tax benefits. The Association is no longer subject to U.S. federal tax examinations by taxing authorities for years before 2007.

Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are used for the following accounts: unbilled contracts receivable, allowance for doubtful accounts, amortization of bond issuance costs, investments, depreciation of property and equipment, accrued expenses, and liability for split-interest agreements.

NOTE B - CONCENTRATIONS OF RISK

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

THE STUDENT CONSERVATION ASSOCIATION, INC.

Notes to Financial Statements - Continued

March 31, 2011 and for the period from October 1, 2010 to March 31, 2011

NOTE B - CONCENTRATIONS OF RISK - Continued

The Association contracts with state and federal agencies without collateral under various grant and cooperative agreements. Substantially all of the contracts and accounts receivable are concentrated in state and federal agencies. Approximately 72% of unrestricted operating revenues were from state and federal agencies in fiscal 2011. Under the terms of these grants and agreements, the Association is to use these funds for the purposes specified in the grant and cooperative agreements. From time to time, the Association is subject to audits from Federal, State and local agencies. If expenditures were found not to have been made in compliance with the grants or cooperative agreements in connection with an audit, the Association might be required to repay such funds.

NOTE C - CONTRACT RECEIVABLES

Contract receivables consist of the following at March 31, 2011:

Billed receivables	\$ 3,789,719
Unbilled receivables	2,153,322
	<u>5,943,041</u>
Less allowance for doubtful accounts	88,063
	<u>88,063</u>
Contract receivables, net	\$ <u>5,854,978</u>

NOTE D - CONTRIBUTIONS RECEIVABLE, CHARITABLE REMAINDER TRUSTS AND GRANTS RECEIVABLE

At March 31, 2011, the Association had outstanding contributions receivable and charitable remainder trusts of \$225,083, due in:

Less than one year	\$ -
One to five years	225,083
	<u>225,083</u>
Total	\$ <u>225,083</u>

At March 31, 2011, the Association had outstanding foundation and corporate grants receivable due in:

Less than one year	\$ 393,500
One to five years	-
	<u>-</u>
Total	\$ <u>393,500</u>

THE STUDENT CONSERVATION ASSOCIATION, INC.
Notes to Financial Statements - Continued
March 31, 2011 and for the period from October 1, 2010 to March 31, 2011

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at March 31, 2011:

Land	\$ 34,500
Buildings and improvements	5,395,993
Equipment under capital leases	119,067
Equipment and software	4,859,188
	<u>10,408,748</u>
Less accumulated depreciation and amortization	<u>5,177,120</u>
Property and equipment, net	<u>\$ 5,231,628</u>

Depreciation expense of \$318,707 was recorded during the period from October 1, 2010 to March 31, 2011. During fiscal 2011, interest cost incurred during the period was \$5,582. There was no interest income on unused proceeds of debt.

The Association has a capital lease related to computer equipment. Future minimum lease payments related to capital lease obligations as of March 31, 2011 are as follows:

<u>Year ending</u> <u>March 31,</u>	<u>Amount</u>
2012	\$ 46,080
2013	<u>11,520</u>
Total minimum lease payments	57,600
Amount representing interest	<u>(3,766)</u>
Obligation under capital lease	<u>\$ 53,834</u>

THE STUDENT CONSERVATION ASSOCIATION, INC.

Notes to Financial Statements - Continued

March 31, 2011 and for the period from October 1, 2010 to March 31, 2011

NOTE F - OPERATING LEASES

The Association leases facilities in Virginia, New York, Pennsylvania, California, Idaho, Texas and Washington, under operating leases that expire at various dates through 2016. Total rent expense was \$215,103 in fiscal 2011. The Association has several noncancelable operating leases for equipment requiring total monthly payments ranging from \$25 to \$1,380 that expire at various dates through August 2015. Rental expense for these leases was \$26,215 in fiscal 2011.

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

<u>Years ending March 31,</u>	<u>Amount</u>
2012	\$ 265,081
2013	184,287
2014	59,733
2015	7,858
2016	3,274
	<u>\$ 520,233</u>

NOTE G - INVESTMENTS

The Association records investments at fair value. A summary of investments as of March 31, 2011 follows:

Cash and cash equivalents	\$ 100,251
Equities	1,129,270
Fixed income, including corporate and governmental bonds	608,503
Private mutual funds	<u>5,858,464</u>
Total investments	<u>\$ 7,696,488</u>

Included in investments above is a fund maintained for the purpose of satisfying obligations related to charitable gift annuities which cannot be applied toward the payment of other debts or obligations of the Association. The balance in the segregated fund was \$1,803,105 as of March 31, 2011.

THE STUDENT CONSERVATION ASSOCIATION, INC.

Notes to Financial Statements - Continued

March 31, 2011 and for the period from October 1, 2010 to March 31, 2011

NOTE G – INVESTMENTS - Continued

The following table summarizes the total investment return and its presentation in the statements of activities for the period from October 1, 2010 to March 31, 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest and dividend income, net of fees	\$ 36,019	\$ 70,332	\$ 106,351
Net realized gains (losses)	130,477	386,714	517,191
Net unrealized losses	21,432	(147,036)	(125,604)
	<u>151,909</u>	<u>239,678</u>	<u>391,587</u>
Net return on investments	\$ <u>187,928</u>	\$ <u>310,010</u>	\$ <u>497,938</u>

NOTE H - DEBT

In 2008 the Association entered into a loan agreement with the New Hampshire Business Finance Authority for variable rate demand revenue bonds. In addition, the Association has various credit facilities with Citizens Bank consisting of a revolving line of credit, a standby letter of credit, and an irrevocable direct pay letter of credit. These credit facilities refinanced all previously existing facilities. Those credit facilities require the Association to meet certain financial covenants. At March 31, 2011, the Association was in compliance with these covenants.

On October 22, 2007, the Association issued long term tax-exempt debt consisting of \$2,600,000 Business Finance Authority of the State of New Hampshire Variable Rate Demand Revenue Bonds (The Student Conservation Association, Inc. Issue - Series 2007). Proceeds were used to finance the renovation and expansion of a building located at the headquarters in Charlestown, New Hampshire, the purchase of furnishings, and the payment of certain other costs related to the issuance of the Series 2007 Bonds.

On June 28, 2010, the Association entered into a loan agreement with the Richard King Mellon Foundation for a program related investment in the amount of \$500,000. The loan proceeds were used to bridge the timing difference between receipt of government contract funds and incurrence of expenses for youth summer employment programs in Pennsylvania.

Notes payable consists of the following at March 31, 2011:

Note payable - Richard Mellon Foundation, due by June 30, 2011, interest free	\$ 500,000
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Series Bond 2007

New Hampshire Variable Rate Demand Revenue Bonds (The Student Conservation Associates, Inc. Issue - Series 2007) ("Series 2007 Bonds") dated as of October 22, 2007 with principal payments commencing May 1, 2009 at variable rates of interest (0.92% at March 31, 2011) through maturity at May 1, 2028. The bonds are collateralized by a letter of credit.

2,400,000

Total debt	\$ <u>2,900,000</u>
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THE STUDENT CONSERVATION ASSOCIATION, INC.

Notes to Financial Statements - Continued

March 31, 2011 and for the period from October 1, 2010 to March 31, 2011

NOTE H – DEBT - Continued**Principal payments of debt are due as follows:**

<u>Years ending March 31,</u>	
2012	\$ 600,000
2013	100,000
2014	100,000
2015	100,000
2016	105,000
Thereafter	<u>1,895,000</u>
	<u>\$ 2,900,000</u>

Interest Rate Swap

In connection with the Series 2007 Bonds, on November 1, 2007, the Association entered into a 20 year amortizing interest rate swap contract to manage its interest rate risk associated with the Series 2007 Bonds. The Association pays a fixed rate of 3.82% and receives a variable rate tied to 1-month LIBOR. At March 31, 2011, the Association has recognized the fair value of the swap as a liability in the statement of financial position and the unrealized loss on this swap has been recognized in the accompanying statements of activities as a loss on interest rate swap. Fair value is determined using market quotes as of March 31, 2011, as further discussed in Note J.

Debt Reserve Fund

In connection with the Series 2007 Bonds, a debt reserve account is maintained for the purpose of facilitating annual principal payments due on the bond. Installments of one-twelfth of the annual payment are transferred each month from unrestricted cash by the trustee to the reserve fund. The funds are held in trust and applied to pay the annual principal due on the bond.

Line of Credit

The revolving line of credit includes total availability of \$9,500,000, which is secured by a first security interest on all assets of the Association, with the exception of donor restricted funds, and is due on demand. Interest on the outstanding principal balance which has accrued during the preceding interest period is payable monthly. The interest rate is variable based on the one-month LIBOR plus an applicable margin of either 2.625% or 2.75% based on certain financial ratios. The variable rate at March 31, 2011 was 2.88%. The balance outstanding under this line of credit was \$3,696,768 at March 31, 2011. The amount available on the line of credit as of March 31, 2011 was \$5,803,232.

Interest expense related to the line of credit and the long-term debt was \$129,979 for the period from October 1, 2010 to March 31, 2011.

THE STUDENT CONSERVATION ASSOCIATION, INC.

Notes to Financial Statements - Continued

March 31, 2011 and for the period from October 1, 2010 to March 31, 2011

NOTE H – DEBT - Continued

Commitments - Letters of Credit

At March 31, 2011, the Association has an outstanding irrevocable direct pay letter of credit from Citizens Bank with total availability of \$2,435,507 for the Series 2007 Bonds.

The Association also has available an outstanding standby letter of credit from Citizens Bank up to an aggregate of \$160,000 at March 31, 2011 that expires in March 2012, which is required in connection with the insurance program for workers compensation.

NOTE I - SPLIT-INTEREST AGREEMENTS

The Association administers various charitable gift annuities. A charitable gift annuity provides for the payment of distributions to the donor or other designated beneficiaries for a specified period of time. The assets remaining at termination of the agreement are available for the Association's use for various purposes as determined by the donor. The estimated net present value of the liability under the agreements is recorded at the date of the gift using applicable discount rates (ranging from 2.0% to 9.2%), and applicable mortality tables. The revenue attributable to the estimated present value of the future benefits to be received by the Association is recorded as an increase in the net assets of the Association in accordance with its policy for recording contribution revenue in the period in which the charitable gift annuity is established. The investment is reported in the Association's statement of financial position at the fair value of the underlying investments, based on quoted market prices. The Association makes distributions to the designated beneficiaries based on agreement provisions.

NOTE J - FAIR VALUE MEASUREMENTS

Fair value is based on an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The following summarizes the fair value hierarchy based on the inputs to valuation techniques used to measure fair value using the lowest level of any input (level 3 being the lowest):

- Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 - Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable.

THE STUDENT CONSERVATION ASSOCIATION, INC.

Notes to Financial Statements - Continued

March 31, 2011 and for the period from October 1, 2010 to March 31, 2011

NOTE J - FAIR VALUE MEASUREMENTS - Continued

Assets measured at fair value are classified by level as follows:

Level 1

Investments: Investments such as actively traded equity securities, U.S. government obligations and money market funds with quoted market prices in active markets are classified as Level 1.

Debt Reserve Fund: The debt service reserve fund consists of U.S. government obligations and money market funds. The valuations are based on quoted market prices in active markets and are classified as Level 1.

Level 2

Interest Rate Swap: The fair value of the interest rate swap is measured by alternative pricing sources with reasonable levels of price transparency in markets that are not active. Based on the complex nature of interest rate swaps, the markets these instruments trade in are not as efficient and are less liquid than that of the more mature Level 1 markets. These markets do however have comparable, observable inputs in which an alternative pricing source values these investments in order to arrive at a fair market value.

Investments: Investments in private mutual funds are considered Level 2 inputs and recorded at NAV as these amounts are not traded in an active market.

Level 3

Charitable Remainder Trusts: These instruments are initially recorded at the present value of future cash flows using a discount rate from actuarial tables, adjusted for market conditions to determine fair value.

Contributions Receivable: These assets are classified as Level 3 because the fair value is based on a valuation technique.

Gift Annuities: These instruments are initially recorded at the present value of future cash flows with a discount rate adjusted for market conditions to determine fair value. They have been classified as Level 3.

THE STUDENT CONSERVATION ASSOCIATION, INC.

Notes to Financial Statements - Continued

March 31, 2011 and for the period from October 1, 2010 to March 31, 2011

NOTE J - FAIR VALUE MEASUREMENTS - Continued

The Association's assets and liabilities that are accounted for at fair value on a recurring basis as of March 31, 2011 by level within the fair value hierarchy are presented in the table below. Financial instruments measured at fair value on a non-recurring basis, such as contributions receivable, are excluded from the table.

<u>Description</u>	<u>Quoted prices in active markets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Investments	\$ 1,838,024	\$	\$
Debt service reserve fund	83,475		
Charitable remainder trusts			225,083
Interest rate swap		(296,906)	
Private mutual funds		5,858,464	
	<u>\$ 1,921,499</u>	<u>\$ 5,561,558</u>	<u>\$ 225,083</u>
Rollforward of activity for assets measured at fair value based on significant unobservable inputs:			
Beginning balance			\$ 201,305
Adjustment for market changes			<u>23,778</u>
Ending balance			<u>\$ 225,083</u>

The Association recognizes transfers between fair value hierarchy levels at the approximate date of change in circumstances that cause the transfer.

THE STUDENT CONSERVATION ASSOCIATION, INC.

Notes to Financial Statements - Continued

March 31, 2011 and for the period from October 1, 2010 to March 31, 2011

NOTE K – ENDOWMENTS

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

Interpretation of Relevant Law

The State of New York adopted the New York Uniform Prudent Management of Institutional Funds Act (UPMIFA) effective September 17, 2010. The Association has interpreted the New York UPMIFA as requiring the Association to preserve the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Association classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, if any, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, if any. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets and is regarded as "net appreciation" is classified as temporarily restricted net assets until they are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by the Act.

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

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

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or the Act requires the Association to retain as a fund of perpetual duration. Deficiencies of this nature are reported by a charge to unrestricted net assets and a corresponding increase to temporarily restricted net assets both reflected as a component of realized and unrealized gains (losses) in the statement of activities. There were no such deficiencies as of March 31, 2011.

THE STUDENT CONSERVATION ASSOCIATION, INC.

Notes to Financial Statements - Continued

March 31, 2011 and for the period from October 1, 2010 to March 31, 2011

NOTE K – ENDOWMENTS - ContinuedEndowment Investment Policy

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

Strategies Employed for Achieving Objectives

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

Endowment Net Assets Balances

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ 872,371	\$ 3,843,265	\$ 4,715,636
Board designated funds	<u>4,784,886</u>	<u>-</u>	<u>-</u>	<u>4,784,886</u>
Total endowment net assets	<u>\$ 4,784,886</u>	<u>\$ 872,371</u>	<u>\$ 3,843,265</u>	<u>\$ 9,500,522</u>

THE STUDENT CONSERVATION ASSOCIATION, INC.
Notes to Financial Statements - Continued
March 31, 2011 and for the period from October 1, 2010 to March 31, 2011

NOTE K – ENDOWMENTS - Continued

Endowment Fund Activity

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of year	\$ 4,546,320	\$ 562,361	\$ 3,788,633	\$ 8,897,314
Investment returns:				
Investment income	36,019	70,332	-	106,351
Realized and unrealized losses	151,909	239,678	-	391,587
Total investment return	187,928	310,010	-	497,938
New gifts	443,293	-	55,105	498,398
Appropriation of endowment assets for operations	(322,474)	-	-	(322,474)
Change in actuarial value and amortization of split interest agreements	(70,181)	-	(473)	(70,654)
Endowment assets, end of year	<u>\$ 4,784,886</u>	<u>\$ 872,371</u>	<u>\$ 3,843,265</u>	<u>\$ 9,500,522</u>

The endowment fund activity table includes “Appropriation of endowment assets for operations”. During the period from October 1, 2010 to March 31, 2011, this represented board designated planned giving and capital campaign expenses.

NOTE L - RETIREMENT PLAN

The Association maintains a deferred annuity plan (the “Plan”) that covers substantially all employees. The Plan calls for the Association to match up to 3% of each employee’s contribution to the Plan. Total plan expense approximated to \$100,277 for the period from October 1, 2010 to March 31, 2011.

NOTE M - RELATED-PARTY TRANSACTIONS

Included in individual giving are contributions received from the directors, officers, and staff of the Association in the amounts of approximately \$197,756 for the period from October 1, 2010 to March 31, 2011. Contributions receivable from related parties at March 31, 2011 were \$0.

NOTE N – SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 22, 2011, which is the date the financial statements were issued. There were no subsequent events that require adjustments to or disclosure in the financial statements.

SUPPLEMENTAL INFORMATION

THE STUDENT CONSERVATION ASSOCIATION, INC.

Schedule of Functional Expenses

October 1, 2010 to March 31, 2011

	Program Services				Support Services			Total Expenses
	Field	Program Support and Development	Participant Recruitment	Total	General and Administrative	Fundraising	Total	
Compensation related:								
Salaries and wages	\$ 1,858,666	\$ 1,681,393	\$ 421,414	\$ 3,961,473	\$ 482,118	\$ 296,524	\$ 778,642	\$ 4,740,115
Group medical insurance	166,859	161,045	40,204	368,108	47,007	28,668	75,675	443,783
Payroll taxes	147,075	141,950	35,437	324,462	41,434	25,269	66,703	391,165
Contracted services	47,139	240	-	47,379	17,189	20,645	37,834	85,213
Retirement expense	34,202	33,010	8,241	75,453	9,635	5,876	15,511	90,964
Total compensation related	<u>2,253,941</u>	<u>2,017,638</u>	<u>505,296</u>	<u>4,776,875</u>	<u>597,383</u>	<u>376,982</u>	<u>974,365</u>	<u>5,751,240</u>
Other operating expenses:								
Participant subsistence, housing, and health insurance	1,194,167	-	-	1,194,167	-	-	-	1,194,167
Field travel and transportation	755,672	-	-	755,672	-	-	-	755,672
Participant grants and awards	2,167,745	-	-	2,167,745	-	-	-	2,167,745
Travel - staff	107,698	142,665	54,968	305,331	14,635	27,617	42,252	347,583
Postage and freight	38,518	11,480	17,492	67,490	4,476	38,496	42,972	110,462
Training, orientation, and career services	159,764	1,619	-	161,383	12,754	2,111	14,865	176,248
Supplies and equipment	155,627	14,469	1,786	171,882	2,305	3,647	5,952	177,834
Depreciation	113,656	95,814	22,610	232,080	66,678	22,610	89,288	321,368
Insurance	260,909	86,970	8,697	356,576	73,924	4,348	78,272	434,848
Rent and property expenses	80,156	141,075	4,409	225,640	8,818	4,409	13,227	238,867
Interest, finance, and bank charges	-	-	-	-	190,043	-	190,043	190,043
Printing	3,413	9,494	24,239	37,146	6,533	16,051	22,584	59,730
Telephone	39,218	54,658	5,099	98,975	13,865	4,888	18,753	117,728
Uniforms	81,879	-	-	81,879	-	-	-	81,879
Technology operations (nonstaff)	26,224	17,483	26,224	69,931	8,741	8,741	17,482	87,413
Conferences	7,103	1,998	2,950	12,051	55,667	2,637	58,304	70,355
Audit and legal fees	17,826	14,247	-	32,073	127,757	-	127,757	159,830
Risk management (nonstaff)	59,358	-	-	59,358	-	-	-	59,358
Equipment rental	3,903	15,065	3,623	22,591	2,174	1,449	3,623	26,214
Dues, publications and subscriptions	-	24,552	-	24,552	25,330	8,064	33,394	57,946
Consulting and processing	12,841	6,133	3,553	22,527	95,459	45,405	140,864	163,391
All other expenses	34,025	38,464	18,981	91,470	75,665	7,990	83,655	175,125
Total noncompensation	<u>5,319,702</u>	<u>676,186</u>	<u>194,631</u>	<u>6,190,519</u>	<u>784,824</u>	<u>198,463</u>	<u>983,287</u>	<u>7,173,806</u>
Total expenses	\$ <u>7,573,643</u>	\$ <u>2,693,824</u>	\$ <u>699,927</u>	\$ <u>10,967,394</u>	\$ <u>1,382,207</u>	\$ <u>575,445</u>	\$ <u>1,957,652</u>	\$ <u>12,925,046</u>