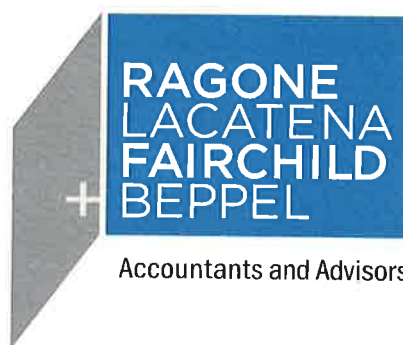


THE WATERSHED INSTITUTE, INC.
(A New Jersey Not-for-Profit
Corporation)

FINANCIAL STATEMENTS

For The Year Ended December 31,
2017



Accountants and Advisors

THE WATERSHED INSTITUTION, INC.
(A New Jersey Not-for-Profit Corporation)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
The Watershed Institute, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of **The Watershed Institute, Inc.** (a New Jersey nonprofit corporation), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements 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.

76 E. Euclid Avenue, Suite 200
Haddonfield, NJ 08033
856.795.9650 P
856.795.7975 F

admin@rlfbcpa.com
www.rlfbcpa.com

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 Watershed Institute, Inc.** as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The *schedule of expenditures of state awards*, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic 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 basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2018 on our consideration of **The Watershed Institute, Inc.**'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **The Watershed Institute, Inc.**'s internal control over financial reporting and compliance.

Respectfully submitted,



RAGONE, LACATENA, FAIRCHILD & BEPPEL, P.C.
Certified Public Accountants

Haddonfield, New Jersey
June 22, 2018

THE WATERSHED INSTITUTE, INC.
(A New Jersey Not-for-Profit Corporation)
Statement of Financial Position
December 31, 2017

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 873,930
Grants and Contributions Receivable	134,797
Prepaid Expenses and Other Current Assets	<u>12,459</u>

Total Current Assets \$ 1,021,186

Property and Equipment, Net of Accumulated
Depreciation of \$1,671,163

11,928,756

Investments - Board Designated

Beneficial Interest in Assets Held By Princeton Area Community Foundation (Note 2)	504,022
Marketable Securities - Vanguard Funds	<u>1,824,714</u>

Total Investments - Board Designated 2,328,736

Other Assets

Cash Restricted for Capital Campaign	66,120
Cash Restricted for Buttinger Endowment	133,783
Pledges Receivable - Capital Campaign	7,000
Pledges Receivable - Buttinger Endowment	1,087,167
Vanguard Funds - Buttinger Endowment	1,931,372
Vanguard Funds - Hanson Endowment	50,521
Beneficial Interest in Assets Held By Princeton Area Community Foundation (Note 2)	<u>279,169</u>

Total Other Assets 3,555,132

Total Assets \$ 18,833,810

See Accompanying Notes to Financial Statements.

THE WATERSHED INSTITUTE, INC.
(A New Jersey Not-for-Profit Corporation)
Statement of Financial Position
December 31, 2017

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts Payable and Accrued Expenses	\$	<u>174,146</u>	
<u>Total Liabilities</u>	\$		174,146

Net Assets

Unrestricted:			
Undesignated		208,534	
Board Designated		2,358,736	
Net Investment in Property and Equipment		<u>1,164,707</u>	
<u>Total Unrestricted Net Assets</u>		3,731,977	
Temporarily Restricted:			
Capital Campaign		73,120	
Other (Note 7)		<u>938,196</u>	
<u>Total Temporarily Restricted Net Assets</u>		1,011,316	
Permanently Restricted:			
Buttinger Endowment		3,152,322	
Net Investment in Property and Equipment		<u>10,764,049</u>	
<u>Total Permanently Restricted Net Assets</u>		13,916,371	
<u>Total Net Assets</u>			<u>18,659,664</u>
<u>Total Liabilities and Net Assets</u>	\$		<u><u>18,833,810</u></u>

See Accompanying Notes to Financial Statements.

THE WATERSHED INSTITUTE, INC.
(A New Jersey Not-for-Profit Corporation)

Statement of Activities

For the Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>Support and Revenue</u>				
Contributions				
Individuals	\$ 620,940	\$ 89,173	\$ 600,493	\$ 1,310,606
Corporations	31,922	249,084	-	281,006
Foundations	44,670	533,790	-	578,460
Government Grants	-	97,061	415,495	512,556
Programs	261,922	-	-	261,922
Special Events	232,835	-	-	232,835
Interest and Dividend Income	34,792	2,566	34,674	72,032
Rental Income	84,342	-	-	84,342
Gift Shop	23,646	-	-	23,646
Unrealized/Realized Gain (Loss) on Investments	303,702	32,172	143,951	479,825
Net Assets Released From Restrictions	931,586	(931,586)	-	-
	<u>2,570,357</u>	<u>72,260</u>	<u>1,194,613</u>	<u>3,837,230</u>
<u>Expenses</u>				
Program Expenses - General	1,786,508	-	-	1,786,508
Program Expenses - Depreciation	135,448	-	155,950	291,398
Management and General	275,778	-	-	275,778
Fundraising	262,586	-	-	262,586
	<u>2,460,320</u>	<u>-</u>	<u>155,950</u>	<u>2,616,270</u>
<u>Change in Net Assets</u>	110,037	72,260	1,038,663	1,220,960
<u>Net Asset Transfers</u>	(14,302)	-	14,302	-
<u>Net Assets - Beginning of Year</u>	3,636,242	939,056	12,863,406	17,438,704
<u>Net Assets - End of Year</u>	<u>\$ 3,731,977</u>	<u>\$ 1,011,316</u>	<u>\$ 13,916,371</u>	<u>\$ 18,659,664</u>

See Accompanying Notes to Financial Statements.

THE WATERSHED INSTITUTE, INC.
(A New Jersey Not-for-Profit Corporation)
Statement of Cash Flows
For the Year Ended December 31, 2017

Cash Flows From Operating Activities

Change in Net Assets	\$ 1,220,960
Adjustments to Reconcile Change in Net Assets to Net Cash From Operating Activities:	
Depreciation	291,398
Realized/Unrealized (Gain)/ Loss on Investments	(479,825)
Change in:	
Grants Receivable	207,450
Pledges Receivable	323,667
Prepaid Expenses and Other Current Assets	832
Accounts Payable and Accrued Expenses	<u>6,594</u>
Total Adjustments	<u>350,116</u>
<u>Net Cash Provided (Used) By Operating Activities</u>	1,571,076
<u>Cash Flows From Investing Activities</u>	
Acquisition of Property and Equipment	(522,443)
Net Investment Account Activity	<u>(1,658,008)</u>
<u>Net Cash Provided (Used) By Investing Activities</u>	<u>(2,180,451)</u>
<u>Net Change in Cash and Cash Equivalents</u>	(609,375)
<u>Cash and Cash Equivalents - Beginning of Year</u>	<u>1,683,208</u>
<u>Cash and Cash Equivalents - End of Year</u>	<u>\$ 1,073,833</u>

See Accompanying Notes to Financial Statements.

THE WATERSHED INSTITUTE, INC.
(A New Jersey Not-for-Profit Corporation)
Notes to Financial Statements
December 31, 2017

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The Watershed Institute, Inc. (the "Institute") was incorporated on November 20, 1951 under the laws of the State of New Jersey. Keeping water clean, safe and healthy is the heart of its mission. The Institute works to protect and restore our water and natural environment in central New Jersey through conservation, advocacy, science and education. It addresses key issues affecting water quality and land use, educates area residents about the ecology of the natural environment and preserves open space by maintaining a 950-acre nature reserve and organic farm. The Institute receives most of its funding through program fees and grants and contributions from corporations, foundations and individuals.

Financial Statement Presentation

The Institute presents its financial statements in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958. Accordingly, the Institute reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted Net Assets

Unrestricted net assets include unrestricted resources which represent the portion of funds that are available for the operating objectives of the Institute. Board-designated net assets represent amounts the Institute has set aside for a specific purpose. The Board has established the Watershed Investment Fund, a capital fund, reserved for long-term purposes.

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of donor restricted contributions and grants. Amounts restricted by donors for a specific purpose are deemed to be earned and reported as temporarily restricted net assets at year-end. When the donor restriction expires, that is, when a stipulated time or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as "net assets released from restrictions".

Permanently Restricted Net Assets

Permanently restricted net assets consist of donor restricted contributions, which are required to be held in perpetuity. Income from the assets held is available for either general operations or specific purposes, in accordance with donor stipulations.

THE WATERSHED INSTITUTE, INC.
(A New Jersey Not-for-Profit Corporation)
Notes to Financial Statements
December 31, 2017

Note 1: Nature of Operations and Summary of Significant Accounting Policies (continued)

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 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.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Revenue Recognition

Government grant revenue on cost reimbursement contracts is recognized as expenditures are made for the particular grant.

Contributions are recognized as revenue when the contributions are received or pledged.

Tax-Exempt Status

THE WATERSHED INSTITUTE, INC. qualifies as a 501(c)(3) tax-exempt organization under existing provisions of the Internal Revenue Code. Therefore, it is not subject to federal or state income taxes on revenues that are related to the exempt purpose of the organization. The Organization is subject to a tax on income from any unrelated business.

Inventory

The nature shop inventory is valued at cost and is included with prepaid expenses and other current asset.

THE WATERSHED INSTITUTE, INC.
(A New Jersey Not-for-Profit Corporation)
Notes to Financial Statements
December 31, 2017

Note 1: Nature of Operations and Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment is stated at cost or the fair value of contributed property, less accumulated depreciation. The Institute capitalizes asset additions with a cost or fair value greater than \$1,000. Depreciation is recorded over the estimated useful lives as follows:

	<u>Method</u>	<u>Estimated Useful Life</u>
Building and improvements	Straight-line	20 – 50 years
Machinery and equipment	Straight-line	3-5 years
Furniture and fixtures	Straight-line	5-7 years
Automobiles	Straight-line	5 years

Fair Value Measurement

Financial Accounting Standards Board (FASB) Accounting Standards Codification 820 "Fair Value Measurements and Disclosures (ASC 820)" establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of fair value hierarchy under ASC 820 are described below:

Basis of Fair Value Measurement:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 – Quoted prices for identical assets in markets that are not active, quoted prices for similar assets in active markets, inputs other than quoted market prices, and inputs derived principally from observable market data.

Level 3 – Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

THE WATERSHED INSTITUTE, INC.
(A New Jersey Not-for-Profit Corporation)
Notes to Financial Statements
December 31, 2017

Note 1: Nature of Operations and Summary of Significant Accounting Policies (continued)

Fair Value Measurement (continued)

The following table sets forth by level, within the fair value hierarchy, the Institute's assets at fair value as of December 31, 2017:

	<u>Assets at Fair Value</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Bonds	536,828	-	-	\$ 536,828
Stocks	2,764,125	-	-	2,764,126
Short-Term Reserve	505,653	-	-	505,653
Beneficial Interest	-	783,191	-	<u>783,191</u>
Total Portfolio Investments at fair value				<u>\$4,589,798</u>

Grants Receivable and Allowance for Doubtful Accounts

All Institute receivables are predominately with individuals, corporations, foundations, and government agencies, which are periodically reviewed by management for collectability. Bad debts are provided on the allowance method based on historical experience and management's evaluation of the outstanding receivable. Amounts are written off when deemed uncollectible. No allowance is deemed necessary at December 31, 2017.

Note 2: Beneficial Interest in Assets Held By Princeton Area Community Foundation

The organization has established a nonprofit fund identified as the "Stony Brook-Millstone Watershed Association Fund" with the Princeton Area Community Foundation (PACF). PACF provides the Organization a valuation of the beneficial interest on a monthly basis. The original investment funded on April 29, 2009 for \$250,000 was valued at \$504,022 as of December 31, 2017.

The organization established a second nonprofit fund identified as the "Stony Brook-Millstone Watershed Association Education Intern Fund" with PACF. The original investments funded on March 31, 2011 for \$100,000 and July 1, 2011 for \$100,000 were valued at \$262,297 as of December 31, 2017.

The organization established a third fund identified as the "Chris Lokhammer Watershed Internship Fund" with PACF. The original investment into the fund totaled \$16,950 which was valued at \$16,872 as of December 31, 2017.

THE WATERSHED INSTITUTE, INC.
(A New Jersey Not-for-Profit Corporation)
Notes to Financial Statements
December 31, 2017

Note 2: **Beneficial Interest in Assets Held By Princeton Area Community Foundation**
(continued)

The organization has completed a Nonprofit Fund Agreement with the foundation whereby the foundation has agreed to

- Manage the invested amount within investment pools of funds of which the foundation has full legal ownership.
- Distribute amounts back to the organization upon request either partially or a distribution of the entire fund.

In accordance with the Nonprofit Fund Agreement the foundation maintains a variance power which states, "so long as a nonprofit maintains its exempt status as a charity under 501(c)(3) of the internal revenue code, and has executed a fund agreement that authorizes a 100% distribution, the nonprofit's board of trustees may direct the expenditure of any or all of the principal or income from the fund, and the principal and accumulated income and interest of the fund may be returned, at any time, to the management and control of the nonprofit".

Note 3: **Marketable Securities – Vanguard Funds**

Marketable securities are stated at fair value, as determined by quoted market values for the securities. In accord with the Board of Directors investment policy statement, the finance/investment committee will oversee the management of financial investments. The Board's investment objectives include preservation of purchasing power and obtaining a reasonable rate of return. Investments are intended to be allocated to a diversified portfolio of equity investments, fixed income securities and cash equivalents, while complying with the "prudent person" rule concerning fiduciary oversight of assets. A summary of investments held as of December 31, 2017 is as follows:

	<u>Cost</u>	<u>Fair Market Value</u>
Corporate stock mutual funds	\$ 2,267,097	\$ 2,764,126
Bond funds	530,727	536,828
Short term reserves	505,653	505,653
	<u>\$ 3,303,477</u>	<u>\$ 3,806,607</u>

Note 4: **Pledges Receivable – Capital Campaign and Endowment Fund**

Unconditional promises to give at December 31, 2017 are as follows:

Receivable in less than one year	\$ 630,667
Receivable in one to five years	463,500
	<u>\$ 1,094,167</u>

THE WATERSHED INSTITUTE, INC.
(A New Jersey Not-for-Profit Corporation)
Notes to Financial Statements
December 31, 2017

Note 5: Concentration of Credit Risk

The Institute maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits.

Note 6: Property and Equipment

Land	\$ 4,250,201
Building and improvements	8,134,616
Machinery and equipment	236,652
Furniture and fixtures	948,590
Automobiles	<u>29,860</u>
	13,599,919
Less-accumulated depreciation	<u>1,671,163</u>
Net property and equipment	<u>\$11,928,756</u>

Note 7: Board Designated and Restricted Net Assets

Board Designated Net Assets

Unrestricted net assets held in the Watershed Investment Fund were designated by the board for the following purposes at December 31, 2017:

General operations support	<u>\$ 2,358,736</u>
----------------------------	---------------------

Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31, 2017:

Educational and other programs	\$ 938,196
Capital campaign	<u>73,120</u>

Total temporarily restricted net assets	<u>\$ 1,011,316</u>
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Permanently Restricted Net Assets

Net assets were permanently restricted for the following purposes at December 31, 2017:

Land and building to be held in perpetuity	\$10,764,049
Buttinger endowment	<u>3,152,322</u>

Total permanently restricted net assets	<u>\$13,916,371</u>
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THE WATERSHED INSTITUTE, INC.
(A New Jersey Not-for-Profit Corporation)
Notes to Financial Statements
December 31, 2017

Note 7: Board Designated and Restricted Net Assets (continued)

Capital Campaign

Temporarily restricted net assets include \$66,120 of capital campaign cash funds and \$7,000 of capital campaign pledges receivable reflected in other assets in the Statement of Financial Position. The purpose of the capital campaign was to raise funds to create a new environmental center. This new facility opened in 2015 and demonstrates responsible technologies as it provides classrooms, exhibit halls, a laboratory, computer learning center, conference rooms, gift shop, a kitchen and staff offices.

Buttinger Endowment Fund

The Watershed Institute, Inc. established a permanent endowment, named the Buttinger Endowment Fund, to provide an ongoing source of support, to enhance its stability and prestige, to fund its program expansion, to provide financial independence from outside sources, and to offer flexibility for its management. The Fund's investment objectives are to preserve and grow its real purchasing power over time, after adjusting for spending, fees and inflation. The Board of Trustees has the ultimate responsibility for the Funds, and will oversee and manage the Endowment in accordance with *the Uniform Prudent Management of Investment Funds Act* (UPMIFA). On an annual basis, the Board will review the Investment Policy Statement, the performance of the Funds, and approve a spending rate with the Finance Committee. Fund assets will be allocated to a diversified portfolio of domestic and international equity investments, fixed income investments, alternative investments and cash equivalents. As the Board believes that it is important to align its investments with the Watershed's Mission, the Asset Allocation Guidelines will also include targets for investment of the Funds with managers guided by Environmental, Social and Governance ("ESG") objectives. The Committee will recommend an annual distribution rate separately for each fund for approval by the Trustees, which will be based on the 12 trailing quarters' market value.

Note 8: Retirement Plan

The Institute participates in a 403(b) Custodial Account Agreement for qualified employees. The terms of the plan define qualified employees as those who are currently employed with the Institute and who work at least 25 hours per week. Eligibility starts at the employee's date of hire. Employee contributions are discretionary up to the federal limits. The Institute does not contribute to this plan.

THE WATERSHED INSTITUTE, INC.
(A New Jersey Not-for-Profit Corporation)
Notes to Financial Statements
December 31, 2017

Note 9: Contingent Liability

In 1974, the Institute entered into an agreement with the State of New Jersey, Department of Environmental Protection to maintain three dams, none of which are owned by the Institute. In 2002, the Institute indicated to the Department that it was exercising its option to withdraw from this agreement. Since the Institute took this action, the Soil Conservation District agreed to undertake inspections and minor maintenance actions at the three dams. As of December 31, 2017, the Institute has continued to attempt to secure a written agreement from the State acknowledging that the Institute has no responsibility for the dams.

Note 10: Leases

The organization leases equipment from vendors under operating leases. The following is a schedule of future lease payments as of December 31, 2017:

2018	\$ 5,928
2019	4,628
2020	2,028
2021	507
2022	507

Note 11: Prior Period Adjustment

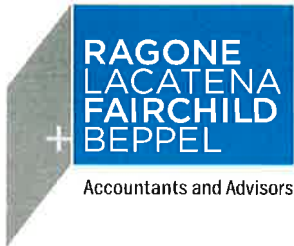
The Organization received a \$500,000 grant in 2016 from the County of Mercer, New Jersey. The purpose of the grant was to provide funding for the acquisition of land to be preserved as open space. The Organization transferred the \$500,000 grant proceeds to the Municipality of Princeton in 2016 as partial funding to acquire property along with the Municipality of Princeton to be preserved as open space. The Organization's 2016 financial statement reflected the \$500,000 payment to the Municipality of Princeton within its asset category Property and Equipment as a deposit towards the purchase of the property. During 2017 it has been determined that the Organization will not have an ownership interest in the property. As a result, the Organization has restated its opening Net Assets as follows:

Beginning net assets – as reported	\$ 17,938,704
Less: Grant expenditure to Municipality of Princeton	<u>(500,000)</u>
Beginning net assets – as restated	<u>\$ 17,438,704</u>

THE WATERSHED INSTITUTE, INC.
(A New Jersey Not-for-Profit Corporation)
Notes to Financial Statements
December 31, 2017

Note 12: Evaluation of Subsequent Events

The Organization has evaluated subsequent events through June 22, 2018, the date which the financial statements were available to be issued. Management has determined there were no subsequent events that require disclosure.



**Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

To the Board of Trustees of
The Watershed Institute, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of **The Watershed Institute, Inc.** (a nonprofit corporation), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 22, 2018.

Internal Control Over Financial Reporting

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

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

76 E. Euclid Avenue, Suite 200
Haddonfield, NJ 08033
856.795.9650 P
856.795.7975 F

admin@rlfbcpa.com
www.rlfbcpa.com

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Respectfully submitted,



RAGONE, LACATENA, FAIRCHILD & BEPPEL, P.C.
Certified Public Accountants

Haddonfield, New Jersey
June 22, 2018

THE WATERSHED INSTITUTE, INC.
(A New Jersey Not-for-Profit Corporation)
Schedule of Expenditures of State Awards
For the Year Ended December 31, 2017

<u>STATE GRANTOR/PROGRAM TITLE</u>	<u>GRANT NUMBER</u>	<u>GRANT AMOUNT</u>	<u>GRANT PERIOD</u>	<u>1/1/17 to 12/31/17 CURRENT YEAR EXPENDITURES</u>
STATE OF NEW JERSEY DEPARTMENT OF ENVIRONMENTAL PROTECTION:				
Implementation of the Raritan River TMDL through actions in the Millstone River	WM15-015	\$300,000	05/28/15 – 05/28/19	\$ 94,731

THE WATERSHED INSTITUTE, INC.
(A New Jersey Not-for-Profit Corporation)
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2017

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: unqualified

Internal control over financial reporting:

Material weakness(es) identified? ____yes X_no

Reportable condition(s) identified
that are not considered to be
material weakness(es)? ____yes X_none
reported

Noncompliance material to financial
statements noted? ____yes X_no

Section II - Financial Statement Findings

No matters were reportable.

Additional Information: There were no prior year audit findings.

THE WATERSHED INSTITUTE, INC.
(A New Jersey Not-for-Profit Corporation)
Schedule of Functional Expenses
For the Year Ended December 31, 2017

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 871,744	\$ 216,766	213,189	\$ 1,301,699
Payroll Taxes	68,026	19,509	19,187	106,722
Employee Benefits	132,724	20,460	17,999	171,183
Office	-	-	959	959
Telephone	7,413	2,341	847	10,601
Postage	6,412	-	556	6,968
Printing	15,015	-	2,220	17,235
Dues and Subscriptions	2,519	518	618	3,655
Travel and Activity Fees	17,077	1,395	478	18,950
Training	7,021	-	-	7,021
Professional Fees	266,318	2,586	-	268,904
Advertising and Promotion	18,478	-	-	18,478
Utilities	33,839	-	-	33,839
Repairs and Maintenance	2,959	-	-	2,959
Supplies	66,338	6,195	6,533	79,066
Property Taxes	11,698	-	-	11,698
Insurance	45,610	6,008	-	51,618
Special Events	78,012	-	-	78,012
Program Expenses	57,795	-	-	57,795
Grants and Awards	50,642	-	-	50,642
Capital Campaign - Project Management	9,793	-	-	9,793
Equipment Lease	17,075	-	-	17,075
Depreciation	291,398	-	-	291,398
	<u>\$ 2,077,906</u>	<u>\$ 275,778</u>	<u>\$ 262,586</u>	<u>\$ 2,616,270</u>