

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

FINANCIAL STATEMENTS

For The Year Ended
December 31, 2021



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

TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditor's Report.....	1 & 2
Statement of Financial Position	3 & 4
Statement of Activities	5
Statement of Functional Expenses	6
Statement of Cash Flows	7
Notes to the Financial Statements.....	8 – 18
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.....	19 & 20

SUPPLEMENTAL SCHEDULES

Schedule of Expenditures of Federal and State Awards	21
Schedule of Findings and Questioned Costs.....	22
Notes to the Schedule of Expenditures of Federal and State Awards	23



INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying financial statements of The Watershed Institute, Inc. (a New Jersey nonprofit organization), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

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, 2021, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Watershed Institute, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Watershed Institute, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on 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

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Watershed Institute, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Watershed Institute, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

SUPPLEMENTARY INFORMATION

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulation Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is not required part of the financial statements. Such information is the responsibility of management and was derived from and related 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the 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 September 30, 2022 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 solely to described 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 the effectiveness of The Watershed Institute, Inc.'s 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
September 30, 2022

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

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 2,586,541
Grants and Contributions Receivable	1,221,695
Prepaid Expenses and Other Current Assets	<u>7,867</u>

Total Current Assets \$ 3,816,103

Property and Equipment, Net of Accumulated
Depreciation of \$2,772,796 12,967,650

Investments - Board Designated

Beneficial Interest in Assets Held By Princeton Area Community Foundation (Note 2)	730,999
Marketable Securities - Investment Funds	<u>2,493,874</u>

Total Investments - Board Designated 3,224,873

Other Assets

Cash Restricted for Buttinger Endowment	32,500
Pledges Receivable - Buttinger Endowment	78,300
Investment Funds - Buttinger Endowment	4,279,127
Investment Funds - Johnson Endowment	10,364,304
Beneficial Interest in Assets Held By Princeton Area Community Foundation (Note 2)	<u>345,922</u>

Total Other Assets 15,100,153

Total Assets \$ 35,108,779

See Accompanying Notes to Financial Statements.

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

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts Payable and Accrued Expenses	\$ 68,128	
Grant Payable to the Municipality of Princeton	<u>969,213</u>	
<u>Total Current Liabilities</u>		\$ <u>1,037,341</u>
<u>Total Liabilities</u>		1,037,341

Net Assets

Without Donor Restrictions:		
Undesignated	985,585	
Board Designated	3,224,873	
Net Investment in Property and Equipment	<u>7,253,534</u>	
<u>Total Net Assets Without Donor Restrictions</u>	11,463,992	
With Donor Restrictions:		
Other (Note 9)	2,139,099	
Buttinger Endowment	4,389,927	
Johnson Endowment	10,364,304	
Net Investment in Property	<u>5,714,116</u>	
<u>Total Net Assets With Donor Restrictions</u>	22,607,446	
<u>Total Net Assets</u>		<u>34,071,438</u>
<u>Total Liabilities and Net Assets</u>		\$ <u><u>35,108,779</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, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
<u>Support and Revenue</u>			
Contributions & Government Grants	\$ 2,833,264	\$ 3,268,266	\$ 6,101,530
Programs	184,371	-	184,371
Special Events	246,611	-	246,611
Rental Income	33,511	-	33,511
Gift Shop	12,105	-	12,105
Investment Income, Net	387,464	1,029,581	1,417,045
Net Assets Released From Restrictions	1,037,576	(1,037,576)	-
	<u>4,734,902</u>	<u>3,260,271</u>	<u>7,995,173</u>
<u>Expenses</u>			
Program Expenses - General	3,154,585	-	3,154,585
Program Expenses - Depreciation	317,400	-	317,400
Management and General	363,650	-	363,650
Fundraising	336,009	-	336,009
	<u>4,171,644</u>	<u>-</u>	<u>4,171,644</u>
<u>Change in Net Assets</u>	563,258	3,260,271	3,823,529
<u>Net Assets - Beginning of Year</u>	10,900,734	19,347,175	30,247,909
<u>Net Assets - End of Year</u>	<u>\$ 11,463,992</u>	<u>\$ 22,607,446</u>	<u>\$ 34,071,438</u>

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, 2021

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 1,132,714	\$ 287,404	\$ 270,497	\$ 1,690,615
Payroll Taxes	93,253	24,261	24,068	141,582
Employee Benefits	230,711	35,954	32,958	299,623
Office	7,614	-	1,522	9,136
Telephone	6,541	1,816	726	9,083
Postage	3,801	-	330	4,131
Printing	4,123	-	615	4,738
Dues and Subscriptions	1,768	358	435	2,561
Travel and Activity Fees	3,743	290	124	4,157
Training	4,165	1,574	-	5,739
Professional Fees	315,184	-	-	315,184
Advertising and Promotion	10,283	-	-	10,283
Utilities	29,208	-	-	29,208
Repairs and Maintenance	9,628	-	-	9,628
Supplies	100,250	4,657	4,734	109,641
Property Taxes	3,063	7,336	-	10,399
Insurance	57,181	-	-	57,181
Special Events	81,660	-	-	81,660
Program Expenses	10,972	-	-	10,972
Grants and Awards	1,037,279	-	-	1,037,279
Equipment and Leases	11,444	-	-	11,444
Depreciation	317,400	-	-	317,400
	<u>\$ 3,471,985</u>	<u>\$ 363,650</u>	<u>\$ 336,009</u>	<u>\$ 4,171,644</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, 2021

Cash Flows From Operating Activities

Change in Net Assets	\$ 3,823,529
Adjustments to Reconcile Change in Net Assets to Net Cash From Operating Activities:	
Depreciation	317,400
Net Investment Income from Investment Accounts	(1,415,815)
Change in:	
Grants and Contributions Receivable	(837,309)
Pledges Receivable	32,500
Prepaid Expenses and Other Current Assets	4,750
Accounts Payable and Accrued Expenses	(41,308)
Grant Payable to the Municipality of Princeton	<u>969,213</u>
Total Adjustments	<u>(970,569)</u>
<u>Net Cash Provided (Used) By Operating Activities</u>	2,852,960
<u>Cash Flows From Investing Activities</u>	
Acquisition of Property and Equipment	(1,615,090)
Net Transfers From Investment Accounts	242,312
Net Transfers Into Investment Accounts	<u>(10,000,000)</u>
<u>Net Cash Provided (Used) By Investing Activities</u>	<u>(11,372,778)</u>
<u>Net Change in Cash and Cash Equivalents</u>	(8,519,818)
<u>Cash and Cash Equivalents - Beginning of Year</u>	<u>11,138,859</u>
<u>Cash and Cash Equivalents - End of Year</u>	\$ <u><u>2,619,041</u></u>

See Accompanying Notes to Financial Statements.

THE WATERSHED INSTITUTE, INC.
(A New Jersey Not-for-Profit Corporation)
Notes to Financial Statements
December 31, 2021

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 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.

THE WATERSHED INSTITUTE, INC.
(A New Jersey Not-for-Profit Corporation)
Notes to Financial Statements
December 31, 2021

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.

THE WATERSHED INSTITUTE, INC.
(A New Jersey Not-for-Profit Corporation)
Notes to Financial Statements
December 31, 2021

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, 2021

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, 2021.

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 \$730,999 as of December 31, 2021.

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 \$345,922 as of December 31, 2021.

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.

THE WATERSHED INSTITUTE, INC.
(A New Jersey Not-for-Profit Corporation)
Notes to Financial Statements
December 31, 2021

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 \$40,734.

The investments as of December 31, 2021 are summarized as follows:

	<u>Watershed</u>				
	<u>Investment</u>	<u>Buttinger</u>	<u>Johnson</u>	<u>Watershed Institute</u>	
	<u>Fund</u>	<u>Endowment</u>	<u>Endowment</u>	<u>Education Intern Fund</u>	<u>Total</u>
Bonds	\$ 442,663	\$ 866,334	\$ 1,498,391	\$ -	\$ 2,807,388
Stocks	1,822,418	2,798,849	6,715,845	-	\$ 11,337,112
Short Term Reserve	147,830	207,971	1,102,997	-	\$ 1,458,798
Exchange Traded Funds	80,963	124,236	339,897	-	\$ 545,096
Real Estate	-	281,737	707,174	-	\$ 988,911
Beneficial Interest	<u>730,999</u>	<u>-</u>	<u>-</u>	<u>345,922</u>	<u>\$ 1,076,921</u>
Total	\$ 3,224,873	\$ 4,279,127	\$ 10,364,304	\$ 345,922	\$ 18,214,226

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, 2021. 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

Assets at Fair Value

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Stocks	\$ 2,807,388	\$ -	\$ -	\$ 2,807,388
Bonds	11,337,112	-	-	11,337,112
Short-term Reserve	1,458,798	-	-	1,458,798
Exchange Traded Funds	545,096	-	-	545,096
Real Estate	988,911	-	-	988,911
Beneficial Interest	-	1,076,921	-	<u>1,076,921</u>
Total Portfolio Investments at fair value				\$ <u>18,214,226</u>

THE WATERSHED INSTITUTE, INC.
(A New Jersey Not-for-Profit Corporation)
Notes to Financial Statements
December 31, 2021

Note 5: Pledges Receivable – Capital Campaign and Endowment Fund

Unconditional promises to give at December 31, 2021 are as follows:

Receivable in less than one year	\$ 38,300
Receivable in one to five years	<u>40,000</u>
	\$ <u>78,300</u>

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

Land	\$ 5,902,912
Building and improvements	8,505,596
Machinery and equipment	350,109
Furniture and fixtures	951,969
Automobiles	<u>29,860</u>
	15,740,446
Less-accumulated depreciation	<u>(2,772,796)</u>
Net property and equipment	\$ <u>12,967,650</u>

Note 8: Payments to the Municipality of Princeton

The Watershed was part of a group of organizations that raised funds to purchase a parcel of property on Drakes Corner Road in Princeton, New Jersey. Each organization was deeded an interest in the property. The Watershed was granted a 15% interest in the property. The Watershed agreed to be the recipient of most of the funds raised for the property acquisition cost and, in turn, grant all funds raised to the municipality of Princeton. The funds forwarded to the municipality by the Watershed were disproportionately larger than the percentage interest granted to the Watershed in the property. The 15% interest in the property amounted to \$1,319,672. Any funds that the Watershed forwarded to the municipality over that amount is considered a grant to the municipality of Princeton. Subsequent to December 31, 2021, an additional \$538,232 was raised that will be sent to the municipality of Princeton.

THE WATERSHED INSTITUTE, INC.
(A New Jersey Not-for-Profit Corporation)
Notes to Financial Statements
December 31, 2021

Note 9: 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, 2021:

General operations support	\$ 3,224,873
----------------------------	--------------

Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes at December 31, 2021:

Educational and other programs	\$ 2,139,099
Buttinger endowment	4,389,927
Johnson endowment	10,364,304
Land and building to be held in perpetuity	<u>5,714,116</u>
Total net assets with donor restrictions	\$ <u>22,607,446</u>

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.

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 WATERSHED INSTITUTE, INC.
(A New Jersey Not-for-Profit Corporation)
Notes to Financial Statements
December 31, 2021

Note 9: Board Designated and Donor-Restricted Net Assets (continued)

Endowment Funds (continued)

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, 2021:

	<u>Value at</u> <u>12/31/20</u>	<u>Investment</u> <u>Income</u>	<u>Net</u> <u>Appreciation</u>	<u>Fees</u>	<u>Transfers from/to</u> <u>Endowment</u>	<u>Contributions</u>	<u>Value at</u> <u>12/31/21</u>
Buttinger Endowment	\$ 3,746,468	\$ 1,121,884	\$ (475,576)	\$ (7,899)	\$ (105,750)	\$ -	\$ 4,279,127
Hanson Family Fund	16,556	6	-	-	(16,562)	-	-
Watershed Institute							
Education Intern Fund	319,054	4,087	24,918	(2,137)	-	-	345,922
Watershed Invest Fund	2,958,645	906,681	(511,487)	(8,966)	(120,000)	-	3,224,873
Johnson Endowment	10,000,000	311,650	74,386	(21,732)	-	-	10,364,304
	<u>\$ 17,040,723</u>	<u>\$ 2,344,308</u>	<u>\$ (887,759)</u>	<u>\$ (40,734)</u>	<u>\$ (242,312)</u>	<u>\$ -</u>	<u>\$ 18,214,226</u>

THE WATERSHED INSTITUTE, INC.
(A New Jersey Not-for-Profit Corporation)
Notes to Financial Statements
December 31, 2021

Note 10: 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 also contributes 5% or a cap of \$2,500 per each eligible employee enrolled in the plan.

Note 11: 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, 2021, 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 12: Leases

The Institute leases equipment from vendors under operating leases. The following is a schedule of future lease payments as of December 31, 2021:

2022	\$3,912
2023	\$2,330

Note 13: 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.

THE WATERSHED INSTITUTE, INC.
(A New Jersey Not-for-Profit Corporation)
Notes to Financial Statements
December 31, 2021

Note 14: **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:

Cash & Cash Equivalents	\$	2,586,541
Grants and Contributions Receivable		1,221,695
Prepaid Expenses & Other Current Assets		7,867
Beneficial Interest in Assets Held By PACF - Unrestricted		730,999
Beneficial Interest in Assets Held by PACF – Restricted		345,922
Marketable Securities – Investment Funds		2,493,874
Buttinger Endowment		4,389,927
Johnson Endowment		10,364,304
Total Financial Assets		<u>22,141,129</u>
Less: funds unavailable for general expenditure within one year due to:		
Restrictions by donor with purpose restrictions		<u>(16,893,330)</u>
Financial assets available to meet cash needs for general expenditures within one year	\$	<u>5,247,799</u>

Note 15: **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. On April 5, 2021, the Organization received the SBA determination 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 recognized the entire \$400,400 as a government grant in 2020.

THE WATERSHED INSTITUTE, INC.
(A New Jersey Not-for-Profit Corporation)
Notes to Financial Statements
December 31, 2021

Note 16: Evaluation of Subsequent Events

The Institute has evaluated subsequent events through September 30, 2022, 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 organization), which comprise the statement of financial position as of December 31, 2021, 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 September 30, 2022.

Report on 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) as a basis for designing 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

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.

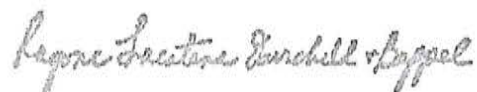
Report on Compliance and Other Matters

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 financial statements. 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 & BEPPE, P.C.
Certified Public Accountants

Haddonfield, New Jersey
September 30, 2022

THE WATERSHED INSTITUTE, INC.
(A New Jersey Not-for-Profit Corporation)
Schedule of Expenditures of Federal and State Awards
For the Year Ended December 31, 2021

Federal Grantor/Program Title:

United States Environmental Protection Agency -
Passed through:

State of New Jersey
Department of Environmental Protection:

Community Based, NJ Volunteer Monitoring
Network

Restoration of the Beden Brook Watershed

TOTAL EXPENDITURES OF FEDERAL AND STATE AWARDS

<u>Grant Number</u>	<u>Grant Amount</u>	<u>Grant Period</u>	<u>Current Year Expenditures</u>
WM18-023	240,000	07/01/18 - 06/30/21	\$ 63,933
WM18-013	400,000	10/30/18 - 12/31/21	87,824
			<u>\$ 151,757</u>

THE WATERSHED INSTITUTE, INC.
(A New Jersey Not-for-Profit Corporation)
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2021

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.

THE WATERSHED INSTITUTE, INC.
Notes to the Schedule of Expenditures
of Federal and State Awards
For the Year Ended December 31, 2021

NOTE 1: **BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal and State Awards includes the direct and indirect federal and state grant activity of **THE WATERSHED INSTITUTE, INC.** The information in this schedule is presented in accordance with the requirements of Title U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of **THE WATERSHED INSTITUTE, INC.** it is not intended to and does not present the financial position, changes in net assets, or cash flows of **THE WATERSHED INSTITUTE, INC.**

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3: **INDIRECT COST RATE**

THE WATERSHED INSTITUTE, INC. has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.