

**GREAT SWAMP WATERSHED ASSOCIATION**

**June 30, 2018**



**GREAT SWAMP WATERSHED ASSOCIATION**

**For the Year Ended June 30, 2018**

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## **Independent Auditors' Report**

To the Board of Trustees of  
Great Swamp Watershed Association  
Morristown, New Jersey

We have audited the accompanying Financial Statements of Great Swamp Watershed Association (a non-profit organization), which comprise the Statement of Financial Position as of June 30, 2018, 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.

### Auditors' 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. These 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 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 Great Swamp Watershed Association as of June 30, 2018, 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.

Supplemental Information

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 14 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.

  
**BKC, CPAs, PC**

December 14, 2018  
Flemington, New Jersey

**GREAT SWAMP WATERSHED ASSOCIATION**  
**Statement of Financial Position**  
**June 30, 2018**

**ASSETS**

Current assets	
Cash and cash equivalents	\$ 165,139
Prepaid expenses and other current assets	<u>11,111</u>
Total current assets	176,250
Property, plant and equipment, net of accumulated depreciation of \$6,340	345,260
Other assets	
Investments	<u>1,238,897</u>
Total assets	<u><u>\$ 1,760,407</u></u>

**LIABILITIES AND NET ASSETS**

Current liabilities	
Accounts payable and accrued expenses	\$ 27,278
Net assets	
Unrestricted	1,564,667
Board designated	60,000
Temporarily restricted	43,382
Permanently restricted	<u>65,080</u>
Total net assets	<u>1,733,129</u>
Total liabilities and net assets	<u><u>\$ 1,760,407</u></u>

See accompanying notes to the financial statements.

**GREAT SWAMP WATERSHED ASSOCIATION**  
**Statement of Activities**  
**For the Year Ended June 30, 2018**

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Public support, revenue and reclassifications				
Contributions	\$ 538,248	\$ 29,913	\$ -	\$ 568,161
Special events	232,589	-	-	232,589
Net assets released from restrictions	37,655	(37,655)	-	-
Total public support, revenue and reclassifications	808,492	(7,742)	-	800,750
Expenses				
Program services	659,487	-	-	659,487
Management and general	53,112	-	-	53,112
Fundraising expenses	99,994	-	-	99,994
Total expenses	812,593	-	-	812,593
Other income				
Interest income	1,610	-	-	1,610
Dividend income	27,645	-	-	27,645
Loss on disposal of capital assets	(9,997)	-	-	(9,997)
Unrealized gain on investments	74,454	-	-	74,454
Total other income	93,712	-	-	93,712
Increase (decrease) in net assets	89,611	(7,742)	-	81,869
Net assets - beginning of year (restated)	1,535,056	51,124	65,080	1,651,260
Net assets - end of year	\$ 1,624,667	\$ 43,382	\$ 65,080	\$ 1,733,129

See accompanying notes to the financial statements.

**GREAT SWAMP WATERSHED ASSOCIATION**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2018**

Cash flows from operating activities	
Increase in net assets	\$ 81,869
Adjustment to reconcile increase in net assets to net cash used in operating activities	
Depreciation	3,500
Donated stock	(1,256)
Investment income	(27,645)
Unrealized gain on investments	(74,454)
Loss on disposal of property, plant and equipment	9,997
Increase in assets	
Prepaid expenses and other current assets	(752)
Decrease in liabilities	
Accounts payable and accrued expenses	(25,451)
Total adjustments	<u>(116,061)</u>
Net cash used in operating activities	<u>(34,192)</u>
 Cash flows used by investing activities	 
Transfers from investments	25,000
Purchases of property, plant and equipment	<u>(155,000)</u>
Net cash used in investing activities	<u>(130,000)</u>
 Net decrease in cash and cash equivalents	 (164,192)
 Cash and cash equivalents - beginning of year (restated)	 <u>329,331</u>
Cash and cash equivalents - end of year	<u><u>\$ 165,139</u></u>

See accompanying notes to the financial statements.

**GREAT SWAMP WATERSHED ASSOCIATION**  
**Notes to the Financial Statements**

Note 1 - Organization and summary of significant accounting policies

Nature of organization

Great Swamp Watershed Association (the Organization), is a New Jersey non-profit organization founded in 1981 with the mission to protect and improve the water resources of the Passaic River region, from the Great Swamp headwaters to Newark Bay. Based in Harding Township, New Jersey, the Organization monitors and protects water quality, and investigates and participates in land use issues in the Great Swamp Watershed and Passaic River region.

Since its incorporation, the Organization has gradually acquired 75 acres of property in Harding Township, which contains critical wetlands, forested areas and includes a network of trails that are open to the public to enjoy.

Through education, advocacy, science, land preservation and stewardship, in collaboration with partners, the Organization works to instill its communities with an awareness of water's effect on health and the beauty of the environment, from source to sea. The Organization evaluates the conservation values of its properties and creates a property stewardship and management plan to enhance those values. Some of the properties the Organization owns have undergone significant restoration to improve conservation values including wetlands and stream restoration efforts.

Volunteers are a growing resource for the Organization's land stewardship and management efforts. Volunteers have assisted with restoration planting and trail building. The Organization monitors its properties and the conservation easements it holds on privately owned land annually.

In August 2017, the Organization was designated as an accredited national land trust by the Land Trust Accreditation Commission of the Land Trust Alliance.

Organization status

The Organization is a non-profit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and similar provisions for New Jersey. Therefore, no provision for income taxes has been made. Information returns prior to 2014 are no longer subject to examination by federal or state authorities.

Basis of accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting.



**GREAT SWAMP WATERSHED ASSOCIATION**  
**Notes to the Financial Statements**

Note 1 - Organization and summary of significant accounting policies (continued)

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

The Organization considers cash equivalents to be all highly liquid debt instruments with an initial maturity of three months or less.

Investments

The Organization classifies its marketable securities at fair value, which are managed internally under a policy adopted by the Board. Securities classified as available for sale are carried in the financial statements at fair value. Realized gains and losses, determined using the specific identification method, are included in earnings as other income. Unrealized gains and losses are also included in earnings as other income.

Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation is computed using the straight-line method over the following estimated useful lives:

	<u>Estimated Useful Life</u>
Computers, office equipment, and other equipment	5 years

Additions and improvements, of \$5,000 or more are capitalized, while general repairs and maintenance are expensed as incurred. The cost and related accumulated depreciation of assets sold or retired are eliminated from the accounts and any gains or losses are included in the change in net assets.

Certain property acquired by the Organization for conservation purposes maybe deed restricted, which substantially reduces use and its fair market value. Property is written down to zero value at the time of acquisition. Conservation easements have no economic value and minimal cost to maintain.

**GREAT SWAMP WATERSHED ASSOCIATION**  
**Notes to the Financial Statements**

Note 1 - Organization and summary of significant accounting policies (continued)

Net asset classifications

Net assets are classified based on the existence or absence of donor-imposed restrictions. Net assets are defined as follows:

Unrestricted net assets are not subject to donor-imposed stipulations or the donor-imposed restrictions have expired.

Temporarily restricted net assets include assets for which donor-imposed restrictions have not been met.

Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently by the Organization.

Revenue recognition

Revenues are reported as increases in unrestricted net assets when received or pledged unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets, unless their use is restricted by explicit donor stipulation or by law.

Contributions

Contributions of cash and other assets, including unconditional promises to give, are considered to be available for unrestricted use, unless specifically restricted by the donor and are recognized as support in the period the unconditional promise is given. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Gifts of cash and other noncapital assets are reported as temporarily restricted support if the gifts are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions. If a restriction is fulfilled in the same period in which the contribution is received, the support is reported as unrestricted.

**GREAT SWAMP WATERSHED ASSOCIATION**  
**Notes to the Financial Statements**

Note 1 - Organization and summary of significant accounting policies (continued)

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the Schedule of Functional Expenses. Accordingly, certain costs have been allocated among the programs and services benefited. Management and general expenses include those expenses that are not directly identifiable with any specific function but provide for the overall support and direction of the Organization. Indirect expenses have been allocated based on total direct expenses.

Note 2 - Concentration of credit risk

The Organization maintains its cash and cash equivalents in bank deposit accounts which are insured by the Federal Deposit Insurance Corporation (FDIC). At June 30, 2018, the Organization had no uninsured cash in its accounts.

The Organization invests in various types of marketable securities and money market funds. The Organization has established guidelines relative to diversification and maturities that target certain safety and liquidity risk levels. These guidelines are periodically reviewed and modified. Investment securities in general, are subject to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that the changes could materially affect the amounts reported in the financial statements.

Note 3 - Donated Services

Directors and officers have made a significant contribution of their time to develop the organization and its programs. No amounts have been recognized in the accompanying Statement of Activities and Changes in Net Assets because the criteria for recognition of such efforts under GAAP have not been satisfied.

Note 4 - Restrictions of fund balance

A portion of the Organization's fund balance is restricted by the donors for the purpose of stewardship of preserved properties and annual monitoring. Additionally, the Board of Directors has designated a portion of the unrestricted fund balance for the same purpose.

The balances at June 30, 2018 are summarized as follows:

Unrestricted	
Undesignated	\$ 1,564,667
Board designated for Endowment fund - land defense and stewardship	60,000
Total unrestricted	<u>1,624,667</u>
Temporarily restricted for Advocacy	16,632
Temporarily restricted for Fund raising and general operations	26,750
Permanently restricted for Endowment fund	65,080
Total	<u>\$ 1,733,129</u>

**GREAT SWAMP WATERSHED ASSOCIATION**  
**Notes to the Financial Statements**

Note 5 - Fair value

Financial Accounting Standards Board (FASB) in its Accounting Standards Codification (ASC) Topic 820, Fair Value Measurement, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 inputs must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following table sets forth by level, within the fair value hierarchy, the Organization's investment assets at fair value as of June 30, 2018:

	Level 1	Level 2	Level 3
Mutual funds	\$ 1,196,346	\$ -	\$ -
Money market funds	42,551	-	-
Total	<u>\$ 1,238,897</u>	<u>\$ -</u>	<u>\$ -</u>

**GREAT SWAMP WATERSHED ASSOCIATION**  
**Notes to the Financial Statements**

Note 6 - Property, plant and equipment  
Property and equipment, as of June 30, 2018, consists of the following:

Land	\$ 334,100
Equipment	17,500
Total	351,600
Less: accumulated depreciation	6,340
Property, plant and equipment, net	\$ 345,260

Depreciation expense for the year ended June 30, 2018 was \$3,500.

The Organization owns 23.35 acres of land that is not deed restricted.

As of June 30, 2018, the Organization also owns and manages preserved properties, acquired for conservation purposes, totaling 52.23 acres in Harding Township. Its fair market value is zero and it has no resale value. Additionally, the organization maintains two easements totaling 2.85 acres with no economical value and minimal cost to maintain, as such there are no recorded values on the financial statements.

Note 7 - Investment policy

In December 2001, the Organization established an investment account to have a secure and lasting source of dedicated funds to support the goals of the Organization. This investment account is referred to internally as an endowment fund.

Funds are maintained in a separate investment account that is professionally managed with a diversified selection of investments. The account consists of a balanced portfolio of stocks and bonds plus money market funds. Assets are diversified to ensure that adverse or unexpected results from one security or security class will not have a significant detrimental impact on the entire portfolio. Per the investment policy set by the Board, asset investment in stock funds (indexed or managed) should remain on average within a range of 50-70% of total endowment assets.

Withdrawals in any calendar year may be made on up to 4% of total funds, with the intention to draw from the endowment annually an amount that is less than the average amount earned each year.

Note 8 - Line of credit

The Organization has a revolving secured line of credit with a bank as of June 26, 2018. The loan has a maturity date of July 1, 2021. Maximum borrowings under the line are \$200,000 with interest due monthly at a rate of prime plus 1.0%. There was no outstanding balance at June 30, 2018.

**GREAT SWAMP WATERSHED ASSOCIATION**  
**Notes to the Financial Statements**

Note 9 - Retirement plan

Effective November 1, 2017, the Organization terminated its 403(b) Retirement Plan for its employees. Under the Plan, the organization did not provide matching contributions to its employees.

Effective October 1, 2017, the Organization sponsors a defined contribution benefit plan covering all employees of the Organization or any affiliate. The Organization will match the employee's contribution up to 6%. Additionally, the Organization provides discretionary profit-sharing contributions. The expense for the year ended June 30, 2018 was \$21,249.

Note 10 - Change in accounting standards

ASU 2014-09: The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. This ASU, as modified by ASU 2015-14, changes the timing of recording revenue for services performed. This ASU will be effective to the Organization in the year ending June 30, 2020. Management has not completed its assessment of the impact of this change.

ASU 2016-02: The FASB issued ASU 2016-02, *Leases*. This ASU recognizes as a liability, non-cancellable leases. The liability is offset by an amortizable asset called a right to use. This ASU will be effective to the Organization in the year ending June 30, 2020. Management has not completed its assessment of the impact of this change.

ASU 2016-14: The FASB adopted ASU 2016-14, *Not for Profit Entities*. This update changes the format of the Organization's financial statement presentation and enhances the required disclosures to the financial statements. This ASU will be effective in the year ending June 30, 2019. This change is expected to impact the financial reporting of the Organization, however for amounts that are immaterial.

Note 11 - Insurance coverage

The Organization maintains a commercial general liability insurance coverage of \$2,000,000; a commercial property insurance coverage of \$2,000,000; a personal and advertising injury insurance coverage limit of \$1,000,000; damage to rented premises insurance coverage of \$100,000; and medical expense insurance coverage of \$5,000 on any one person. The insurance is provided by Great American Insurance Company of New York rated A+ by A.M. Best and Standard & Poors, and the policy expires January 6 of each year.

**GREAT SWAMP WATERSHED ASSOCIATION**  
**Notes to the Financial Statements**

Note 11 - Insurance coverage (continued)

The Organization maintains a comprehensive commercial umbrella insurance coverage of \$4,000,000. The insurance is provided by Great American Alliance Insurance Company, and the policy expires on January 6 of each year.

The Organization maintains workers' compensation and employer's liability insurance coverage of \$500,000. The insurance is provided by Wesco Insurance Company, and the policy expires on January 9 of each year.

The Organization maintains a directors and officers liability policy with coverage of \$2,000,000. The insurance is provided by the Chubb Group of Insurance Companies, and the policy expires on September 30 of each year.

There was no lapse in coverage for the year ending June 30, 2018.

Note 12 - Prior period adjustments

As a result of the current year audit, certain amounts reported in the prior period were restated. These prior period adjustments are summarized as follows:

	As Originally Reported	Change	Restated Amount
Cash and cash equivalents	\$ 432,569	\$ (103,238)	\$ 329,331
Investments	1,057,458	103,083	1,160,541
Prepays and other current assets	10,202	157	10,359
Property and equipment	189,097	17,500	206,597
Accumulated depreciation	-	(2,840)	(2,840)
A/P and accrued expenses	(27,430)	(25,298)	(52,728)
Deferred income	(74,182)	74,182	-
Temporarily restricted net assets	-	(51,124)	(51,124)
Unrestricted net assets	(1,522,634)	(12,422)	(1,535,056)

Note 13 - Subsequent events

In October 2018, the Organization received a pledge of \$150,000 from a private foundation, payable in three equal annual installments commencing in January 2019.

The Organization's management has determined that no other material events or transactions occurred subsequent to June 30, 2018 and through December 14, 2018, the date of the Organization's financial statements issuance, which require additional disclosure in the Organization's financial statements.

**GREAT SWAMP WATERSHED ASSOCIATION**  
**Schedule of Functional Expenses**  
**For the Year Ended June 30, 2018**

	<u>Program Expenses</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salary, wages and benefits	\$ 436,650	\$ 41,662	\$ 53,767	\$ 532,079
Professional fees and services	12,165	1,143	1,475	14,783
Postage and printing	15,171	168	439	15,778
Office supplies	11,800	1,126	1,453	14,379
Occupancy and maintenance	38,019	2,483	2,585	43,087
Programs, meetings and membership	131,783	5,576	24,459	161,818
Insurance	10,399	954	819	12,172
Depreciation	3,500	-	-	3,500
Cost of direct benefits to donors	-	-	14,997	14,997
 Total expenses	 <u>\$ 659,487</u>	 <u>\$ 53,112</u>	 <u>\$ 99,994</u>	 <u>\$ 812,593</u>

See independent auditors' report.