



**FINANCIAL STATEMENTS
MARCH 31, 2019 AND 2018**

THE STUDENT CONSERVATION ASSOCIATION, INC.

Contents
March 31, 2019 and 2018

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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 statements of financial position as of March 31, 2019 and 2018, and the related statements of activities, changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Student Conservation Association, Inc. as of March 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Alexander, Brown, Pinning & Co., P.C.
Westborough, Massachusetts
September 20, 2019

THE STUDENT CONSERVATION ASSOCIATION, INC.

Statements of Financial Position
March 31, 2019 and 2018

Assets	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Current Assets:						
Cash	\$ 124,011	\$ -	\$ 124,011	\$ 1,038,625	\$ -	\$ 1,038,625
Contracts and other receivables, net	4,717,412	-	4,717,412	7,196,204	-	7,196,204
Current portion of pledges receivable, net	443,778	350,369	794,147	18,696	2,088,977	2,107,673
Prepaid expenses and other assets	712,424	-	712,424	1,144,814	-	1,144,814
Due (to) from	(3,259,465)	3,259,465	-	(3,485,392)	3,485,392	-
Total current assets	<u>2,738,160</u>	<u>3,609,834</u>	<u>6,347,994</u>	<u>5,912,947</u>	<u>5,574,369</u>	<u>11,487,316</u>
Other Assets:						
Pledges receivable, net of current portion	-	169,927	169,927	-	50,357	50,357
Investments	2,292,112	5,728,732	8,020,844	5,313,006	6,693,057	12,006,063
Beneficial interests in trusts	-	323,532	323,532	-	256,333	256,333
Cash surrender value of life insurance policy	-	-	-	144,406	-	144,406
Property and equipment, net	<u>3,544,741</u>	<u>-</u>	<u>3,544,741</u>	<u>4,454,914</u>	<u>-</u>	<u>4,454,914</u>
Total assets	<u>\$ 8,575,013</u>	<u>\$ 9,832,025</u>	<u>\$ 18,407,038</u>	<u>\$ 15,825,273</u>	<u>\$ 12,574,116</u>	<u>\$ 28,399,389</u>
Liabilities and Net Assets						
Current Liabilities:						
Line of credit	\$ 489,530	\$ -	\$ 489,530	\$ 3,032,829	\$ -	\$ 3,032,829
Current portion of notes payable, net	99,996	-	99,996	500,382	-	500,382
Current portion of capital lease obligations	188,285	-	188,285	356,163	-	356,163
Accounts payable	347,917	-	347,917	1,158,108	-	1,158,108
Accrued expenses	752,000	-	752,000	791,288	-	791,288
Deferred revenue	86,305	-	86,305	-	-	-
Total current liabilities	<u>1,964,033</u>	<u>-</u>	<u>1,964,033</u>	<u>5,838,770</u>	<u>-</u>	<u>5,838,770</u>
Other Liabilities:						
Notes payable, net of current portion and unamortized debt issuance costs	875,326	-	875,326	1,761,902	-	1,761,902
Capital lease obligations, net of current portion	114,343	-	114,343	302,629	-	302,629
Split-interest agreements	1,681,877	-	1,681,877	1,360,058	-	1,360,058
Total liabilities	<u>4,635,579</u>	<u>-</u>	<u>4,635,579</u>	<u>9,263,359</u>	<u>-</u>	<u>9,263,359</u>
Net Assets:						
Without donor restrictions:						
Operating	(241,755)	-	(241,755)	450,455	-	450,455
Board designated	1,914,398	-	1,914,398	4,577,621	-	4,577,621
Property and equipment	2,266,791	-	2,266,791	1,533,838	-	1,533,838
Total without donor restrictions	<u>3,939,434</u>	<u>-</u>	<u>3,939,434</u>	<u>6,561,914</u>	<u>-</u>	<u>6,561,914</u>
With donor restrictions	-	9,832,025	9,832,025	-	12,574,116	12,574,116
Total net assets	<u>3,939,434</u>	<u>9,832,025</u>	<u>13,771,459</u>	<u>6,561,914</u>	<u>12,574,116</u>	<u>19,136,030</u>
Total liabilities and net assets	<u>\$ 8,575,013</u>	<u>\$ 9,832,025</u>	<u>\$ 18,407,038</u>	<u>\$ 15,825,273</u>	<u>\$ 12,574,116</u>	<u>\$ 28,399,389</u>

The accompanying notes are an integral part of these statements.

THE STUDENT CONSERVATION ASSOCIATION, INC.

Statements of Activities
For the Years Ended March 31, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenue:						
Contract revenue	\$ 26,311,087	\$ -	\$ 26,311,087	\$ 30,744,349	\$ -	\$ 30,744,349
Grants and contributions	7,394,852	2,276,112	9,670,964	5,449,656	4,225,810	9,675,466
Donated goods and services	796,795	-	796,795	590,984	-	590,984
Other income	298,460	-	298,460	181,153	-	181,153
Investment return designated for current operations	229,616	-	229,616	191,632	-	191,632
Investment return	-	-	-	21,737	-	21,737
Net assets released from restrictions	4,121,077	(4,121,077)	-	3,975,109	(3,975,109)	-
Total operating revenue	<u>39,151,887</u>	<u>(1,844,965)</u>	<u>37,306,922</u>	<u>41,154,620</u>	<u>250,701</u>	<u>41,405,321</u>
Operating Expenses:						
Program expenses:						
Community	4,655,928	-	4,655,928	4,770,688	-	4,770,688
Corps	9,323,377	-	9,323,377	9,553,183	-	9,553,183
Crew	1,532,770	-	1,532,770	1,570,551	-	1,570,551
Internship	12,351,461	-	12,351,461	12,655,908	-	12,655,908
Leader	460,980	-	460,980	472,343	-	472,343
Training	420,647	-	420,647	431,015	-	431,015
Youth conservation corps	66,267	-	66,267	67,905	-	67,905
Total program expenses	<u>28,811,430</u>	<u>-</u>	<u>28,811,430</u>	<u>29,521,593</u>	<u>-</u>	<u>29,521,593</u>
General and administrative	7,660,848	-	7,660,848	8,257,336	-	8,257,336
Fundraising	6,384,363	-	6,384,363	5,705,997	-	5,705,997
Total operating expenses	<u>42,856,641</u>	<u>-</u>	<u>42,856,641</u>	<u>43,484,926</u>	<u>-</u>	<u>43,484,926</u>
Changes in net assets from operations	<u>(3,704,754)</u>	<u>(1,844,965)</u>	<u>(5,549,719)</u>	<u>(2,330,306)</u>	<u>250,701</u>	<u>(2,079,605)</u>
Non-Operating Revenue (Expenses):						
Charitable gift annuity contributions	-	644,200	644,200	-	642,951	642,951
Investment return, net	102,215	125,520	227,735	315,061	619,353	934,414
Endowment contributions	-	81,870	81,870	-	176,477	176,477
Change in value of beneficial interests in trusts	-	67,199	67,199	-	12,735	12,735
Investment return on cash surrender value of life insurance policy	-	-	-	6,347	-	6,347
Release from endowment	1,040,117	(1,040,117)	-	-	-	-
Loss on disposal of property and equipment	(60,058)	-	(60,058)	-	-	-
Investment return designated for current operations	-	(229,616)	(229,616)	-	(191,632)	(191,632)
Change in value of split-interest agreements	-	(546,182)	(546,182)	-	(373,375)	(373,375)
Total non-operating revenue (expenses)	<u>1,082,274</u>	<u>(897,126)</u>	<u>185,148</u>	<u>321,408</u>	<u>886,509</u>	<u>1,207,917</u>
Changes in net assets	<u>\$ (2,622,480)</u>	<u>\$ (2,742,091)</u>	<u>\$ (5,364,571)</u>	<u>\$ (2,008,898)</u>	<u>\$ 1,137,210</u>	<u>\$ (871,688)</u>

The accompanying notes are an integral part of these statements.

THE STUDENT CONSERVATION ASSOCIATION, INC.

Statements of Changes in Net Assets
For the Years Ended March 31, 2019 and 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Net Assets, March 31, 2017	\$ 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>
Net Assets, March 31, 2018	6,561,914	12,574,116	19,136,030
Changes in net assets	<u>(2,622,480)</u>	<u>(2,742,091)</u>	<u>(5,364,571)</u>
Net Assets, March 31, 2019	<u>\$ 3,939,434</u>	<u>\$ 9,832,025</u>	<u>\$ 13,771,459</u>

THE STUDENT CONSERVATION ASSOCIATION, INC.

Statements of Cash Flows

For the Years Ended March 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ (5,364,571)	\$ (871,688)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation	1,007,298	1,018,695
Amortization of debt issuance costs	12,199	17,485
Bad debts	668,468	29,959
Realized and unrealized losses (gains) on investments	83,908	(683,351)
Endowment contributions	(81,870)	(176,477)
Charitable gift annuity contributions	(644,200)	(642,951)
Change in value of split-interest agreements	546,182	373,375
Change in value of beneficial interests in trusts	(67,199)	(12,735)
Loss on disposal of property and equipment	60,058	-
Changes in operating assets and liabilities:		
Contracts and other receivables	2,060,531	(268,741)
Pledges receivable	943,749	(284,703)
Prepaid expenses and other assets	432,390	(247,778)
Accounts payable	(810,191)	560,885
Accrued expenses	(39,288)	(373,868)
Deferred revenue	86,305	-
Net cash used in operating activities	<u>(1,106,231)</u>	<u>(1,561,893)</u>
Cash Flows from Investing Activities:		
Purchase of property and equipment	(157,183)	(458,255)
Charitable gift annuity contributions	644,200	642,951
Purchase of investments	(10,786,036)	(3,489,201)
Proceeds from sale of investments	14,687,347	3,655,956
Investment return on cash surrender value of life insurance policy	-	(6,347)
Net proceeds from liquidation of life insurance policy	144,406	-
Payments to annuitants	(224,363)	(113,293)
Net cash provided by investing activities	<u>4,308,371</u>	<u>231,811</u>
Cash Flows from Financing Activities:		
Net (payments on) proceeds from line of credit	(2,543,299)	2,338,057
Endowment contributions	81,870	176,477
Principal payments on capital lease obligations	(356,164)	(398,512)
Principal payments on notes payable	(1,282,816)	(744,173)
Debt issuance costs	(16,345)	-
Net cash provided by (used in) financing activities	<u>(4,116,754)</u>	<u>1,371,849</u>
Net Change in Cash	(914,614)	41,767
Cash:		
Beginning of year	<u>1,038,625</u>	<u>996,858</u>
End of year	<u>\$ 124,011</u>	<u>\$ 1,038,625</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	<u>\$ 403,481</u>	<u>\$ 284,278</u>
Supplemental Disclosure of Non-Cash Transaction:		
Property and equipment acquired through capital leases	<u>\$ -</u>	<u>\$ 39,651</u>

THE STUDENT CONSERVATION ASSOCIATION, INC.

Statement of Functional Expenses

For the Year Ended March 31, 2019

(With Comparative Totals for the Year Ended March 31, 2018)

	2019											2018	
	Program						Support					Total	
	Community	Corps	Crew	Internship	Leader	Training	Youth Conservation Corps	Total Program	General and Administrative	Fundraising	Total Support	Total	
Personnel and Related Costs:													
Salaries and wages	\$ 2,478,622	\$ 4,963,381	\$ 815,983	\$ 6,575,408	\$ 245,408	\$ 223,935	\$ 35,279	\$ 15,338,016	\$ 2,326,946	\$ 2,164,536	\$ 4,491,482	\$ 19,829,498	\$ 21,056,207
Payroll taxes	278,930	558,550	91,826	739,959	27,617	25,200	3,970	1,726,052	138,523	137,757	276,280	2,002,332	2,203,470
Fringe benefits	76,573	153,336	25,209	203,137	7,581	6,918	1,090	473,844	224,884	223,640	448,524	922,368	883,180
Contracted services	31,342	62,761	10,318	83,145	3,103	2,832	446	193,947	461,501	7,654	469,155	663,102	376,525
Total personnel and related costs	2,865,467	5,738,028	943,336	7,601,649	283,709	258,885	40,785	17,731,859	3,151,854	2,533,587	5,685,441	23,417,300	24,519,382
Occupancy:													
Rent	87,611	175,439	28,842	232,419	8,674	7,915	1,247	542,147	141,045	140,266	281,311	823,458	712,653
Depreciation	-	-	-	-	-	-	-	-	137,122	55,588	192,710	192,710	189,101
Interest	-	-	-	-	-	-	-	-	47,615	35,220	82,835	82,835	107,803
Utilities	8,070	16,160	2,657	21,408	799	729	115	49,938	14,311	14,231	28,542	78,480	150,165
Property insurance	-	-	-	-	-	-	-	-	28,251	28,095	56,346	56,346	27,227
Repairs and maintenance	1,780	3,564	586	4,722	176	161	25	11,014	20,145	20,032	40,177	51,191	62,333
Total occupancy	97,461	195,163	32,085	258,549	9,649	8,805	1,387	603,099	388,489	293,432	681,921	1,285,020	1,249,282
Other:													
Field travel and transportation	451,926	904,971	148,778	1,198,890	44,745	40,830	6,432	2,796,572	-	-	-	2,796,572	3,295,324
Participant housing and meals	451,908	904,934	148,772	1,198,842	44,743	40,828	6,432	2,796,459	-	-	-	2,796,459	3,332,348
Professional fees	-	-	-	-	-	-	-	-	1,367,959	1,419,487	2,787,446	2,787,446	2,724,648
Conferences and training	170,462	341,345	56,117	452,209	16,877	15,401	2,426	1,054,837	245,949	154,861	400,810	1,455,647	1,376,222
Insurance	146,798	293,959	48,327	389,432	14,534	13,263	2,089	908,402	208,156	207,004	415,160	1,323,562	1,702,520
Staff travel	82,885	165,974	27,286	219,880	8,206	7,488	1,180	512,899	191,018	446,332	637,350	1,150,249	875,653
Depreciation	51,303	102,732	16,889	136,098	5,079	4,635	730	317,466	249,250	247,872	497,122	814,588	829,594
Technology	-	-	-	-	-	-	-	-	408,132	405,873	814,005	814,005	661,939
Supplies and equipment	99,713	199,672	32,826	264,522	9,873	9,009	1,419	617,034	88,484	87,995	176,479	793,513	688,478
Bad debts	70,084	140,342	23,072	185,922	6,939	6,332	997	433,688	-	234,780	234,780	668,468	29,959
Advertising	-	-	-	-	-	-	-	-	541,516	33,600	575,116	575,116	458,737
Uniforms	88,185	176,588	29,031	233,940	8,731	7,967	1,255	545,697	-	-	-	545,697	394,285
Telephone	40,259	80,618	13,254	106,802	3,986	3,637	573	249,129	77,257	76,830	154,087	403,216	373,909
Memberships and subscriptions	12,076	24,182	3,976	32,036	1,196	1,091	172	74,729	244,144	34,949	279,093	353,822	145,845
Interest	12,118	24,266	3,989	32,148	1,200	1,095	172	74,988	273,964	898	274,862	349,850	193,960
Printing and postage	13,249	26,530	4,362	35,147	1,312	1,197	189	81,986	41,618	176,176	217,794	299,780	267,205
Miscellaneous	2,034	4,073	670	5,395	201	184	29	12,586	183,058	30,687	213,745	226,331	365,636
Total other	1,693,000	3,390,186	557,349	4,491,263	167,622	152,957	24,095	10,476,472	4,120,505	3,557,344	7,677,849	18,154,321	17,716,262
Total expenses	\$ 4,655,928	\$ 9,323,377	\$ 1,532,770	\$ 12,351,461	\$ 460,980	\$ 420,647	\$ 66,267	\$ 28,811,430	\$ 7,660,848	\$ 6,384,363	\$ 14,045,211	\$ 42,856,641	\$ 43,484,926

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	
Personnel and Related Costs:												
Salaries and wages	\$ 2,611,581	\$ 5,229,625	\$ 859,753	\$ 6,928,122	\$ 258,572	\$ 235,948	\$ 37,168	\$ 16,160,769	\$ 2,903,873	\$ 1,991,565	\$ 4,895,438	\$ 21,056,207
Payroll taxes	310,583	621,933	102,247	823,927	30,751	28,060	4,420	1,921,921	166,807	114,742	281,549	2,203,470
Fringe benefits	94,977	190,189	31,267	251,959	9,403	8,581	1,353	587,729	175,043	120,408	295,451	883,180
Contracted services	3,305	6,617	1,088	8,766	327	299	47	20,449	349,325	6,751	356,076	376,525
Total personnel and related costs	<u>3,020,446</u>	<u>6,048,364</u>	<u>994,355</u>	<u>8,012,774</u>	<u>299,053</u>	<u>272,888</u>	<u>42,988</u>	<u>18,690,868</u>	<u>3,595,048</u>	<u>2,233,466</u>	<u>5,828,514</u>	<u>24,519,382</u>
Occupancy:												
Rent	60,239	120,626	19,831	159,804	5,964	5,442	858	372,764	201,371	138,518	339,889	712,653
Depreciation	-	-	-	-	-	-	-	-	134,554	54,547	189,101	189,101
Interest	-	-	-	-	-	-	-	-	70,995	36,808	107,803	107,803
Utilities	-	-	-	-	-	-	-	-	88,967	61,198	150,165	150,165
Property insurance	-	-	-	-	-	-	-	-	16,131	11,096	27,227	27,227
Repairs and maintenance	-	-	-	-	-	-	-	-	36,930	25,403	62,333	62,333
Total occupancy	<u>60,239</u>	<u>120,626</u>	<u>19,831</u>	<u>159,804</u>	<u>5,964</u>	<u>5,442</u>	<u>858</u>	<u>372,764</u>	<u>548,948</u>	<u>327,570</u>	<u>876,518</u>	<u>1,249,282</u>
Other:												
Field travel and transportation	532,525	1,066,365	175,312	1,412,706	52,726	48,112	7,578	3,295,324	-	-	-	3,295,324
Participant housing and meals	538,507	1,078,347	177,280	1,428,578	53,316	48,652	7,668	3,332,348	-	-	-	3,332,348
Professional fees	-	-	-	-	-	-	-	-	1,109,627	1,615,021	2,724,648	2,724,648
Conferences and training	139,807	279,962	46,027	370,890	13,842	12,630	1,991	865,149	426,635	84,438	511,073	1,376,222
Insurance	180,712	361,871	59,492	479,402	17,892	16,326	2,573	1,118,268	346,146	238,106	584,252	1,702,520
Staff travel	77,847	155,887	25,628	206,517	7,708	7,033	1,108	481,728	223,763	170,162	393,925	875,653
Depreciation	-	-	-	-	-	-	-	-	491,501	338,093	829,594	829,594
Technology	-	-	-	-	-	-	-	-	392,172	269,767	661,939	661,939
Supplies and equipment	84,656	169,523	27,870	224,581	8,381	7,649	1,205	523,865	97,527	67,086	164,613	688,478
Bad debts	4,841	9,695	1,594	12,843	479	437	70	29,959	-	-	-	29,959
Advertising	-	-	-	-	-	-	-	-	418,484	40,253	458,737	458,737
Uniforms	63,716	127,591	20,976	169,030	6,309	5,757	906	394,285	-	-	-	394,285
Telephone	37,579	75,251	12,371	99,691	3,721	3,395	535	232,543	83,754	57,612	141,366	373,909
Memberships and subscriptions	5,598	11,211	1,843	14,852	554	506	80	34,644	35,644	75,557	111,201	145,845
Interest	6,606	13,229	2,175	17,526	654	597	94	40,881	152,400	679	153,079	193,960
Printing and postage	12,534	25,099	4,127	33,251	1,241	1,133	178	77,563	31,670	157,972	189,642	267,205
Miscellaneous	5,075	10,162	1,670	13,463	503	458	73	31,404	304,017	30,215	334,232	365,636
Total other	<u>1,690,003</u>	<u>3,384,193</u>	<u>556,365</u>	<u>4,483,330</u>	<u>167,326</u>	<u>152,685</u>	<u>24,059</u>	<u>10,457,961</u>	<u>4,113,340</u>	<u>3,144,961</u>	<u>7,258,301</u>	<u>17,716,262</u>
Total expenses	<u>\$ 4,770,688</u>	<u>\$ 9,553,183</u>	<u>\$ 1,570,551</u>	<u>\$ 12,655,908</u>	<u>\$ 472,343</u>	<u>\$ 431,015</u>	<u>\$ 67,905</u>	<u>\$ 29,521,593</u>	<u>\$ 8,257,336</u>	<u>\$ 5,705,997</u>	<u>\$ 13,963,333</u>	<u>\$ 43,484,926</u>

The accompanying notes are an integral part of these statements.

THE STUDENT CONSERVATION ASSOCIATION, INC.

Notes to Financial Statements
March 31, 2019 and 2018

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).

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, 2019 and 2018, totaled \$366,218 and \$41,242, respectively.

Pledges Receivable and Allowance for Uncollectible Pledges

Pledges receivable at March 31, 2019 and 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. The allowance for uncollectible pledges receivable at March 31, 2019, was \$213,576. There was no allowance for uncollectible pledges at March 31, 2018.

THE STUDENT CONSERVATION ASSOCIATION, INC.

Notes to Financial Statements
March 31, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 restrictions (see Note 5). Investments without donor restrictions 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, *Property, Plant and Equipment*. The Association has not recognized any reduction in the carrying value of its property and equipment when considering this standard during fiscal years 2019 and 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, 2019 and 2018

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 9) 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, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

Cash Surrender Value of Life Insurance Policy

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

Split-Interest Liabilities

The Association has entered into charitable gift annuity contracts with various donors as described on page 9. Contributions implicit in these split-interest agreements are generally recorded as increases in net assets with donor restrictions 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 statements 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 \$610,235 and \$3,952,948 at March 31, 2019 and 2018, respectively. A portion of the Board designated funds had been used as collateral for certain notes payable as of March 31, 2018 (see Notes 7 and 8).

Board designated other - consists of non-endowment net assets of the Association that have been set aside by the Board of Directors to fund various initiatives and working capital needs. These funds may only be used with the approval of the Board of Directors and totaled \$1,304,163 and \$624,673 at March 31, 2019 and 2018, respectively.

THE STUDENT CONSERVATION ASSOCIATION, INC.

Notes to Financial Statements
March 31, 2019 and 2018

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:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specific purposes:		
Program development	\$ 2,354,333	\$ 2,150,752
Restricted to geographic region	515,347	380,000
Restricted to geographic region and position	332,500	488,847
Sustainability initiative	179,170	230,000
Other programmatic functions	119,339	154,375
Tree conservation project	40,000	287,965
Crews	<u>15,000</u>	<u>1,152,418</u>
	<u>3,555,689</u>	<u>4,844,357</u>
Subject to the passage of time:		
Net position in charitable gift annuities, inherently restricted for future use	1,014,798	879,449
Beneficial interests in trusts, inherently restricted for future use	323,532	256,333
Restricted for use in future fiscal years	224,072	695,369
Promises to give that are not restricted by donors, but which are unavailable for expenditure until collected	<u>-</u>	<u>85,000</u>
	<u>1,562,402</u>	<u>1,916,151</u>
Subject to the Association's endowment spending policy and appropriation:		
Investment in perpetuity	4,352,300	5,310,547
Accumulated earnings on endowment	<u>361,634</u>	<u>503,061</u>
	<u>4,713,934</u>	<u>5,813,608</u>
	<u>\$ 9,832,025</u>	<u>\$ 12,574,116</u>

THE STUDENT CONSERVATION ASSOCIATION, INC.

Notes to Financial Statements
March 31, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

With Donor Restrictions (Continued)

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 years ended March 31:

	<u>2019</u>	<u>2018</u>
Satisfaction of purpose restrictions	\$ 3,404,280	\$ 3,925,109
Expiration of time restrictions	<u>716,797</u>	<u>50,000</u>
	4,121,077	3,975,109
Investment return designated for current operations	<u>229,616</u>	<u>191,632</u>
	<u>\$ 4,350,693</u>	<u>\$ 4,166,741</u>

In addition, certain gifts totaling \$1,040,117 whose principal was previously restricted in perpetuity were transferred to net assets without donor restrictions due to changes in facts and circumstances, including the donors' intentions related to the previously contributed gifts, which is reflected as release from endowment in the accompanying 2019 statement of activities.

Revenue Recognition

Contract revenue is recognized as expenditures are incurred or services rendered. Amounts billed and collected before services are rendered are included in deferred revenue.

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 statements of activities as net assets released from restrictions.

Revenue from bequests is recorded when there is an irrevocable right to the bequest, and it is unconditionally pledged or received. All other revenue is recognized when earned.

Donated Goods and Services

The Association received donated advertising services totaling \$480,000 and \$418,484 and airline tickets totaling \$160,000 and \$172,500 for the years ended March 31, 2019 and 2018, respectively. During the year ended March 31, 2019, the Association also received donated salaries totaling \$133,325 and donated rent totaling \$23,470. 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 donated goods and services in the accompanying statement of activities for the year ended March 31, 2019. A portion of the donated airline tickets totaling \$136,000 was not used as of March 31, 2018, and was included in prepaid expenses and other assets in the accompanying fiscal year 2018 statement of financial position. The remainder totaling \$36,500 was expended and was included in staff travel in the accompanying fiscal year 2018 statement of functional expenses.

THE STUDENT CONSERVATION ASSOCIATION, INC.

Notes to Financial Statements
March 31, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Goods and Services (Continued)

Donated services are included in salaries and wages in the accompanying fiscal year 2019 statement of functional expenses and donated rent is included in rent. Donated advertising is included in advertising in the accompanying statements 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 statements 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.

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, 2019 and 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 statements of activities. Non-operating revenue (expenses) include activities relating to the Association's investment portfolio and planned giving instruments, and capital activity.

Subsequent Events

Subsequent events have been evaluated through September 20, 2019, which is the date the financial statements were available to be issued. There were no events that met the criteria for disclosure in the financial statements, other than those disclosed in Notes 7 and 8.

THE STUDENT CONSERVATION ASSOCIATION, INC.

Notes to Financial Statements
March 31, 2019 and 2018

3. LIQUIDITY

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

	<u>2019</u>	<u>2018</u>
Cash	\$ 124,011	\$ 1,038,625
Contracts and other receivables, net	4,717,412	7,196,204
Current portion of pledges receivable, net	<u>794,147</u>	<u>2,107,673</u>
	5,635,570	10,342,502
Add - investment return designated for fiscal years 2020 and 2019 operations, respectively	239,845	229,616
Less - donor contributions restricted for a specific time period	-	(33,571)
Less - Board designated funds not in investments	(1,304,163)	(624,673)
Less - contracts and other receivables held as collateral on the line of credit as of March 31	(489,530)	(3,032,829)
Less - donor contributions restricted for specific purposes	<u>(3,385,762)</u>	<u>(4,844,357)</u>
Financial assets available to meet cash needs for service expenses within one year	<u>\$ 695,960</u>	<u>\$ 2,036,688</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, 2019 and 2018, the Association also has \$1,304,163 and \$624,673, respectively, of other Board designated funds that could be spent to fund initiatives or working capital needs with Board approval. In addition, the Association has a line of credit agreement which allows for available borrowings up to \$5,000,000, as amended (see Note 8). The available balance on the line of credit can be used to repay the funds borrowed from donor restrictions.

4. INVESTMENTS

Investments consist of the following at March 31:

	<u>2019</u>	<u>2018</u>
Cash and equivalents	\$ 2,153,423	\$ 312,232
Fixed income funds	1,435,868	4,422,044
Equity funds:		
Large cap domestic equities	1,537,252	2,793,508
International equities	1,155,423	1,899,743
Other mutual funds	1,011,242	1,082,184
Small and mid cap domestic equities	<u>727,636</u>	<u>1,496,352</u>
	<u>\$ 8,020,844</u>	<u>\$ 12,006,063</u>

Included in investments were two funds that were restricted in nature and could not 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 served as collateral on one of the Association's notes payable (see Note 7) and line of credit (see Note 8). The collateralized investment fund was liquidated in March 2019 to repay a portion of the outstanding line of credit after obtaining approval from the bank that holds the Association's debt (see Notes 5 and 7).

THE STUDENT CONSERVATION ASSOCIATION, INC.

Notes to Financial Statements
March 31, 2019 and 2018

4. INVESTMENTS (Continued)

These funds consisted of the following at March 31:

	<u>2019</u>	<u>2018</u>
Charitable gift annuities fund	\$ 2,696,675	\$ 2,239,507
Collateralized investment fund	-	3,548,575
	<u>\$ 2,696,675</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, 2019 and 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.

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.

THE STUDENT CONSERVATION ASSOCIATION, INC.

Notes to Financial Statements
March 31, 2019 and 2018

5. ENDOWMENT (Continued)

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 years ended March 31, 2019 and 2018, the Association appropriated a total of \$229,616 and \$191,632, respectively, for operations which is reflected as investment return designated for current operations in the accompanying statements of activities.

In addition to the endowment spending policy, the Board of Directors may designate spending from net assets without donor restrictions, into its general budget. This spending is part of the Finance Committee's decisions as outlined in the budget. In fiscal years 2019 and 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, 2019 and 2018.

Endowment Activity

Changes in endowment net assets for fiscal years 2019 and 2018 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Net Endowment Assets</u>
Endowment net assets, March 31, 2017	\$ 3,597,422	\$ 5,358,450	\$ 8,955,872
Contributions	40,465	176,477	216,942
Investment return, net	315,061	470,313	785,374
Amounts appropriated for expenditure in accordance with spending policy	<u>-</u>	<u>(191,632)</u>	<u>(191,632)</u>
Endowment net assets, March 31, 2018	3,952,948	5,813,608	9,766,556
Contributions	187,863	81,870	269,733
Investment return, net	102,215	88,189	190,404
Release from endowment	-	(1,040,117)	(1,040,117)
Amounts appropriated to pay down the line of credit	(3,632,791)	-	(3,632,791)
Amounts appropriated for expenditure in accordance with spending policy	<u>-</u>	<u>(229,616)</u>	<u>(229,616)</u>
Endowment net assets, March 31, 2019	<u>\$ 610,235</u>	<u>\$ 4,713,934</u>	<u>\$ 5,324,169</u>

THE STUDENT CONSERVATION ASSOCIATION, INC.

Notes to Financial Statements
March 31, 2019 and 2018

6. PROPERTY AND EQUIPMENT

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

	<u>2019</u>	<u>2018</u>
Building and improvements	\$ 5,615,867	\$ 5,500,111
Computer and office equipment	1,229,592	2,420,439
Motor vehicles	1,052,189	1,378,808
Land	34,500	34,500
Program equipment	-	266,671
	<u>7,932,148</u>	<u>9,600,529</u>
Less - accumulated depreciation	<u>4,387,407</u>	<u>5,145,615</u>
Property and equipment, net	<u>\$ 3,544,741</u>	<u>\$ 4,454,914</u>

For the years ended March 31, 2019 and 2018, depreciation expense totaled \$1,007,298 and \$1,018,695, respectively.

The cost of motor vehicles acquired under capital leases as of March 31, 2019 and 2018, was \$1,052,189 and \$1,338,108, respectively. The cost of office equipment acquired under capital leases as of March 31, 2019 and 2018, was \$261,026 (see Note 11). Accumulated depreciation of motor vehicles acquired under capital leases as of March 31, 2019 and 2018, was \$800,079 and \$768,531, respectively. Accumulated depreciation of office equipment acquired under capital leases as of March 31, 2019 and 2018, was \$182,133 and \$129,928, respectively. Depreciation expense on motor vehicles acquired under capital leases for the years ended March 31, 2019 and 2018, was \$317,967 and \$336,192, respectively. Depreciation expense on office equipment acquired under capital leases for the years ended March 31, 2019 and 2018, was \$52,205 each year.

7. NOTES PAYABLE

Notes payable consist of the following at March 31:

	<u>2019</u>	<u>2018</u>
Note payable to a bank, due in monthly principal installments of \$8,333, with an initial maturity date of December 1, 2018, bearing interest at 3.54% at March 31, 2018. During fiscal year 2019, the bank extended the note through October 2019, requiring the Association to make a principal payment of approximately \$826,000 in March 2019 and adjusting the interest at a rate per annum equal to the bank's prime rate (5.5% at March 31, 2019). In September 2019, the bank extended this note through October 2020. This note requires a balloon payment of \$842,000 on October 1, 2020. This note is secured by a first security interest in property located at 689 River Road, Charlestown, New Hampshire.	\$ 991,667	\$ 1,924,483

THE STUDENT CONSERVATION ASSOCIATION, INC.

Notes to Financial Statements
March 31, 2019 and 2018

7. NOTES PAYABLE (Continued)

	<u>2019</u>	<u>2018</u>
2.97% note payable to a bank, due in monthly principal and interest installments of \$50,000, which matured on October 1, 2018. This note was secured by a shared first security interest in certain investment assets, 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
	991,667	2,274,483
Less - unamortized debt issuance costs	<u>16,345</u>	<u>12,199</u>
Total notes payable	975,322	2,262,284
Less - current portion	<u>99,996</u>	<u>500,382</u>
	<u>\$ 875,326</u>	<u>\$ 1,761,902</u>

Debt issuance costs of \$16,345 incurred during fiscal year 2019 have not been amortized as of March 31, 2019. Debt issuance costs of \$93,741 are shown net of accumulated imputed interest of \$81,542 as of March 31, 2018. Imputed interest totaled \$12,199 and \$17,485 for the years ended March 31, 2019 and 2018, respectively, which is included in interest in the accompanying statements of functional expenses. Estimated future imputed interest is \$16,345 for the year ended March 31, 2020.

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, 2019, and obtained a waiver from the bank.

Interest expense on the Association's notes payable totaled \$70,636 and \$90,318 for the years ended March 31, 2019 and 2018, respectively, which is included in interest in the accompanying statements of functional expenses.

8. LINE OF CREDIT

The Association has a revolving line of credit agreement with a bank which was amended during fiscal year 2019 and allows for borrowings up to \$7,000,000 and \$9,000,000 as of March 31, 2019 and 2018, respectively. Outstanding principal bears interest at a rate per annum equal to the bank's prime rate (5.5% at March 31, 2019) through October 1, 2019 (maturity). Outstanding principal bore interest at 3.89% at March 31, 2018. The balance outstanding on this line of credit totaled \$489,530 and \$3,032,829 at March 31, 2019 and 2018, respectively. Interest expense totaled \$273,061 and \$151,413 for the years ended March 31, 2019 and 2018, respectively, which is included in interest in the accompanying statements of functional expenses. This note is secured by a shared first security interest in 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, 2019 and 2018, the Association was in compliance with these covenants.

The available borrowings on this line of credit agreement are as follows at March 31:

	<u>2019</u>	<u>2018</u>
Maximum borrowings	\$ 7,000,000	\$ 9,000,000
Less - outstanding balance	<u>(489,530)</u>	<u>(3,032,829)</u>
Available borrowings	<u>\$ 6,510,470</u>	<u>\$ 5,967,171</u>

THE STUDENT CONSERVATION ASSOCIATION, INC.

Notes to Financial Statements
March 31, 2019 and 2018

8. LINE OF CREDIT (Continued)

In September 2019, the revolving line of credit agreement was amended reducing the available credit limit to \$5,000,000.

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, 2019 and 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 1.89% to 18.16%, 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 statements 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 years ended March 31:

	<u>2019</u>	<u>2018</u>
Beginning Balance	\$ 1,360,058	\$ 1,099,976
Payments	(224,363)	(113,293)
Change in value	<u>546,182</u>	<u>373,375</u>
Ending Balance	<u>\$ 1,681,877</u>	<u>\$ 1,360,058</u>

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

	<u>2019</u>	<u>2018</u>
Investments (see page 16)	\$ 2,696,675	\$ 2,239,507
Split-interest liabilities	<u>(1,681,877)</u>	<u>(1,360,058)</u>
Net position in charitable gift annuities, restricted for future use (see page 12)	<u>\$ 1,014,798</u>	<u>\$ 879,449</u>

THE STUDENT CONSERVATION ASSOCIATION, INC.

Notes to Financial Statements
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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, 2019 and 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, 2019 and 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 (3.4% and 3% at March 31, 2019 and 2018, respectively), and expected future obligations to beneficiaries, as well as an estimated rate of return on the trusts' assets.

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

	<u>2019</u>	<u>2018</u>
Beginning Balance	\$ 256,333	\$ 243,598
Change in value	<u>67,199</u>	<u>12,735</u>
Ending Balance	<u>\$ 323,532</u>	<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 2031, with options to extend in some cases. Monthly payments under these lease agreements range from approximately \$1,000 to \$41,000. The Association is also responsible for certain operating costs under these lease agreements. Upon execution of one of the leases, the Association was obligated to provide a security deposit totaling \$32,300, which is included in prepaid and other expenses in the accompanying statements of financial position as of March 31, 2019 and 2018. 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:

2020	\$ 152,483
2021	476,978
2022	448,887
2023	459,026
2024	426,099
Thereafter	<u>2,872,545</u>
Total	<u>\$ 4,836,018</u>

Facility rent expense was \$823,458 and \$712,653 for the years ended March 31, 2019 and 2018, respectively, and is reflected as rent in the accompanying statements of functional expenses.

THE STUDENT CONSERVATION ASSOCIATION, INC.

Notes to Financial Statements
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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 years ended March 31, 2019 and 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 \$76,789 and \$42,547 for the years ended March 31, 2019 and 2018, respectively, which is included in interest in the accompanying statements 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>
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	297,770	81,905	379,675
Less - amount representing interest	<u>71,960</u>	<u>5,087</u>	<u>77,047</u>
	225,810	76,818	302,628
Less - current portion	<u>137,329</u>	<u>50,956</u>	<u>188,285</u>
Capital lease obligations, net	<u>\$ 88,481</u>	<u>\$ 25,862</u>	<u>\$ 114,343</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 71% and 74% of the Association's operating revenue for the years ended March 31, 2019 and 2018, respectively. 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, 2019 and 2018, or on its results of operations for the years then ended. As of March 31, 2019, one agency represented 12% of net contracts and other receivables. Another agency represented 11% of net contracts and other receivables as of March 31, 2018.

Approximately 68% and 85% of gross pledges receivable at March 31, 2019 and 2018, respectively, were due from two donors.

THE STUDENT CONSERVATION ASSOCIATION, INC.

Notes to Financial Statements
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13. CASH SURRENDER VALUE OF LIFE INSURANCE POLICY

The Association was 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 in the accompanying fiscal year 2018 statement of activities. The policy was liquidated in fiscal year 2019 and the Association received cash proceeds of \$144,406.

14. PLEDGES RECEIVABLE

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

	<u>2019</u>	<u>2018</u>
Due in less than one year	\$ 1,007,723	\$ 2,107,673
Due in more than one year	<u>169,927</u>	<u>50,357</u>
Total pledges receivable	1,177,650	2,158,030
Allowance for uncollectible accounts	<u>(213,576)</u>	<u>-</u>
Pledges receivable, net	<u>\$ 964,074</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 years ended March 31, 2019 and 2018, the Association's contributions to the Plan totaled approximately \$156,000 and \$165,000, respectively, which are included in fringe benefits in the accompanying statements 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 TRANSACTIONS

A member of the Association's Board of Directors is the managing director of a company which the Association uses for technology services. The Association compensated this company \$340,427 and \$353,106 for the years ended March 31, 2019 and 2018, respectively. This Board member abstains from discussions and does not vote on matters relating to the technology services.

THE STUDENT CONSERVATION ASSOCIATION, INC.

Notes to Financial Statements
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18. CONDITIONAL GRANT

During fiscal year 2019, a foundation awarded the Association a \$3,000,000 grant, which is conditional upon the Association meeting goals and certain criteria and is to be paid in three equal installments of \$1,000,000 over three years. The Association met the first set of conditions and received the first installment of this grant during fiscal year 2019, which is included in grants and contributions in the accompanying statement of activities. The remaining conditions have not been met as of March 31, 2019, and therefore, the \$2,000,000 remaining balance of the grant is not reflected in the accompanying financial statements.

19. RECLASSIFICATION

Certain amounts in the fiscal year 2018 financial statements have been reclassified to conform with the fiscal year 2019 presentation.

20. CONTINUING OPERATIONS

In fiscal years 2019 and 2018, the Association had changes in net assets from operations of \$(5,549,719) and \$(2,079,605), respectively. Included in the Association's operating expenses were certain non-cash expenditures which include the following for the years ended March 31:

	<u>2019</u>	<u>2018</u>
Changes in net assets from operations	\$ (5,549,719)	\$ (2,079,605)
Depreciation	1,007,298	1,018,695
Bad debts	668,468	29,959
Donated expense in excess of donated revenue	197,516	-
Amortization of debt issuance costs	12,199	17,485
Donated revenue in excess of donated expense	<u>-</u>	<u>(74,366)</u>
Changes in net assets from operations, net of non-cash expenditures	<u>\$ (3,664,238)</u>	<u>\$ (1,087,832)</u>

Beginning in November 2018, the Association took major strides to reduce operating costs, both at the programmatic level and in the indirect infrastructure. The Association did this through numerous efforts, including:

- In October 2018, the Association restructured its workforce which began to render cost savings in the last quarter of fiscal year 2019. Cost savings in 2020 through September 20, 2019, totaled approximately \$1,404,000 compared to fiscal year 2019 for the same period. Annual cost savings in fiscal year 2020 are expected to be approximately \$2,949,000.
- In early fiscal year 2020, the Association renegotiated terms with several services vendors, which are expected to render cost savings of approximately \$498,000 in fiscal year 2020. Actual cost savings in fiscal year 2020 through September 20, 2019, totaled approximately \$228,000.
- In March 2019, the Association liquidated its collateralized investment fund (see Note 4) to reduce the outstanding term debt and the principal balance on the line of credit (see Note 8) by approximately \$3.6 million, which is expected to render cost savings over interest expense totaling approximately \$240,000 in fiscal year 2020. Actual cost savings in fiscal year 2020 through September 20, 2019, totaled approximately \$85,000.

Further, the Association has implemented several processes and tools to better monitor and anticipate changes in planned revenue to allow it to react on a more timely and effective basis to shortfalls driven by changes in policies and practices of the Federal government agencies it relies on for the majority of its business.