

**WATSONVILLE WETLANDS WATCH**

Financial Report

December 31, 2021

## TABLE OF CONTENTS

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT	1
FINANCIAL STATEMENTS	
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6-15

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## **INDEPENDENT ACCOUNTANTS' REVIEW REPORT**

To the Board of Directors  
Watsonville Wetlands Watch  
Watsonville, California

We have reviewed the accompanying financial statements of Watsonville Wetlands Watch (a nonprofit mutual benefit corporation), 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. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Organization management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

### **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.

### **Accountants' Responsibility**

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United State of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of Watsonville Wetlands Watch and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

### **Accountants' Conclusion**

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

August 31, 2022

# WATSONVILLE WETLANDS WATCH

## STATEMENT OF FINANCIAL POSITION

December 31, 2021

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### ASSETS

#### CURRENT ASSETS

Cash and cash equivalents	\$ 545,970
Accounts receivable	171,482
Promises to give	2,000
Promised use of building, current portion (Note 4)	62,503
Prepaid expenses	6,585
Total current assets	<u>788,540</u>

#### PROPERTY AND EQUIPMENT, at cost

Building improvements	38,277
Furniture and equipment	89,914
	<u>128,191</u>
Less accumulated depreciation	<u>117,070</u>
	<u>11,121</u>

#### OTHER ASSETS

Land held for habitat/conservation	475,000
Beneficial interest in assets held by others (Note 6)	121,462
Promised use of building, long-term portion (Note 4)	1,665,714
	<u>2,262,176</u>
	<u>\$ 3,061,837</u>

### LIABILITIES AND NET ASSETS

#### CURRENT LIABILITIES

Accounts payable	\$ 8,488
Accrued expenses	20,953
Deferred revenue	150,000
Total current liabilities	<u>179,441</u>

#### COMMITMENTS (NOTE 8)

#### NET ASSETS

Without donor restrictions	326,539
With donor restrictions (Note 9)	2,555,857
Total net assets	<u>2,882,396</u>
	<u>\$ 3,061,837</u>

## WATSONVILLE WETLANDS WATCH

### STATEMENT OF ACTIVITIES Year Ended December 31, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>			
Support:			
Donations	\$ 152,066	\$ 106,800	\$ 258,866
Grants and contract agreements	749,215	256,150	1,005,365
Other support	12,038	--	12,038
Total support	<u>913,319</u>	<u>362,950</u>	<u>1,276,269</u>
Revenue:			
Investment income	4,328	6,754	11,082
Net assets released from restrictions	207,938	(207,938)	--
Total revenue	<u>212,266</u>	<u>(201,184)</u>	<u>11,082</u>
Total support and revenue	<u>1,125,585</u>	<u>161,766</u>	<u>1,287,351</u>
<b>EXPENSES</b>			
Program services:			
Education and docent	435,184	--	435,184
Restoration	552,583	--	552,583
Support services:			
Management and general	31,475	--	31,475
Fundraising	78,966	--	78,966
Total program and support services	<u>1,098,208</u>	<u>--</u>	<u>1,098,208</u>
<b>Increase in net assets</b>	27,377	161,766	189,143
<b>Net Assets, beginning</b>	<u>299,162</u>	<u>2,394,091</u>	<u>2,693,253</u>
<b>Net Assets, ending</b>	<u>\$ 326,539</u>	<u>\$ 2,555,857</u>	<u>\$ 2,882,396</u>

## WATSONVILLE WETLANDS WATCH

### STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2021

	Program Services			Support Services			Total
	Education and Docent	Restoration	Total Program Services	Management and General	Fundraising	Total Support Services	
Compensation and related expenses							
Salaries	\$ 192,400	\$ 261,542	\$ 453,942	\$ 79,767	\$ 41,512	\$ 121,279	\$ 575,221
Payroll taxes and benefits	43,775	91,731	135,506	11,491	11,795	23,286	158,792
	<u>236,175</u>	<u>353,273</u>	<u>589,448</u>	<u>91,258</u>	<u>53,307</u>	<u>144,565</u>	<u>734,013</u>
Professional services	27,724	43,036	70,760	25,084	7,403	32,487	103,247
Scholarships/stipends	28,740	2,580	31,320	--	--	--	31,320
Supplies							
Office supplies and equipment	3,388	1,695	5,083	9,318	--	9,318	14,401
Field and plant supplies	776	39,385	40,161	--	--	--	40,161
Docent supplies	493	--	493	613	--	613	1,106
Classroom supplies	32,394	26	32,420	--	--	--	32,420
Facility - in-kind occupancy	25,225	25,226	50,451	6,026	6,026	12,052	62,503
Facility - repairs and other costs	707	13,839	14,546	62	379	441	14,987
Other expenses							
Telephone and internet	1,850	4,069	5,919	332	768	1,100	7,019
Postage	--	32	32	187	1,134	1,321	1,353
Printing	1,137	1,087	2,224	413	3,153	3,566	5,790
Bank, credit card and finance charges	--	253	253	348	1,145	1,493	1,746
Event	--	--	--	--	3,853	3,853	3,853
Staff development	810	108	918	758	--	758	1,676
Other expenses	--	--	--	198	--	198	198
Travel and entertainment	6,452	3,772	10,224	176	--	176	10,400
Insurance	--	--	--	8,105	--	8,105	8,105
Licenses, permits, fees and reimbursements	--	1,437	1,437	837	--	837	2,274
Dues and subscriptions	394	1,000	1,394	5,996	1,798	7,794	9,188
Endowment investment fees	--	--	--	3,016	--	3,016	3,016
Depreciation	4,556	3,648	8,204	1,228	--	1,228	9,432
Overhead cost contribution	64,363	58,117	122,480	(122,480)	--	(122,480)	--
	<u>\$ 435,184</u>	<u>\$ 552,583</u>	<u>\$ 987,767</u>	<u>\$ 31,475</u>	<u>\$ 78,966</u>	<u>\$ 110,441</u>	<u>\$ 1,098,208</u>

See accompanying notes and independent accountants' review report.

## WATSONVILLE WETLANDS WATCH

### STATEMENT OF CASH FLOWS Year Ended December 31, 2021

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#### RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FLOWS FROM OPERATING ACTIVITIES

Increase in net assets	\$ 189,143
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	9,432
Change in beneficial interest in assets held by others	(6,754)
Promised use of building change in value	(58,672)
Facility - in-kind occupancy	62,503
(Increase) decrease in:	
Accounts receivable	(2,481)
Prepaid expenses	1,688
Increase (decrease) in:	
Accounts payable	(8,589)
Accrued expenses	4,277
Deferred revenue	<u>125,000</u>
Net cash provided by operating activities	315,547
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Additions to beneficial interest in assets held by others	<u>(25,000)</u>
Net increase in cash and cash equivalents	290,547
<b>Cash and Cash Equivalents, beginning</b>	<u>255,423</u>
<b>Cash and Cash Equivalents, ending</b>	<u><u>\$ 545,970</u></u>

## WATSONVILLE WETLANDS WATCH

Notes to Financial Statements  
December 31, 2021

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Nature of Business:** The Watsonville Wetlands Watch ("WWW" or the "Organization") incorporated on May 19, 1999. The specific and primary purpose of WWW is to protect, restore, and appreciate the wetlands of the Pajaro Valley, especially involving members of the Watsonville community and the students of the Pajaro Valley Unified School District ("PVUSD").

WWW fulfills its nonprofit purpose as follows: WWW advocates for wetland issues; educates elementary, middle and high school students; restores degraded habitats; preserves what remains whole; and teaches appreciation for the unique beauty and life of the Pajaro Valley wetlands. In cooperation with numerous other agencies, it supports studies of and planning for these sites.

WWW has publicized the importance of the sloughs through public meetings, newspaper articles and the publication of an award-winning book, "Watching the Watsonville Wetlands: An Armchair Guide to the Watsonville Slough System" and by advocating for the sloughs before local governmental agencies.

WWW is working with local schools to educate students about the value of the wetlands through guided walks for students, serving as a resource for teachers, and providing educational materials to be used in the classroom. In addition, some of the Organization's members are not content to just speak and write about the sloughs, but also like to get "down and dirty" with slough cleanups.

WWW runs the Fitz Wetlands Educational Resource Center ("Fitz WERC") on the campus of Pajaro Valley High School. The Fitz WERC is a joint venture of the PVUSD, the City of Watsonville and WWW.

WWW conducts free public tours of their facility, classroom, greenhouse and the wetlands. They organize and run regular volunteer activities to clear invasive species and replace them with natives grown in their greenhouse and outdoors, often from seed. WWW also conducts field trips for elementary school children.

WWW also runs the Wetland Stewards Program, a hands-on, experiential wetland science after-school program with a mentoring component. The Organization also trains volunteer docents to support and conduct all of its activities. Through program grants from the National Oceanic and Atmospheric Administration B-WET program and the Monterey Peninsula Foundation, WWW and Fitz WERC program staff are implementing Slough - based Environmental Education (Project SEE) at Pajaro Valley High School.

**Accounting Policies:** The accounting policy relative to the carrying value of property and equipment is indicated in a caption on the statement of financial position. Other significant accounting policies are:

**Basis of Presentation:** The financial statements are prepared using the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.



## WATSONVILLE WETLANDS WATCH

Notes to Financial Statements  
December 31, 2021

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Net Assets:** The Organization's net assets and changes therein are classified and reported as follows:

- **Net assets without donor restrictions:** Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the Board of Directors.
- **Net assets with donor restrictions:** Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

**Use of Estimates:** Preparing the Organization's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents:** For purposes of the statement of cash flows, the Organization considers as cash equivalents all highly liquid investments, which include certificates of deposit with maturities ranging from three to twelve months.

**Income taxes:** The Organization is a nonprofit corporation that is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue code and from state franchise tax under Revenue and Taxation Code Section 23701(d).

The Financial Accounting Standards Board (FASB) issued guidance that clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements. Using that guidance tax positions initially need to be recognized in the financial statements when it is more likely than not the positions will be sustained upon examination by the tax authorities. As of December 31, 2021, the Organization has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

**Property and Equipment:** The Organization capitalizes all expenditures for property and equipment in excess of \$5,000. All property and equipment is stated at cost, or if donated, at estimated fair value on the date of donation. Major improvements are charged to the property accounts, while maintenance and repairs, which do not extend the life of the respective assets, are expensed. When property is retired or otherwise disposed, the cost of the property and the related accumulated depreciation are removed from the accounts and any resulting gains or losses are reflected in income.

**Depreciation:** Depreciation is provided using the straight-line method over the estimated useful lives of the assets, generally 5 to 10 years.

## WATSONVILLE WETLANDS WATCH

Notes to Financial Statements  
December 31, 2021

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Revenue and revenue recognition:** The Organization recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met. Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, the 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.

A portion of the Organization's revenue is derived from cost-reimbursable contracts and grants, including federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as deferred revenue in the statement of financial position.

**Accounts receivable:** Accounts receivable consist of amounts due from funding sources under contract agreements for program services and are considered by management to be fully collectable.

**Promises to give (pledges) receivable:** The Organization holds fund-raising campaigns for funds which generate promises (pledges) to give. Unconditional promises to give (pledges) that are expected to be collected within one year, are recorded at their net realizable value and shown as current assets. Unconditional promises to give (pledges) that are expected to be collected in future years are recorded at the present value of estimated future cash flows and shown as other assets. The discount on those amounts is computed using a risk adjusted interest rate applicable to the year in which the promise is made.

**Land held for habitat/conservation:** The Organization acquired land with grant funding from the California Wildlife Conservation Board (Habitat Conservation Fund - Proposition 117) subject to use restrictions for the purposes of wildlife habitat preservation, restoration and management, wildlife-oriented education and research and for compatible public or private uses, all as may be consistent with wildlife habitat preservation and protection of sensitive biological resources. The land was originally purchased for \$475,000.

**Accrued vacation:** All regular full-time and part-time employees are entitled to accrue a set amount of annual vacation time for every pay period worked. Employees may accrue up to a certain maximum hours of vacation time. Upon terminating employment an employee will be paid for the unused portion of accrued vacation time.

## WATSONVILLE WETLANDS WATCH

Notes to Financial Statements  
December 31, 2021

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Functional expenses:** The cost of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on direct cost allocation and management estimates based on time and effort. Overhead cost contributions are related to the various negotiated indirect rates per the contracts and agreements with the funding agencies and grantors.

**In-kind contributions:** The Organization is provided the use of the Fitz WERC land and facility, maintenance of the building, utilities, land line telephone service and internet service. The estimated fair value of these in-kind contributions is reported as an expense in the period that the facilities and services are used at an estimated fair rental value of the space used. See Note 4 for details on the agreement.

**Upcoming accounting pronouncements:** In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The new standard is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Organization is assessing the impact this ASU will have on its financial statements.

### NOTE 2. RETIREMENT PLAN

The Organization provides a Savings Incentive Match Plan for Employees of Small Employers (SIMPLE) IRA, qualified under section 408(p) of the Internal Revenue Code. The Organization provided a matching contribution equal to the employee's salary reduction contributions up to a limit of 3% of the employee's compensation for the year. The Organization contributed \$15,671 to eligible employees' accounts for the year ended December 31, 2021.

## WATSONVILLE WETLANDS WATCH

Notes to Financial Statements  
December 31, 2021

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### NOTE 3. AVAILABILITY AND LIQUIDITY

The following reflects the Organization's financial assets as of December 31, 2021, reduced by amounts not available for general use within one year of the statement of financial position date because of contractual or donor-imposed restrictions.

Financial assets at year end:	
Cash and cash equivalents	\$ 545,970
Accounts receivable	171,482
Beneficial interest in assets held by others	<u>121,462</u>
 Total financial assets	 <u>838,914</u>
 Less amounts not available to be used within one year:	
Financial assets restricted by donors for use in future periods	207,840
Portion of donor-restricted endowment to be retained in perpetuity	<u>142,800</u>
 Financial assets not available to be used within one year	 <u>350,640</u>
 Financial assets available to meet general expenditures within one year	 <u>\$ 488,274</u>

The Organization regularly monitors liquidity required to meet its operating needs while also striving to maximize the investment of its available funds. The Organization manages its liquidity and reserves following these guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be met.

### NOTE 4. LEASE AGREEMENT

The Organization entered into an agreement in 2005 between the PVUSD, as landlord, and the City of Watsonville and the Organization, as tenants, for the Fitz WERC. The Organization contributed a portion of the funding to the project. Under the lease agreement the Organization is provided, for a term of 99 years at a cost of \$1 per year, with use of the Fitz WERC building and site, maintenance of the building, utilities, land line telephone service, and internet service. The estimated fair value of the rent of leased facilities exceeds the Organization's contractual cost, and the difference is recorded as a contribution and discounted to present value over the life of the lease using a discount rate of 3.38% which is based on the risk-free U.S. Treasury rate at the time of the contribution.

## WATSONVILLE WETLANDS WATCH

Notes to Financial Statements  
December 31, 2021

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### NOTE 4. LEASE AGREEMENT (Continued)

The promised use of building is presented as follows as of December 31, 2021:

Remaining promised use of building	\$ 5,125,246
Less discount to present value	<u>3,397,029</u>
Promised use of building	1,728,217
Less current portion	<u>62,503</u>
 Promised use of building, long-term	 <u><u>\$ 1,665,714</u></u>

### NOTE 5. FAIR VALUE MEASUREMENTS

The Fair Value Measurements Topic of the FASB Accounting Standards Codification 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 (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are briefly described below:

- Level 1: Unadjusted quoted market prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2: Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly.
- Level 3: Prices or valuations that require inputs that are both significant to the fair value measurement and are unobservable.

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 measurements. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodology used for assets measured at fair value:

- Interest in assets held at Community Foundation Santa Cruz County ("CFSCC"): Funds are invested for long-term growth, both in equities and fixed income investments, which are valued at the net asset value ("NAV") of shares held by CFSCC at year end.

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

## WATSONVILLE WETLANDS WATCH

Notes to Financial Statements  
December 31, 2021

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### NOTE 5. FAIR VALUE MEASUREMENTS (Continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value at December 31, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Beneficial interest in assets held by others	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 121,462</u>	<u>\$ 121,462</u>

The following is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2021:

Beginning balance	\$ 89,708
Contributions	25,000
Investment income	11,082
Grants	(1,305)
Administration fees	<u>(3,023)</u>
Ending balance	<u>\$ 121,462</u>

### NOTE 6. BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

The CFSCC holds funds for the Organization. Funds are composed of the following as of December 31, 2021:

Endowment Fund	\$ 40,106
Laura Hofmeister Scholarship Fund - WWWH	<u>81,356</u>
Total beneficial interest in assets held by others	<u>\$ 121,462</u>

The Organization receives units in the CFSCC's investment pool. When the assets were transferred to the CFSCC, the Organization granted variance power; thus, the CFSCC has full authority and discretion as to the investment and reinvestment of the assets.

Distributions from the endowed agency funds are limited to an annual distribution. On an annual basis, the CFSCC calculates the maximum allowable grant that can be distributed from the endowed funds (4% of the average fund balance on the previous 12 quarters) limited to the extent that accumulated earnings are available. Other distributions may be made to the Organization only by a final determination made by the Board of Directors of the CFSCC.

## WATSONVILLE WETLANDS WATCH

Notes to Financial Statements  
December 31, 2021

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### NOTE 6. BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS (Continued)

**Endowment Fund:** In 2008, the Organization established an Endowment Fund at the CFSCC to provide financial support to the Organization to support its activities, programs and operations. All contributions made to the fund are irrevocable.

**Laura Hofmeister Scholarship Fund - WWWH:** In 2010, the Organization established a Scholarship Fund with the CFSCC to provide financial support to the Organization for scholarships and stipends made possible by support from Laura Hofmeister. All contributions made to the fund are irrevocable.

In the event of the dissolution of the Organization or in the event it shall no longer be an organization described in Section 170 (c) of the Internal Revenue Code of 1954, as amended, the CFSCC shall continue to hold the funds and shall distribute the income to organizations as in the opinion of the CFSCC most nearly serve the purposes and objectives of the Organization. All monies held in the funds are subject to the power of the CFSCC to modify any restrictions or conditions on the distribution of monies for any specified charitable purposes or to specified organizations, if in their sole judgment such restriction becomes, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the area served by the CFSCC.

**Interpretation of Relevant Law:** The Board of Directors of the Organization has interpreted the California Prudent Management of Institutional Funds Act (CPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

In accordance with CPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

## WATSONVILLE WETLANDS WATCH

Notes to Financial Statements  
December 31, 2021

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### NOTE 6. BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS (Continued)

**Investment Return Objectives, Risk Parameters and Strategies:** The Organization has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Endowment assets are invested in a well-diversified asset mix, which includes equity and fixed income securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the funds if possible. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

**Spending Policy:** Each year, the entire earnings of each fund shall be distributed according to written criteria and no earnings are provided to increase principal. The Board of Directors periodically reviews this policy for changes. From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Board of Directors of the Organization has interpreted CPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law.

### NOTE 7. CONCENTRATION OF CREDIT RISK

The Organization maintains balances in cash and interest-bearing deposit accounts at various financial institutions and, from time to time during the year, the cash balances may be in excess of the amount insured by the Federal Deposit Insurance Corporation (FDIC). In the event of insolvency by the financial institution, deposits in excess of insured amounts are potentially subject to unrecoverable loss.

### NOTE 8. COMMITMENTS

**Land Held for Conservation – Tar Plant Hill:** The Organization obtained land partially funded with government grants and from funds contributed by donors. The governing documents require the Organization to perform various duties on an on-going basis. Those duties vary by property; however, the most significant duty is the performance of either an annual inspection, or preparation and performance of duties under a management plan for the site.



## WATSONVILLE WETLANDS WATCH

Notes to Financial Statements  
December 31, 2021

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### NOTE 9. NET ASSETS WITH DONOR RESTRICTIONS

For the year ended December 31, 2021, activity in net assets with donor restrictions was as follows:

	Beginning 12/31/2020	Additions	Satisfied	Ending 12/31/2021
Outreach	\$ 1,000	\$ 9,000	\$ (450)	\$ 9,550
Education	85,867	231,150	(179,880)	137,137
Restoration	6,468	45,000	(21,777)	29,691
Pledges	4,000	--	(2,000)	2,000
Donated use of building	1,732,048	--	(3,831)	1,728,217
Land held for habitat/conservation	475,000	--	--	475,000
Investment income	24,708	6,754	--	31,462
Endowment funds	65,000	77,800	--	142,800
	<u>\$ 2,394,091</u>	<u>\$ 369,704</u>	<u>\$ (207,938)</u>	<u>\$ 2,555,857</u>

Endowment funds held in perpetuity are held at the CFSCC and are recorded at fair market value as of December 31, 2021:

Watsonville Wetlands Watch Endowment Fund	\$ 25,000
Watsonville Wetlands Watch Laura Hofmesiter Scholarship Fund	65,000
Watsonville Wetlands Watch Marion Palm Scholardship Fund	<u>52,800</u>
Total endowment funds held in perpetuity	<u>\$ 142,800</u>

### NOTE 10. SUBSEQUENT EVENTS

Management has evaluated its December 31, 2021 financial statements for subsequent events through August 31, 2022, the date of issuance of the financial statements. The Organization is not aware of any subsequent events that would require recognition or disclosure in the financial statements.