

HUBBARD BROOK RESEARCH FOUNDATION, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

and

INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Hubbard Brook Research Foundation, Inc.

We have audited the accompanying financial statements of Hubbard Brook Research Foundation, Inc. (a New Hampshire nonprofit organization) which comprise the statement of financial position as of December 31, 2012, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements. The prior year summarized comparative information has been derived from the Foundation's 2011 financial statements and, in our report dated June 6, 2012, we expressed an unqualified opinion on those financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 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 Hubbard Brook Research Foundation, Inc. as of December 31, 2012, 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.

Other-Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Schiffman, Dattilio & Kiepmann, P.C.

Lebanon, New Hampshire
March 7, 2013

HUBBARD BROOK RESEARCH FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 184,961	\$ 96,436
Pledges receivable	31,720	200
Grants receivable	22,438	38,242
Other receivables	1,129	2,440
Prepaid expenses	<u>1,112</u>	<u>1,468</u>
Total current assets	<u>241,360</u>	<u>138,786</u>
Property and equipment:		
Buildings and improvements	1,921,801	1,921,801
Furniture and equipment	68,682	68,682
Land	<u>470,200</u>	<u>470,200</u>
	2,460,683	2,460,683
Less: accumulated depreciation	<u>573,511</u>	<u>512,161</u>
Total property and equipment	<u>1,887,172</u>	<u>1,948,522</u>
Long-term pledges receivable	<u>12,932</u>	<u>-</u>
Total assets	<u>\$ 2,141,464</u>	<u>\$ 2,087,308</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Line of credit	\$ -	\$ 37,500
Accounts payable and accrued liabilities	21,103	36,975
Deferred income	<u>34,245</u>	<u>-</u>
Total current liabilities	<u>55,348</u>	<u>74,475</u>
Long-term debt	<u>614,909</u>	<u>714,909</u>
Net assets:		
Unrestricted	1,282,992	1,239,925
Temporarily restricted	<u>188,215</u>	<u>57,999</u>
Total net assets	<u>1,471,207</u>	<u>1,297,924</u>
Total liabilities and net assets	<u>\$ 2,141,464</u>	<u>\$ 2,087,308</u>

See independent auditors' report and notes to financial statements

HUBBARD BROOK RESEARCH FOUNDATION, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2012 Total</u>	<u>2011 Total</u>
REVENUE AND SUPPORT				
Contributions and grants	\$ 485,382	\$ 236,150	\$ 721,532	\$ 461,933
Rental income	64,695	-	64,695	79,474
Consortium dues	29,460	60,000	89,460	72,586
Donated services	-	-	-	29,303
Other income	<u>6,247</u>	<u>-</u>	<u>6,247</u>	<u>13,806</u>
Total revenue and support	<u>585,784</u>	<u>296,150</u>	<u>881,934</u>	<u>657,102</u>
Net assets released from restrictions	<u>165,934</u>	<u>(165,934)</u>	<u>-</u>	<u>-</u>
EXPENSES				
Program costs:				
Facilities	168,960	-	168,960	198,600
Education	<u>337,778</u>	<u>-</u>	<u>337,778</u>	<u>353,205</u>
Total program costs	<u>506,738</u>	<u>-</u>	<u>506,738</u>	<u>551,805</u>
Supporting services expense:				
Management and general	192,174	-	192,174	148,729
Fundraising	<u>9,739</u>	<u>-</u>	<u>9,739</u>	<u>41,076</u>
Total supporting services	<u>201,913</u>	<u>-</u>	<u>201,913</u>	<u>189,805</u>
Total expenses	<u>708,651</u>	<u>-</u>	<u>708,651</u>	<u>741,610</u>
Change in net assets	43,067	130,216	173,283	(84,508)
Net assets, beginning of year	<u>1,239,925</u>	<u>57,999</u>	<u>1,297,924</u>	<u>1,382,432</u>
Net assets, end of year	<u>\$ 1,282,992</u>	<u>\$ 188,215</u>	<u>\$ 1,471,207</u>	<u>\$ 1,297,924</u>

See independent auditors' report and notes to financial statements

HUBBARD BROOK RESEARCH FOUNDATION, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Change in net assets	\$ 173,283	\$ (84,508)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	61,350	61,067
(Increase) decrease in the following assets:		
Pledges receivable	(44,452)	17,820
Grants receivable	15,804	(21,271)
Other receivables	1,311	(2,242)
Deferred expenses	-	74
Prepaid expenses	356	1,440
Increase (decrease) in the following liabilities:		
Accounts payable and accrued liabilities	(15,872)	25,395
Deferred income	34,245	(27,885)
Accrued interest	-	(819)
Net cash provided by (used in) operating activities	<u>226,025</u>	<u>(30,929)</u>
Cash flows from investing activities:		
Acquisition of property and equipment	-	(8,044)
Net cash used in investing activities	<u>-</u>	<u>(8,044)</u>
Cash flows from financing activities:		
Net proceeds from (payments on) line of credit	(37,500)	37,500
Payments on long-term debt	(100,000)	-
Proceeds from borrowings on long-term debt	-	6,975
Net cash provided by (used in) financing activities	<u>(137,500)</u>	<u>44,475</u>
Net increase in cash	88,525	5,502
Cash and cash equivalents, beginning of year	<u>96,436</u>	<u>90,934</u>
Cash and cash equivalents, end of year	<u>\$ 184,961</u>	<u>\$ 96,436</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ 22,454	\$ 23,268

See independent auditors' report and notes to financial statements

HUBBARD BROOK RESEARCH FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

Note 1. Summary of significant accounting policies:

This summary of significant accounting policies of Hubbard Brook Research Foundation, Inc. (the Foundation) is presented to assist in understanding the Foundation's financial statements. The financial statements and notes are representations of the Foundation's management who is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Nature of Organization – The Foundation is a New Hampshire nonprofit organization which promotes the understanding and stewardship of terrestrial and aquatic ecosystems through scientific research, long-term monitoring and public education.

Basis of presentation – The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. If donor-imposed restrictions are met in the same period as the gift or income is received, the amount is reported as unrestricted revenues. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

- Unrestricted net assets – net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets – net assets that are available for use, but subject to donor-imposed restrictions which will be met either by the Foundation's actions or the passage of time.
- Permanently restricted net assets – net assets subject to donor-imposed restrictions that they be maintained permanently by the Foundation. There are currently no permanently restricted net assets.

Comparative financial statements – These financial statements include summarized comparative prior-year information in the Statements of Activities and Changes in Net Assets. This information is not presented by net asset class and does not contain sufficient detail to conform to accounting principles generally accepted in the United States of America. Therefore, this information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2011.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents – For purposes of the statements of cash flows, the Foundation considers all unrestricted, highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Cash deposits with financial institutions – The Foundation maintains its cash and cash equivalents with financial institutions, which, at times may exceed federally insured limits. The Foundation has not experienced any losses on such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

HUBBARD BROOK RESEARCH FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

Note 1. Summary of significant accounting policies (continued):

Fair value measurement – The Foundation's financial instruments consist primarily of cash, accounts receivable, pledges and grants receivable, and accounts payable. The carrying amounts of these financial instruments approximate their fair value due to the short-term nature of such instruments.

Pledges and promises to give – When a donor has unconditionally promised to contribute funds to the Foundation in future periods, the Foundation recognizes a pledge receivable. All pledges are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Donated goods and services – Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation are recorded at their fair values in the period received.

Property and equipment – Property and equipment are recorded at cost or, if donated, at the fair value at the date of donation. Depreciation is calculated using the straight-line method based on the assets' estimated useful lives, which range as follows:

	<u>Years</u>
Buildings and improvements	7 - 39
Furniture and equipment	3 - 5

Expenditures for repairs and maintenance are expensed when incurred, and additions and betterments in excess of \$1,000 are capitalized. Depreciation expense was \$61,350 and \$61,067 for the years ended December 31, 2012 and 2011, respectively.

Income taxes – The Foundation was organized under Section 501(c)(3) of the United States Internal Revenue Code and is generally exempt from income tax. This code section enables the Foundation to accept donations which qualify as charitable contributions to the donor. The Foundation is exempt from federal income and New Hampshire business taxes, accordingly; no taxes have been recorded.

Functional allocation of expenses – The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

HUBBARD BROOK RESEARCH FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

Note 2. Pledges receivable:

Pledges receivable represent unconditional promises to give. No allowance for uncollectible pledges has been established as management believes that all pledges are fully collectible. Pledges receivable consist of the following at December 31:

	<u>2012</u>	<u>2011</u>
Expected future cash flow from:		
Annual fund pledges receivable	\$ 16,220	\$ 200
Mirror Lake Campaign pledges receivable	<u>28,432</u>	<u>-</u>
	<u>\$ 44,652</u>	<u>\$ 200</u>
Amounts due in:		
Less than one year	\$ 31,720	\$ 200
One to five years	<u>12,932</u>	<u>-</u>
	<u>\$ 44,652</u>	<u>\$ 200</u>

Note 3. Long-term debt:

The long-term debt balance consists of the following at December 31:

	<u>2012</u>	<u>2011</u>
Ledyard National Bank - mortgage with interest payable at The Wall Street Journal prime rate (3.25% at December 31, 2012), outstanding balance due in full February 18, 2013, secured by a first mortgage on certain real estate of the Foundation.	<u>\$ 614,909</u>	<u>\$ 714,909</u>

Maturities for the long-term debt in years subsequent to 2012 consist of one balloon payment of \$614,909 due in 2013.

Note 4. Line of credit:

The Foundation has available a line of credit in the amount of \$50,000 under an agreement with Ledyard National Bank. Principal is payable on demand. Interest is payable monthly at The Wall Street Journal prime rate plus one percentage point (4.25% at December 31, 2012). The line of credit is collateralized by substantially all business assets other than real estate mortgaged pursuant to a note payable. The balance on the line of credit was \$-0- and \$37,500 as of December 31, 2012 and 2011, respectively.

Note 5. Operating lease:

The Foundation leases office facilities under an operating lease on a month to month basis. Total rent expense incurred in connection with this agreement was \$6,966 and \$19,132 in 2012 and 2011, respectively.

HUBBARD BROOK RESEARCH FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

Note 6. Temporarily restricted net assets:

Net assets are temporarily restricted for the following at December 31:

	<u>2012</u>	<u>2011</u>
Program specific related restrictions:		
Science Links Program	\$ 22,457	\$ 42,148
LTER Book Fund	12,063	15,851
Mirror Lake Campaign	125,650	-
NSPC Consortium	<u>28,045</u>	<u>-</u>
	<u>\$ 188,215</u>	<u>\$ 57,999</u>

Net assets released from restrictions were as follows:

	<u>2012</u>	<u>2011</u>
Program specific related restrictions:		
Science Links Program	\$ 19,691	\$ 59,712
LTER Book Fund	14,288	1,234
Mirror Lake Campaign	100,000	-
NSPC Consortium	<u>31,955</u>	<u>-</u>
	<u>\$ 165,934</u>	<u>\$ 60,946</u>

Mirror Lake Campaign – Temporary restrictions on net assets at the end of 2012 include funds raised through the Mirror Lake Campaign, a drive to raise funds to reduce the long-term debt due on Mirror Lake. Cash and promises to give raised through the campaign are restricted to payment of the long term debt secured by the land and buildings. Those restrictions are considered to expire when payments are made.

Note 7. Pension plan:

The Foundation maintains a defined contribution retirement plan that covers all employees working at least half time. The Foundation matches employee contributions up to 4% of compensation. Pension expense was \$7,363 and \$7,494 for the years ended December 31, 2012 and 2011, respectively.

Note 8. Concentration in support received:

The Foundation received \$227,496 and \$150,325 of its total revenue from one funding source, the U.S. Department of Agriculture, in 2012 and 2011, respectively. This was 25% and 23% of its total revenue for 2012 and 2011, respectively.

HUBBARD BROOK RESEARCH FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

Note 9. Subsequent events:

Management has evaluated events and transactions for potential recognition or disclosure through March 7, 2013, the date the financial statements were available to be issued.

The Foundation's long-term debt is currently due in full in February 2013; however the Board of Trustees of the Foundation has extended this debt to April 2013 while it is in the process of approving refinancing. The refinancing is expected to include a planned \$100,000 payment toward principal prior to the refinancing and a 10 year payment plan.

HUBBARD BROOK RESEARCH FOUNDATION, INC.

SCHEDULES OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Facilities	Education	Total Program Costs	Management and General	Fundraising	Total Supporting Services	2012 Totals	2011 Totals
Salaries and wages	\$ 17,000	\$ 130,882	\$ 147,882	\$ 115,891	\$ 2,881	\$ 118,772	\$ 266,654	\$ 239,360
Professional fees	400	156,065	156,465	25,340	1,200	26,540	183,005	174,594
Depreciation	60,591	-	60,591	759	-	759	61,350	61,067
Payroll taxes and employee benefits	3,346	25,760	29,106	22,789	588	23,377	52,483	44,395
Repairs and maintenance	27,784	-	27,784	175	-	175	27,959	34,118
Interest and fees	22,057	-	22,057	2,386	-	2,386	24,443	24,190
Utilities	20,801	41	20,842	246	204	450	21,292	24,016
Meetings expense	1,986	5,317	7,303	8,879	3,270	12,149	19,452	38,189
Insurance	9,167	-	9,167	4,587	-	4,587	13,754	13,927
Travel	237	10,333	10,570	1,587	994	2,581	13,151	6,331
Rent	-	2,870	2,870	4,096	-	4,096	6,966	19,132
Supplies and materials	2,417	641	3,058	2,537	34	2,571	5,629	7,761
Telephone	1,613	1,501	3,114	1,318	-	1,318	4,432	5,363
Printing and copying	61	2,427	2,488	676	13	689	3,177	11,034
Other	-	1,910	1,910	97	-	97	2,007	1,937
Real estate taxes	1,500	-	1,500	-	-	-	1,500	5,000
Postage and shipping	-	31	31	811	555	1,366	1,397	1,893
Donated services expense	-	-	-	-	-	-	-	29,303
Total expenses	\$ 168,960	\$ 337,778	\$ 506,738	\$ 192,174	\$ 9,739	\$ 201,913	\$ 708,651	\$ 741,610

See independent auditors' report