

HUBBARD BROOK RESEARCH FOUNDATION, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

and

INDEPENDENT AUDITORS' REPORT



Schiffman, Paul & Dattilio, P.C.

Certified Public Accountants
Management Consultants

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of Hubbard Brook Research Foundation, Inc. (a New Hampshire not-for-profit organization) as December 31, 2007 and 2006, and the related statements of activities and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Foundation'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. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 Hubbard Brook Research Foundation, Inc. as of December 31, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended, 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.

SCHIFFMAN, PAUL & DATTILIO, P.C.

Hanover, New Hampshire
February 1, 2008

MAILING ADDRESS

Post Office Box 5520
Hanover, N.H. 03755
Tel: 603.643.5566

<http://www.schiffman.com>

STREET ADDRESS

Wheeler Professional Park, Rte. 10
West Lebanon, N.H. 03784
Fax: 603.643.6006

HUBBARD BROOK RESEARCH FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 227,588	\$ 75,814
Pledges receivable	12,500	18,650
Grants receivable	50,552	40,901
Other receivables	370	159
Deferred expenses	1,218	6,491
Prepaid expenses	<u>5,072</u>	<u>3,402</u>
Total current assets	<u>297,300</u>	<u>145,417</u>
Property and equipment:		
Buildings and improvements	1,838,930	1,838,930
Equipment	74,084	74,084
Land	<u>470,200</u>	<u>470,200</u>
	2,383,214	2,383,214
Less: accumulated depreciation	<u>284,243</u>	<u>223,338</u>
Total property and equipment	<u>2,098,971</u>	<u>2,159,876</u>
Escrow deposit	<u>-</u>	<u>35,000</u>
Total assets	<u>\$ 2,396,271</u>	<u>\$ 2,340,293</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 10,950	\$ 32,526
Deferred income	31,600	14,150
Note payable, current portion	-	100,000
Accrued interest	<u>1,610</u>	<u>1,979</u>
Total current liabilities	<u>44,160</u>	<u>148,655</u>
Notes payable, less current portion	<u>644,217</u>	<u>581,000</u>
Net assets:		
Unrestricted	1,408,866	1,484,600
Temporarily restricted	<u>299,028</u>	<u>126,038</u>
Total net assets	<u>1,707,894</u>	<u>1,610,638</u>
Total liabilities and net assets	<u>\$ 2,396,271</u>	<u>\$ 2,340,293</u>

See 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, 2007 AND 2006

	Unrestricted	Temporarily Restricted	2007 Total	2006 Totals
REVENUE AND SUPPORT				
Contributions and grants	\$ 261,842	\$ 357,639	619,481	\$ 1,124,115
Rental income	76,830	-	76,830	74,458
Other income	8,970	-	8,970	9,896
Total revenue and support	<u>347,642</u>	<u>357,639</u>	<u>705,281</u>	<u>1,208,469</u>
Net assets released from restrictions	<u>184,649</u>	<u>(184,649)</u>	<u>-</u>	<u>-</u>
EXPENSES				
Program costs:				
Facilities	208,919	-	208,919	252,268
Education	157,389	-	157,389	227,880
Total program costs	<u>366,308</u>	<u>-</u>	<u>366,308</u>	<u>480,148</u>
Supporting services expense:				
Management and general	126,132	-	126,132	120,635
Fundraising	115,585	-	115,585	105,033
Total supporting services	<u>241,717</u>	<u>-</u>	<u>241,717</u>	<u>225,668</u>
Total expenses	<u>608,025</u>	<u>-</u>	<u>608,025</u>	<u>705,816</u>
Change in net assets	(75,734)	172,990	97,256	502,653
Net assets at beginning of year	<u>1,484,600</u>	<u>126,038</u>	<u>1,610,638</u>	<u>1,107,985</u>
Net assets at end of year	<u>\$ 1,408,866</u>	<u>\$ 299,028</u>	<u>\$ 1,707,894</u>	<u>\$ 1,610,638</u>

See auditors' report and notes to financial statements

HUBBARD BROOK RESEARCH FOUNDATION, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Increase in net assets	\$ 97,256	\$ 502,653
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	60,905	61,999
(Increase) decrease in the following assets:		
Pledges receivable	6,150	81,350
Grants receivable	(9,651)	(11,972)
Other receivables	(210)	6,081
Deferred expenses	5,273	(6,491)
Prepaid expenses	(1,670)	(764)
Escrow deposit	35,000	-
Increase (decrease) in the following liabilities:		
Accounts payable and accrued liabilities	(21,576)	21,226
Deferred income	17,450	1,010
Accrued interest	<u>(369)</u>	<u>(22,546)</u>
Net cash provided by operating activities	<u>188,558</u>	<u>632,546</u>
Cash flows from investing activities:		
Acquisition of property and equipment	<u>-</u>	<u>(14,649)</u>
Net cash used in investing activities	<u>-</u>	<u>(14,649)</u>
Cash flows from financing activities:		
Funds borrowed for interest and refinancing	13,216	-
Funds borrowed for repayment of long-term debt	631,000	-
Repayment of long-term debt	<u>(681,000)</u>	<u>(700,415)</u>
Net cash used in financing activities	<u>(36,784)</u>	<u>(700,415)</u>
Net increase (decrease) in cash	151,774	(82,518)
Cash and cash equivalents, at beginning of year	<u>75,814</u>	<u>158,332</u>
Cash and cash equivalents, at end of year	<u>\$ 227,588</u>	<u>\$ 75,814</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ 47,171	\$ 90,455

See auditors' report and notes to financial statements

HUBBARD BROOK RESEARCH FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

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 not-for-profit New Hampshire corporation which promotes the understanding and stewardship of terrestrial and aquatic ecosystems through scientific research, long-term monitoring and public education.

Basis of presentation – The financial statements are prepared in accordance with recommendations of the Financial Accounting Standards Board in its Statement of Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Foundation is required to report 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.

- Unrestricted net assets – this class is used at the discretion of the board of directors and is not subject to donor-imposed stipulations.
- Temporarily restricted net assets – this class includes net assets that are restricted by donors for a specific purpose or a specific time period.
- Permanently restricted net assets – this class includes net assets that are restricted by donors for permanent investment. There are currently no assets in this class.

The Foundation's financial statements include certain prior year summarized comparative information in total but not by net class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2006, from which the summarized information was derived.

Use of estimates – In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, 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 periods. 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.

HUBBARD BROOK RESEARCH FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

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

Contributions and promises to give – Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are classified as unrestricted contributions.

All donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Property and equipment – Property and equipment are recorded at cost or, if donated, at the fair value at the date of the donation. The Foundation provides for depreciation on a straight-line basis over the estimated useful lives of the assets.

Income taxes – Hubbard Brook Research Foundation, Inc. was organized under Section 501(c)(3) of the 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 Internal Revenue Service has not classified the Foundation as a private foundation under Section 509(a)(2).

Expense Allocation – 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.

Note 2. Pledges receivable:

Pledges receivable represent unconditional promises to give. All pledges are due within one year. No allowance for uncollectible pledges has been established as management believes that all pledges are fully collectible.

HUBBARD BROOK RESEARCH FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

Note 3. Notes payable:

The notes payable balance consists of the following at December 31:

	<u>2007</u>	<u>2006</u>
Open Space Conservancy, Inc. - Variable rate of interest, 6.9% at December 31, 2006, due June 14, 2008, installments of \$50,000 due semiannually with balance due at maturity, secured by a first mortgage on certain real estate of the Foundation.	\$ -	\$681,000
Ledyard National Bank - variable rate mortgage, currently 7.5%, in the amount of \$800,000 due in full December 18, 2012, secured by a first mortgage on certain real estate of the Foundation.	<u>644,217</u>	<u>-</u>
	644,217	681,000
Less: current portion	<u>-</u>	<u>100,000</u>
	<u>\$ 644,217</u>	<u>\$ 581,000</u>

Maturities for long-term debt in years subsequent to 2007 are a balloon payment of \$644,217 due in 2012.

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 (8.25% at December 31, 2007). The line of credit is collateralized by substantially all business assets other than real estate mortgaged pursuant to the notes payable (see Note 3). The balance on the line of credit was \$0 as of December 31, 2007 and 2006.

Note 5. Temporarily restricted net assets:

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

	<u>2007</u>	<u>2006</u>
Program, specific-use related restrictions:		
Science Links Program	\$ 229,935	\$114,475
Education	54,579	4,492
Capital campaign	4,514	7,071
Other	<u>10,000</u>	<u>-</u>
	<u>\$ 299,028</u>	<u>\$ 126,038</u>

HUBBARD BROOK RESEARCH FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

Note 5. Temporarily restricted net assets (continued):

Net assets released from restrictions were as follows:

	<u>2007</u>	<u>2006</u>
Program, specific-use related restrictions:		
Science Links Program	\$ 73,054	\$113,970
Pleasant View Farms	-	144,937
Capital campaign	103,682	105,118
Education	7,913	6,843
For future period	<u>-</u>	<u>24,724</u>
	<u>\$ 184,649</u>	<u>\$ 395,592</u>

Note 6. Operating lease:

The Foundation leases office facilities under an operating lease that expires on January 29, 2012, with monthly payments of approximately \$1,470. Total rent expense incurred in connection with this agreement was \$17,305 and \$13,487 in 2007 and 2006, respectively. Future minimum lease payments are as follows:

2008	\$ 17,619
2009	17,619
2010	17,619
2011	17,619
2012	<u>1,468</u>
	<u>\$ 71,944</u>

Note 7. Pension plan:

The Foundation maintains a defined contribution plan that covers all employees working at least half time. The Foundation matches employee contributes up to 4% of compensation. Pension expense was \$5,865 and \$6,090 for the years ended December 31, 2007 and 2006, respectively.

Note 8. Concentration of credit risk:

The Foundation maintains bank account balances, which at times may exceed federally insured limits. The Foundation has not experienced any significant losses with these accounts. Management believes that the Foundation is not exposed to any significant credit risk on cash.

Note 9. Concentration in support received:

The Foundation received approximately \$121,344 and \$840,622 of its total revenue from one funding source – the U.S. Department of Agriculture – in 2007 and 2006, respectively. This was approximately 17% and 69% of its total revenue for 2007 and 2006, respectively.

HUBBARD BROOK RESEARCH FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

Note 9. Concentration in support received (continued):

The 2006 funding included a special appropriation of \$701,600 to pay debt principal and interest on the note payable to the Open Space Conservancy, Inc. All funds received in 2007 and the balance of those received in 2006 were used to pay operating expenses.

HUBBARD BROOK RESEARCH FOUNDATION, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2007

	Facilities	Education	Total Program Services	Management and General	Fundraising	Total Support Services	Total All Services
Salaries and wages	\$ 28,413	\$ 65,024	\$ 93,437	\$ 52,171	\$ 84,888	\$ 137,059	\$ 230,496
Professional Fees	-	44,919	44,919	19,815	4,950	24,765	69,684
Depreciation	56,762	-	56,762	4,143	-	4,143	60,905
Interest	47,674	-	47,674	1,476	386	1,862	49,536
Payroll taxes and employee benefits	5,191	12,087	17,278	5,328	11,601	16,929	34,207
Utilities	21,531	1,279	22,810	4,859	313	5,172	27,982
Repairs and maintenance	26,961	-	26,961	660	-	660	27,621
Printing and copying	2	15,326	15,328	2,128	1,790	3,918	19,246
Meetings and entertainment	4	5,387	5,391	6,290	5,783	12,073	17,464
Rent	(1,914)	1,280	(634)	17,585	354	17,939	17,305
Travel	540	8,067	8,607	2,484	2,003	4,487	13,094
Insurance	5,838	-	5,838	6,259	-	6,259	12,097
Real estate taxes	11,500	-	11,500	-	-	-	11,500
Supplies and maintenance	6,320	1,764	8,084	1,676	616	2,292	10,376
Postage and shipping	10	1,306	1,316	348	2,424	2,772	4,088
Other	87	950	1,037	910	477	1,387	2,424
Total expenses	\$ 208,919	\$ 157,389	\$ 366,308	\$ 126,132	\$ 115,585	\$ 241,717	\$ 608,025

See auditors' report