

THE STONY BROOK-MILLSTONE
WATERSHED ASSOCIATION
(A New Jersey Not-for-Profit Association)

FINANCIAL STATEMENTS

For The Year Ended December 31, 2015

**THE STONY BROOK-MILLSTONE
WATERSHED ASSOCIATION**
(A New Jersey Not-for-Profit Association)

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RAGONE, LACATENA, FAIRCHILD & BEPPEL

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
The Stony Brook-Millstone Watershed Association

* ACCREDITED IN BUSINESS VALUATION
** ENROLLED AGENT
Δ RETIRED

Report on Financial Statements

We have audited the accompanying financial statements of **THE STONY BROOK-MILLSTONE WATERSHED ASSOCIATION** (a New Jersey nonprofit organization) which comprise the statement of financial position as of December 31, 2015, 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. 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 **THE STONY BROOK-MILLSTONE WATERSHED ASSOCIATION** as of December 31, 2015, 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

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 15 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.

Respectfully submitted,



RAGONE, LACATENA, FAIRCHILD & BEPPEL, PC
Certified Public Accountants

Haddonfield, NJ
April 26, 2016

THE STONY BROOK-MILLSTONE WATERSHED ASSOCIATION
(A New Jersey Not-for-Profit Association)
Statement of Financial Position
December 31, 2015

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts Payable and Accrued Expenses	\$ <u>107,233</u>	
<u>Total Liabilities</u>		\$ 107,233

Net Assets

Unrestricted:		
Undesignated	255,069	
Board Designated	1,742,285	
Net Investment in Property and Equipment	<u>1,273,457</u>	
<u>Total Unrestricted Net Assets</u>	3,270,811	
Temporarily Restricted:		
Capital Campaign	170,528	
Other (Note 7)	<u>796,188</u>	
<u>Total Temporarily Restricted Net Assets</u>	966,716	
Permanently Restricted:		
Net Investment in Property and Equipment	<u>10,571,484</u>	
<u>Total Net Assets</u>		<u>14,809,011</u>
<u>Total Liabilities and Net Assets</u>		<u>\$ 14,916,244</u>

See Accompanying Notes to Financial Statements.

THE STONY BROOK-MILLSTONE WATERSHED ASSOCIATION

(A New Jersey Not-for-Profit Association)

Statement of Activities

For the Year Ended December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>Support and Revenue</u>				
Contributions				
Individuals	\$ 550,420	\$ 488,859	\$ -	\$ 1,039,279
Corporations	54,995	65,000	-	119,995
Foundations	14,020	521,455	-	535,475
Government Grants	296	15,827	50,000	66,123
Programs	199,192	-	-	199,192
Special Events	181,931	-	-	181,931
Interest and Dividend Income	31,097	373	-	31,470
Rental Income	59,111	-	-	59,111
Gift Shop	15,132	-	-	15,132
Unrealized/Realized Gain (Loss) on Investments	(43,307)	(13,490)	-	(56,797)
Net Assets Released From Restrictions	730,950	(730,950)	-	-
	<u>1,793,837</u>	<u>347,074</u>	<u>50,000</u>	<u>2,190,911</u>
<u>Expenses</u>				
Program Expenses - General	1,324,182	-	-	1,324,182
Program Expenses - Depreciation	100,258	-	154,585	254,843
Management and General	269,363	-	-	269,363
Fundraising	305,024	-	-	305,024
	<u>1,998,827</u>	<u>-</u>	<u>154,585</u>	<u>2,153,412</u>
<u>Change in Net Assets</u>	<u>(204,990)</u>	<u>347,074</u>	<u>(104,585)</u>	<u>37,499</u>
<u>Net Asset Transfers</u>	573,881	(396,507)	(177,374)	-
<u>Net Assets - Beginning of Year</u>	<u>2,901,920</u>	<u>1,016,149</u>	<u>10,853,443</u>	<u>14,771,512</u>
<u>Net Assets - End of Year</u>	<u>\$ 3,270,811</u>	<u>\$ 966,716</u>	<u>\$ 10,571,484</u>	<u>\$ 14,809,011</u>

See Accompanying Notes to Financial Statements.

THE STONY BROOK-MILLSTONE WATERSHED ASSOCIATION
(A New Jersey Not-for-Profit Association)
Statement of Cash Flows
For the Year Ended December 31, 2015

Cash Flows From Operating Activities

Change in Net Assets	\$	37,499
Adjustments to Reconcile Change in Net Assets to Net Cash From Operating Activities:		
Depreciation		254,843
Realized/Unrealized Loss on Investments		56,797
Change in:		
Grants Receivable		6,964
Pledges Receivable		421,397
Prepaid Expenses and Other Current Assets		26,643
Accounts Payable and Accrued Expenses		32,428
Building Construction Payables		<u>(1,320,406)</u>
Total Adjustments		<u>(521,334)</u>
<u>Net Cash Provided (Used) By Operating Activities</u>		<u>(483,835)</u>

Cash Flows From Investing Activities

Acquisition of Property and Equipment		(535,046)
Net Investment Account Activity		<u>77,410</u>
<u>Net Cash Provided (Used) By Investing Activities</u>		<u>(457,636)</u>
<u>Net Change in Cash and Cash Equivalents</u>		(941,471)
<u>Cash and Cash Equivalents - Beginning of Year</u>		<u>1,702,676</u>
<u>Cash and Cash Equivalents - End of Year</u>	\$	<u><u>761,205</u></u>

See Accompanying Notes to Financial Statements.

THE STONY BROOK-MILLSTONE WATERSHED ASSOCIATION
(A New Jersey Not-for-Profit Association)
Notes to Financial Statements
December 31, 2015

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

Nature of Operations

THE STONY BROOK-MILLSTONE WATERSHED ASSOCIATION (the "Association") was incorporated on November 20, 1951 under the laws of the State of New Jersey. The Association's mission is to enhance the quality of the natural environment in the area drained by the Stony Brook and the Millstone River. It addresses key issues effecting water quality and land use, educates area residents about the ecology of the natural environment and preserves open space by maintaining a 930-acre nature reserve and organic farm. The Organization receives most of its funding through program fees and grants and contributions from corporations, foundations and individuals.

Financial Statement Presentation

The Organization presents its financial statements in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958. Accordingly, the Organization 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 Organization. Board-designated net assets represent amounts the Organization has set aside for a specific purpose.

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 STONY BROOK-MILLSTONE WATERSHED ASSOCIATION
(A New Jersey Not-for-Profit Association)
Notes to Financial Statements
December 31, 2015

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.

Income Taxes

The Internal Revenue Service has recognized the Association as tax exempt under Section 501(c) (3) of the Internal Revenue Code.

Inventory

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

Property and Equipment

Property and equipment is stated at cost or the fair value of contributed property, less accumulated depreciation. The Association 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

THE STONY BROOK-MILLSTONE WATERSHED ASSOCIATION
(A New Jersey Not-for-Profit Association)
Notes to Financial Statements
December 31, 2015

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

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 following table sets forth by level, within the fair value hierarchy, the Association's assets at fair value as of December 31, 2015:

	<u>Assets at Fair Value</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Bonds	286,253	-	-	\$ 286,253
Stocks	921,827	-	-	921,827
Short-Term Reserve	130,894	-	-	130,894
Beneficial Interest	-	635,683	-	<u>635,683</u>
Total Portfolio Investments at fair value				<u>\$1,974,657</u>

THE STONY BROOK-MILLSTONE WATERSHED ASSOCIATION
(A New Jersey Not-for-Profit Association)
Notes to Financial Statements
December 31, 2015

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

Grants Receivable and Allowance for Doubtful Accounts

All Association 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, 2015.

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 \$403,311 as of December 31, 2015.

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 \$232,372 as of December 31, 2015.

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".

THE STONY BROOK-MILLSTONE WATERSHED ASSOCIATION
(A New Jersey Not-for-Profit Association)
Notes to Financial Statements
December 31, 2015

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, 2015 is as follows:

	<u>Cost</u>	<u>Fair Market Value</u>
Corporate stock mutual funds	\$ 672,897	\$ 921,827
Bond funds	270,373	286,253
Short term reserves	130,894	130,894
	<u>\$ 1,074,164</u>	<u>\$ 1,338,974</u>

Note 4: Pledges Receivable – Capital Campaign

Unconditional promises to give at December 31, 2015 are as follows:

Receivable in less than one year	\$ 119,333
Receivable in one to five years	<u>7,000</u>
	<u>\$ 126,333</u>

Note 5: Concentration of Credit Risk

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

Note 6: Property and Equipment

Land	\$ 3,626,495
Building and improvements	8,183,285
Machinery and equipment	210,811
Furniture and fixtures	914,660
Automobiles	<u>29,860</u>
	12,965,111
Less-accumulated depreciation	<u>1,120,170</u>
Net property and equipment	<u>\$11,844,941</u>

THE STONY BROOK-MILLSTONE WATERSHED ASSOCIATION
(A New Jersey Not-for-Profit Association)
Notes to Financial Statements
December 31, 2015

Note 7: Board Designated and Restricted Net Assets

Board Designated Net Assets

Unrestricted net assets were designated by the board for the following purposes at December 31, 2015:

Property management and capital expenditures	<u>\$ 1,742,285</u>
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Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31, 2015:

Educational and grant programs	\$ 796,188
Capital campaign	<u>170,528</u>

Total temporarily restricted net assets	<u>\$ 966,716</u>
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Permanently Restricted Net Assets

Net assets were permanently restricted for the following purposes at December 31, 2015:

Land, property and equipment to be held in perpetuity	<u>\$10,571,484</u>
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Capital Campaign –

Temporary restricted net assets include \$44,195 of capital campaign cash funds and \$126,333 of capital campaign pledges receivable reflected in other assets in the Statement of Financial Position. The purpose of the capital campaign drive 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.

Note 8: Retirement Plan

The Association 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 Association 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 Association does not contribute to this plan.

THE STONY BROOK-MILLSTONE WATERSHED ASSOCIATION
(A New Jersey Not-for-Profit Association)
Notes to Financial Statements
December 31, 2015

Note 9: Contingent Liability

In 1974, the Association 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 Association. In 2002, the Association indicated to the Department that it was exercising its option to withdraw from this agreement. Since the Association took this action, the Soil Conservation District agreed to undertake inspections and minor maintenance actions at the three dams. As of December 31, 2015, the Association has continued to attempt to secure a written agreement from the State acknowledging that the Association 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, 2015:

2016	\$ 5,928
2017	5,928
2018	4,628
2019	2,028
2020	507

Note 11: Line of Credit

THE STONY BROOK-MILLSTONE WATERSHED ASSOCIATION maintains a \$100,000 line of credit with PNC Bank. Interest only is due and payable monthly based on a variable interest rate which is at all times equal to the sum of the Prime Rate plus 2.25%. The note has a maturity date of December 23, 2016. As of December 31, 2015, no amounts have been advanced on this Line.

Note 12: Tax-Exempt Status

THE STONY BROOK-MILLSTONE WATERSHED ASSOCIATION 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.

THE STONY BROOK-MILLSTONE WATERSHED ASSOCIATION
(A New Jersey Not-for-Profit Association)
Notes to Financial Statements
December 31, 2015

Note 12: Tax-Exempt Status (continued)

Uncertain Tax Positions

The Organization has adopted the recognition requirements for uncertain income tax positions as required by generally accepted accounting principles, Fin48 (ASC740). Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than not be sustained upon examination by taxing authorities. The Organization has analyzed tax positions taken for filing with the Internal Revenue Service and the state of New Jersey. The Organization believes that income positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse affect on the Organization's financial condition, results of operations or cash flows. Accordingly, the Organization has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at December 31, 2015

The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Organization believes it is no longer subject to income tax examinations for years prior to 2012.

The Organization's policy is to classify income tax related interest and penalties in interest expense and other expenses, respectively.

Note 13: Evaluation of Subsequent Events – The Organization has evaluated subsequent events through April 26, 2016, the date which the financial statements were available to be issued.

THE STONY BROOK-MILLSTONE WATERSHED ASSOCIATION
(A New Jersey Not-for-Profit Association)
Schedule of Functional Expenses
For the Year Ended December 31, 2015

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 582,046	\$ 199,209	192,460	\$ 973,715
Payroll Taxes	52,536	17,928	17,321	87,785
Employee Benefits	71,360	17,650	16,391	105,401
Office	859	-	-	859
Telephone	7,989	2,524	914	11,427
Postage	4,389	-	381	4,770
Printing	15,193	-	4,930	20,123
Dues and Subscriptions	2,335	520	1,218	4,073
Travel and Activity Fees	11,237	1,257	32	12,526
Training	3,734	-	-	3,734
Professional Fees	150,607	17,100	-	167,707
Advertising and Promotion	19,740	-	-	19,740
Utilities	38,681	-	-	38,681
Repairs and Maintenance	3,219	-	-	3,219
Supplies	49,145	8,922	8,428	66,495
Property Taxes	11,172	-	-	11,172
Insurance	32,286	4,253	-	36,539
Special Events	6,555	-	54,921	61,476
Program Expenses	46,280	-	-	46,280
Grants and Awards	47,897	-	-	47,897
Capital Campaign - Fundraising	-	-	8,028	8,028
Capital Campaign - Project Management	146,405	-	-	146,405
Capital Campaign - Transition	11,372	-	-	11,372
Equipment Lease	9,145	-	-	9,145
Depreciation	254,843	-	-	254,843
	<u>\$ 1,579,025</u>	<u>\$ 269,363</u>	<u>\$ 305,024</u>	<u>\$ 2,153,412</u>