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

FINANCIAL STATEMENTS

For The Year Ended
December 31, 2020
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## SUPPLEMENTAL SCHEDULES

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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, 2020, and the related statements of activities, functional expenses, 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.

Ragone Lacatena Fairchild Beppel
Accountants and Advisors
75 E. Cedar Avenue, Suite 200
Harrington, NJ 08035
856.795.9950 P
856.795.9975 F
admin@rlfcbpa.com
www.rlfcbpa.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, 2020, 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 federal and 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 subject 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 21, 2021 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 & BEPPLE, P.C.
Certified Public Accountants

Haddonfield, New Jersey
June 21, 2021
THE WATERSHED INSTITUTE, INC.
(A New Jersey Not-for-Profit Corporation)
Statement of Financial Position
December 31, 2020

ASSETS

Current Assets

Cash and Cash Equivalents $ 1,093,214
Grants and Contributions Receivable 384,386
Prepaid Expenses and Other Current Assets 12,617

Total Current Assets $ 1,490,217

Property and Equipment, Net of Accumulated
Depreciation of $2,536,512 11,669,960

Investments - Board Designated

Beneficial Interest in Assets Held By Princeton Area Community Foundation (Note 2) 674,198
 Marketable Securities - Investment Funds 2,284,447

Total Investments - Board Designated 2,958,645

Other Assets

Cash Restricted for Capital Campaign 12,145
Cash Restricted for Buttinger Endowment 33,500
Cash Restricted for Johnson Endowment 10,000,000
Pledges Receivable - Buttinger Endowment 110,800
Investment Funds - Buttinger Endowment 3,746,468
Investment Funds - Hanson Fund 16,556
Beneficial Interest in Assets Held By Princeton Area Community Foundation (Note 2) 319,054

Total Other Assets 14,238,523

Total Assets $ 30,357,345

See Accompanying Notes to Financial Statements.
### Statement of Financial Position
December 31, 2020

#### LIABILITIES AND NET ASSETS

**Current Liabilities**

- Accounts Payable and Accrued Expenses: $98,136
- Capital Lease Payable: 11,300

**Total Current Liabilities** $109,436

**Total Liabilities** 109,436

**Net Assets**

**Without Donor Restrictions:**
- Undesignated: 666,573
- Board Designated: 2,958,645
- Net Investment in Property and Equipment: 7,275,516

**Total Net Assets Without Donor Restrictions** 10,900,734

**With Donor Restrictions:**
- Other (Note 8): 1,061,963
- Buttlinger Endowment: 3,890,768
- Johnson Endowment: 10,000,000
- Net Investment in Property: 4,394,444

**Total Net Assets With Donor Restrictions** 19,347,175

**Total Net Assets** 30,247,909

**Total Liabilities and Net Assets** $30,357,345

---

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, 2020

<table>
<thead>
<tr>
<th></th>
<th>Without Donor Restrictions</th>
<th>With Donor Restrictions</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Support and Revenue</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions &amp; Government Grants</td>
<td>$1,570,989</td>
<td>$11,101,866</td>
<td>$12,672,855</td>
</tr>
<tr>
<td>Programs</td>
<td>63,841</td>
<td>6,725</td>
<td>70,566</td>
</tr>
<tr>
<td>Special Events</td>
<td>192,305</td>
<td></td>
<td>192,305</td>
</tr>
<tr>
<td>Rental Income</td>
<td>56,635</td>
<td></td>
<td>56,635</td>
</tr>
<tr>
<td>Gift Shop</td>
<td>3,264</td>
<td></td>
<td>3,264</td>
</tr>
<tr>
<td>Investment Income, Net</td>
<td>552,984</td>
<td>546,576</td>
<td>1,099,560</td>
</tr>
<tr>
<td>Net Assets Released From Restrictions</td>
<td>1,018,527</td>
<td>(1,018,527)</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>3,458,545</td>
<td>10,636,640</td>
<td>14,095,185</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program Expenses - General</td>
<td>2,026,855</td>
<td>-</td>
<td>2,026,855</td>
</tr>
<tr>
<td>Program Expenses - Depreciation</td>
<td>300,742</td>
<td>-</td>
<td>300,742</td>
</tr>
<tr>
<td>Management and General</td>
<td>324,484</td>
<td>-</td>
<td>324,484</td>
</tr>
<tr>
<td>Fundraising</td>
<td>299,782</td>
<td>-</td>
<td>299,782</td>
</tr>
<tr>
<td></td>
<td>2,951,863</td>
<td>-</td>
<td>2,951,863</td>
</tr>
<tr>
<td><strong>Change in Net Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>506,682</td>
<td>10,636,640</td>
<td>11,143,322</td>
</tr>
<tr>
<td><strong>Net Assets - Beginning of Year</strong></td>
<td>10,394,052</td>
<td>8,710,535</td>
<td>19,104,587</td>
</tr>
<tr>
<td><strong>Net Assets - End of Year</strong></td>
<td>$10,900,734</td>
<td>$19,347,175</td>
<td>$30,247,909</td>
</tr>
</tbody>
</table>

See Accompanying Notes to Financial Statements.
# The Watershed Institute, Inc.
(A New Jersey Not-for-Profit Corporation)

**Statement of Functional Expenses**
For the Year Ended December 31, 2020

<table>
<thead>
<tr>
<th></th>
<th>Program</th>
<th>Management and General</th>
<th>Fundraising</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>$1,025,283</td>
<td>$260,146</td>
<td>$244,843</td>
<td>$1,530,272</td>
</tr>
<tr>
<td>Payroll Taxes</td>
<td>88,498</td>
<td>23,025</td>
<td>22,842</td>
<td>134,365</td>
</tr>
<tr>
<td>Employee Benefits</td>
<td>166,141</td>
<td>25,892</td>
<td>23,734</td>
<td>215,767</td>
</tr>
<tr>
<td>Office</td>
<td>5,798</td>
<td>-</td>
<td>1,159</td>
<td>6,957</td>
</tr>
<tr>
<td>Telephone</td>
<td>7,282</td>
<td>2,022</td>
<td>809</td>
<td>10,113</td>
</tr>
<tr>
<td>Postage</td>
<td>5,130</td>
<td>-</td>
<td>446</td>
<td>5,576</td>
</tr>
<tr>
<td>Printing</td>
<td>7,574</td>
<td>-</td>
<td>1,131</td>
<td>8,705</td>
</tr>
<tr>
<td>Dues and Subscriptions</td>
<td>1,604</td>
<td>325</td>
<td>395</td>
<td>2,324</td>
</tr>
<tr>
<td>Travel and Activity Fees</td>
<td>3,583</td>
<td>278</td>
<td>119</td>
<td>3,980</td>
</tr>
<tr>
<td>Training</td>
<td>2,540</td>
<td>-</td>
<td>-</td>
<td>2,540</td>
</tr>
<tr>
<td>Professional Fees</td>
<td>280,783</td>
<td>1,410</td>
<td>-</td>
<td>282,193</td>
</tr>
<tr>
<td>Advertising and Promotion</td>
<td>18,955</td>
<td>-</td>
<td>-</td>
<td>18,955</td>
</tr>
<tr>
<td>Utilities</td>
<td>21,504</td>
<td>-</td>
<td>-</td>
<td>21,504</td>
</tr>
<tr>
<td>Repairs and Maintenance</td>
<td>2,118</td>
<td>-</td>
<td>-</td>
<td>2,118</td>
</tr>
<tr>
<td>Supplies</td>
<td>56,898</td>
<td>4,234</td>
<td>4,304</td>
<td>65,436</td>
</tr>
<tr>
<td>Property Taxes</td>
<td>2,985</td>
<td>7,152</td>
<td>-</td>
<td>10,137</td>
</tr>
<tr>
<td>Insurance</td>
<td>77,696</td>
<td>-</td>
<td>-</td>
<td>77,696</td>
</tr>
<tr>
<td>Special Events</td>
<td>20,513</td>
<td>-</td>
<td>-</td>
<td>20,513</td>
</tr>
<tr>
<td>Program Expenses</td>
<td>18,679</td>
<td>-</td>
<td>-</td>
<td>18,679</td>
</tr>
<tr>
<td>Grants and Awards</td>
<td>200,075</td>
<td>-</td>
<td>-</td>
<td>200,075</td>
</tr>
<tr>
<td>Equipment and Leases</td>
<td>13,216</td>
<td>-</td>
<td>-</td>
<td>13,216</td>
</tr>
<tr>
<td>Depreciation</td>
<td>300,742</td>
<td>-</td>
<td>-</td>
<td>300,742</td>
</tr>
</tbody>
</table>

$2,327,597 $324,484 $299,782 $2,951,863

See Accompanying Notes to Financial Statements.

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THE WATERSHED INSTITUTE, INC.
(A New Jersey Not-for-Profit Corporation)
Statement of Cash Flows
For the Year Ended December 31, 2020

Cash Flows From Operating Activities

Change in Net Assets $ 11,143,322

Adjustments to Reconcile Change in Net Assets to Net Cash From Operating Activities:

Depreciation 300,742
Investment Income, Net (1,099,560)

Change in:
Grants Receivable (241,713)
Pledges Receivable 55,000
Prepaid Expenses and Other Current Assets 440
Accounts Payable and Accrued Expenses (59,962)

Total Adjustments (1,045,053)

Net Cash Provided (Used) By Operating Activities 10,098,269

Cash Flows From Investing Activities

Acquisition of Property and Equipment (385,950)
Net Transfers From Investment Accounts 257,950
Net Transfers Into Investment Accounts (78,162)

Net Cash Provided (Used) By Investing Activities (206,162)

Net Change in Cash and Cash Equivalents 9,892,107

Cash and Cash Equivalents - Beginning of Year 1,246,752

Cash and Cash Equivalents - End of Year $ 11,138,859

See Accompanying Notes to Financial Statements.

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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 though 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 two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Assets Without Donor Restrictions - Those resources not subject to donor-imposed restrictions 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, designated for general operations support.

Net Assets With Donor Restrictions - Those resources subject to donor-imposed restrictions that will be satisfied by action of the Institute or by the passage of time. Amounts restricted by donors for a specific purpose are deemed to be earned and reported as net assets with donor restrictions at year-end. When the donor restriction expires, that is, when a stipulated time or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as "net assets released from restrictions".

Method of Accounting – The financials statements of the Institute have been prepared on the accrual basis of accounting.
Note 1: Nature of Operations and Summary of Significant Accounting Policies (continued)

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.

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.

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 assets.
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:

<table>
<thead>
<tr>
<th></th>
<th>Method</th>
<th>Estimated Useful Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building and improvements</td>
<td>Straight-line</td>
<td>20 – 50 years</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>Straight-line</td>
<td>3-5 years</td>
</tr>
<tr>
<td>Furniture and fixtures</td>
<td>Straight-line</td>
<td>5-7 years</td>
</tr>
<tr>
<td>Automobiles</td>
<td>Straight-line</td>
<td>5 years</td>
</tr>
</tbody>
</table>

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

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, 2020.

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

The Institute has established a fund identified as the “Watershed Investment 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 $674,198 as of December 31, 2020.

The Institute established a second fund identified as the “Watershed Institute 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 $319,054 as of December 31, 2020.

The Institute established a third fund identified as the “Chris Lokhammer Watershed Internship Fund” with PACF. The original investment into the fund totaled $16,950. In 2020, $1,467 was transferred out of this fund into the Watershed Institute Education Intern Fund to pay for future intern expenses and this fund was closed as of December 31, 2020.

The Institute 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”.

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Note 3: **Marketable Securities – Investment 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.

Note 4: **Investments** – Investments recorded at fair value have been categorized based upon a fair value hierarchy in accordance with GAAP. See Note 1 for a discussion of the Institute’s policies regarding this hierarchy. Unrealized gains and losses and net investment income is reported in the statement of activities, net of investment fees of $6,342.

The investments as of December 31, 2020 are summarized as follows:

<table>
<thead>
<tr>
<th>Fund</th>
<th>Bonds</th>
<th>Stocks</th>
<th>Short Term Reserves</th>
<th>Beneficial Interest</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buttinger Endowment</td>
<td>$467,947</td>
<td>$3,166,508</td>
<td>$112,013</td>
<td>$</td>
<td>$3,746,468</td>
</tr>
<tr>
<td>Hanson Fund</td>
<td>-</td>
<td>-</td>
<td>16,556</td>
<td>-</td>
<td>16,556</td>
</tr>
<tr>
<td>Watershed Institute Education Intern Fund</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>319,054</td>
<td>319,054</td>
</tr>
<tr>
<td>Watershed Investment Fund</td>
<td>348,701</td>
<td>1,853,585</td>
<td>82,161</td>
<td>674,198</td>
<td>2,958,645</td>
</tr>
</tbody>
</table>

| Total                        | $816,648| $5,020,093| $210,730            | $993,252             | $7,040,723|
THE WATERSHED INSTITUTE, INC.
(A New Jersey Not-for-Profit Corporation)
Notes to Financial Statements
December 31, 2020

Note 4: Investments (continued)

The following table shows, by level within the fair value hierarchy, the Institute's financial assets that are accounted for at fair value on a recurring basis as of December 31, 2020. The financial assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Institute's assessment of the significance of a particular input to the fair value measurement requires judgement and may affect the placement within the fair value hierarchy levels.

<table>
<thead>
<tr>
<th>Assets at Fair Value</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds</td>
<td>816,648</td>
<td>-</td>
<td>-</td>
<td>$816,648</td>
</tr>
<tr>
<td>Stocks</td>
<td>5,020,093</td>
<td>-</td>
<td>-</td>
<td>5,020,093</td>
</tr>
<tr>
<td>Short-Term Reserve</td>
<td>210,730</td>
<td>-</td>
<td>-</td>
<td>210,730</td>
</tr>
<tr>
<td>Beneficial Interest</td>
<td>-</td>
<td>993,252</td>
<td>-</td>
<td>993,252</td>
</tr>
<tr>
<td>Total Portfolio Investments at fair value</td>
<td>$7,040,723</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note 5: Pledges Receivable – Capital Campaign and Endowment Fund

Unconditional promises to give at December 31, 2020 are as follows:

- Receivable in less than one year | $50,800
- Receivable in one to five years | 60,000

Total | $110,800

Note 6: Concentration of Credit Risk

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

Note 7: Property and Equipment

<table>
<thead>
<tr>
<th>Property and Equipment</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$4,583,238</td>
</tr>
<tr>
<td>Building and improvements</td>
<td>8,322,393</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>326,886</td>
</tr>
<tr>
<td>Furniture and fixtures</td>
<td>944,095</td>
</tr>
<tr>
<td>Automobiles</td>
<td>29,860</td>
</tr>
<tr>
<td>Total</td>
<td>14,206,472</td>
</tr>
<tr>
<td>Less-accumulated depreciation</td>
<td>(2,536,512)</td>
</tr>
<tr>
<td>Net property and equipment</td>
<td>$11,669,960</td>
</tr>
</tbody>
</table>
Note 8: Board Designated and Donor-Restricted Net Assets

Board Designated Net Assets
Net assets without donor restrictions held in the Watershed Investment Fund were designated by the board for the following purposes at December 31, 2020:

- General operations support $2,958,645

Net Assets With Donor Restrictions
Net assets with donor restrictions are available for the following purposes at December 31, 2020:

- Educational and other programs $1,049,818
- Capital campaign 12,145
- Buttlinger endowment 3,890,768
- Johnson endowment 10,000,000
- Land and building to be held in perpetuity 4,394,444

Total net assets with donor restrictions $19,347,175

Capital Campaign

Net assets with donor restrictions include $12,145 of capital campaign cash funds 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.

Endowment Funds

*The Watershed Investment Fund* is a Board restricted fund designated to support the general operations of the Institute.

*The Watershed Institute Education Intern Fund* and *The Chris Lokhammer Internship Fund* was established to provide support for the Institute’s intern programs.

*The Hanson Family Fund* (the “Fund”) was formed to provide annual support to the Institute’s Annual Fund. Subsequent to the formation, the Hanson Family Fund, the donor and The Watershed Institute agreed to focus the fund on an initiative to advance the goals and programs of the Organization’s science program.
Note 8: Board Designated and Donor-Restricted Net Assets (continued)

Endowment Funds (continued)

Buttinger Endowment Fund - The Institute 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.

Johnson Endowment Fund – On August 21, 2020, The Watershed Institute received a bequest from Mrs. Betty Wold Johnson to create an additional endowment fund to support the Organization. This new endowment is being managed in a manner substantially the same as the Buttinger Endowment.

The following table represents the reconciliation of changes in endowment net assets for the year ended December 31, 2020:

<table>
<thead>
<tr>
<th>Fund</th>
<th>Value at 12/31/19</th>
<th>Investment Income</th>
<th>Net Appreciation/Depreciation</th>
<th>Fees</th>
<th>Transfers from/to Endowment</th>
<th>Contributions</th>
<th>Value at 12/31/2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buttinger Endowment</td>
<td>$3,265,564</td>
<td>$58,463</td>
<td>$442,598</td>
<td>$(32)</td>
<td>$(106,750)</td>
<td>$8,625</td>
<td>$3,746,468</td>
</tr>
<tr>
<td>Hanson Family Fund</td>
<td>52,522</td>
<td>234</td>
<td>-</td>
<td></td>
<td>(36,200)</td>
<td>-</td>
<td>16,556</td>
</tr>
<tr>
<td>Watershed Institute</td>
<td>272,379</td>
<td>2,453</td>
<td>44,694</td>
<td>(1,939)</td>
<td>1,467</td>
<td>-</td>
<td>319,054</td>
</tr>
<tr>
<td>Education Intern Fund</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chris Lokhammer</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Watershed Internship Fund</td>
<td>1,836</td>
<td>6</td>
<td>-</td>
<td>(375)</td>
<td>(1,467)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Watershed Investment Fund</td>
<td>2,528,651</td>
<td>25,968</td>
<td>523,022</td>
<td>(3,996)</td>
<td>(115,000)</td>
<td>-</td>
<td>2,958,645</td>
</tr>
<tr>
<td>Johnson Endowment</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
<td>-</td>
<td>10,000,000</td>
<td>10,000,000</td>
</tr>
</tbody>
</table>

$6,120,952 $ 87,124 $(1,010,314 $(6,342) $(257,950) $ 10,086,625 $ 17,040,723
Note 9: 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.

Note 10: 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, 2020, 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 11: Leases

The Institute leases equipment from vendors under operating leases. The following is a schedule of future lease payments as of December 31, 2020:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2021</td>
<td>$507</td>
</tr>
<tr>
<td>2022</td>
<td>507</td>
</tr>
</tbody>
</table>

The Institute purchased lab equipment valued at $56,501 under a capital lease. The accumulated amortization taken as of December 31, 2020 was $16,950. Future minimum lease payments are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2021</td>
<td>$11,300</td>
</tr>
</tbody>
</table>

Amortization expense of $5,650 for 2020 is included with depreciation expense.

Note 12: Functional Allocation of Expenses

General operating costs of providing various programs and other activities have been summarized on a functional basis in the statement of functional expenses. The general operating costs have been allocated to programs or general & administrative based on management’s estimate of the percentage of personnel time spent on programs vs. general support functions. Direct expenses are charged to their respective programs based on specific identification.
Note 13: Liquidity and Availability of Financial Assets

The Institute monitors its liquidity on a regular basis so that it is able to meet its operating needs and other contractual commitments.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash &amp; Cash Equivalents</td>
<td>$1,093,214</td>
</tr>
<tr>
<td>Grants and Contributions Receivable</td>
<td>384,386</td>
</tr>
<tr>
<td>Prepaid Expenses &amp; Other Current Assets</td>
<td>12,617</td>
</tr>
<tr>
<td>Beneficial Interest in Assets Held By PACF - Unrestricted</td>
<td>674,198</td>
</tr>
<tr>
<td>Beneficial Interest in Assets Held by PACF - Restricted</td>
<td>319,054</td>
</tr>
<tr>
<td>Marketable Securities – Investment Funds</td>
<td>2,284,447</td>
</tr>
<tr>
<td>Cash Restricted for Capital Campaign</td>
<td>12,145</td>
</tr>
<tr>
<td>Investment Fund Restricted for Hanson Fund</td>
<td>16,556</td>
</tr>
<tr>
<td>Buttinger Endowment</td>
<td>3,890,768</td>
</tr>
<tr>
<td>Johnson Endowment</td>
<td>10,000,000</td>
</tr>
<tr>
<td><strong>Total Financial Assets</strong></td>
<td><strong>18,687,385</strong></td>
</tr>
</tbody>
</table>

Less: funds unavailable for general expenditure within one year due to:

Restrictions by donor with purpose restrictions                             | $14,952,731 |

Financial assets available to meet cash needs for general expenditures within one year | $3,734,654 |

Note 14: Contingency - In May 2020, the Organization received a loan in the amount of $400,400 from PNC Bank under the Small Business Administration’s (SBA) Paycheck Protection Program. Under this program the SBA will forgive all, or a portion of, the loan if certain employee retention criteria are met and the funds are used for eligible expenses. Loan forgiveness will first be determined by PNC Bank based on SBA guidance. Final loan forgiveness is determined by the SBA. On April 5, 2021, the Organization received the final determination from the SBA that the entirety of the PPP loan will be forgiven. The SBA retains the right to audit the Organization for six years to substantiate that all forgiveness criteria have been met. Management believes the Organization has fulfilled all loan criteria and spending requirements by December 31, 2020 to sustain 100% loan forgiveness. The Organization has recognized the entire $400,400 as a government grant in 2020.
Note 15: **Evaluation of Subsequent Events**

The Institute has evaluated subsequent events through June 21, 2021, 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, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 21, 2021.

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.
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 & BEPPLE, P.C.
Certified Public Accountants

Haddonfield, New Jersey
June 21, 2021
<table>
<thead>
<tr>
<th>Federal Grantor/Program Title</th>
<th>Grant Number</th>
<th>Grant Amount</th>
<th>Grant Period</th>
<th>Current Year Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States Environmental Protection Agency - Passed through:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State of New Jersey</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Department of Environmental Protection</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Implementation of the Raritan River TMDL through actions in the Millstone River</td>
<td>WM19-017</td>
<td>$300,000</td>
<td>05/28/15 - 06/30/20</td>
<td>$55,718</td>
</tr>
<tr>
<td>Community Based, NJ Volunteer Monitoring Network</td>
<td>WM18-023</td>
<td>240,000</td>
<td>07/01/18 - 06/30/21</td>
<td>71,883</td>
</tr>
<tr>
<td>Restoration of the Beden Brook Watershed</td>
<td>WM18-013</td>
<td>400,000</td>
<td>10/30/18 - 10/29/21</td>
<td>56,841</td>
</tr>
<tr>
<td><strong>TOTAL EXPENDITURES OF FEDERAL AND STATE AWARDS</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>$184,442</strong></td>
</tr>
</tbody>
</table>
THE WATERSHED INSTITUTE, INC.  
(A New Jersey Not-for-Profit Corporation)  
Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2020

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor’s report issued: unmodified

Internal control over financial reporting:

Material weakness(es) identified?  
___yes  _X_ no

Significant deficiency(ies) 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.