

WATERTOWN COMMUNITY FOUNDATION, INC.

FINANCIAL STATEMENTS

with

INDEPENDENT AUDITORS' REPORT

YEARS ENDED DECEMBER 31, 2021 (AUDITED)
(With Summarized Comparative Unaudited Information for 2020)

Smith  Sullivan
& Brown PC
CERTIFIED PUBLIC ACCOUNTANTS

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WATERTOWN COMMUNITY FOUNDATION, INC.

REPORT ON FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 (AUDITED)
(With Summarized Comparative Unaudited Information for 2020)

**WATERTOWN
COMMUNITY
FOUNDATION**



Mission Statement

*The mission of the Watertown Community Foundation is to
build and sustain a vibrant, close-knit community in
Watertown, Massachusetts — now and
for future generations.*

WATERTOWN COMMUNITY FOUNDATION, INC.

REPORT ON FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 (AUDITED)
(With Summarized Comparative Unaudited Information for 2020)

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Watertown Community Foundation, Inc.
Watertown, Massachusetts

Opinion

We have audited the accompanying financial statements of Watertown Community Foundation, Inc. (a Massachusetts nonprofit Foundation), 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Watertown Community Foundation, 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 ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Watertown Community Foundation, 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 Watertown Community Foundation, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' 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.

To the Board of Directors
Watertown Community Foundation, Inc.

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 Watertown Community Foundation, 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 Watertown Community Foundation, 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.

Report on Summarized Comparative Information

We have previously reviewed Watertown Community Foundation, Inc.'s 2020 financial statements, and in our conclusion dated September 30, 2021, stated that based on our review, we were not aware of any material modifications that should be made to the 2020 financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America. A review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements as a whole. We are not aware of any material modifications that should be made to the summarized comparative information presented herein as of and for the year ended December 31, 2020, for it to be consistent with the reviewed financial statements from which it has been derived.

Smith, Sullivan & Brown, PC

Westborough, Massachusetts
November 7, 2022

WATERTOWN COMMUNITY FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2021 (AUDITED) AND 2020 (UNAUDITED)

ASSETS

	<u>2021</u> <i>(Audited)</i>	<u>2020</u> <i>(Unaudited)</i>
<u>CURRENT ASSETS:</u>		
Cash	\$ 226,398	\$ 172,701
Pledges Receivable	7,500	7,500
Prepaid Expenses	4,487	-
Certificates of Deposit	-	20,946
Total Current Assets	<u>238,385</u>	<u>201,147</u>
<u>NON-CURRENT ASSETS:</u>		
Certificates of Deposit	5,333	-
Pledges Receivable	-	7,500
Long-Term Investments	<u>2,509,491</u>	<u>2,342,083</u>
Total Non-Current Assets	<u>2,514,824</u>	<u>2,349,583</u>
<u>TOTAL ASSETS</u>	<u>\$ 2,753,209</u>	<u>\$ 2,550,730</u>

LIABILITIES AND NET ASSETS

<u>CURRENT LIABILITIES:</u>		
Accounts Payable and Accrued Expenses	\$ 34,437	\$ -
Accrued Payroll and Related Costs	8,124	-
Conditional Grant Advance	<u>21,090</u>	<u>-</u>
Total Current Liabilities	<u>63,651</u>	<u>-</u>
<u>NET ASSETS:</u>		
Nets Assets Without Donor Restrictions	581,630	485,683
Nets Assets With Donor Restrictions	<u>2,107,928</u>	<u>2,065,047</u>
Total Net Assets	<u>2,689,558</u>	<u>2,550,730</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 2,753,209</u>	<u>\$ 2,550,730</u>

WATERTOWN COMMUNITY FOUNDATION, INC.

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2021 (AUDITED) AND 2020 (UNAUDITED)

	<u>2021</u> <i>(Audited)</i>			<u>2020</u> <i>(Unaudited)</i>		
	<u>WITHOUT</u> <u>DONOR</u> <u>RESTRICTIONS</u>	<u>WITH</u> <u>DONOR</u> <u>RESTRICTIONS</u>	<u>TOTAL</u> <u>ACTIVITIES</u>	<u>WITHOUT</u> <u>DONOR</u> <u>RESTRICTIONS</u>	<u>WITH</u> <u>DONOR</u> <u>RESTRICTIONS</u>	<u>TOTAL</u> <u>ACTIVITIES</u>
<u>SUPPORT, REVENUES AND RECLASSIFICATIONS:</u>						
<i>Support and Revenues:</i>						
Grants and Contributions	\$ 115,401	\$ 15,770	\$ 131,171	\$ 110,843	\$ 220,288	\$ 331,131
Government Grant	401,410	-	401,410	-	-	-
Special Fund Raising Events	1,785	-	1,785	4,750	-	4,750
Less: Cost of Direct Benefits to Donors	-	-	-	(545)	-	(545)
Investment Return	69,831	289,592	359,423	70,870	221,429	292,299
Miscellaneous Income	-	-	-	10,000	-	10,000
<i>Reclassification of Net Assets - Released from Restrictions:</i>						
Satisfaction of Donor Restrictions	<u>262,481</u>	<u>(262,481)</u>	<u>-</u>	<u>255,766</u>	<u>(255,766)</u>	<u>-</u>
<u>TOTAL SUPPORT, REVENUES AND RECLASSIFICATIONS</u>	<u>850,908</u>	<u>42,881</u>	<u>893,789</u>	<u>451,684</u>	<u>185,951</u>	<u>637,635</u>
<u>EXPENSES:</u>						
Program Services	665,701	-	665,701	253,272	-	253,272
Administrative	66,002	-	66,002	38,085	-	38,085
Fund Raising	<u>23,258</u>	<u>-</u>	<u>23,258</u>	<u>20,541</u>	<u>-</u>	<u>20,541</u>
<u>TOTAL EXPENSES</u>	<u>754,961</u>	<u>-</u>	<u>754,961</u>	<u>311,898</u>	<u>-</u>	<u>311,898</u>
<u>CHANGE IN NET ASSETS</u>	95,947	42,881	138,828	139,786	185,951	325,737
<u>NET ASSETS - BEGINNING OF YEAR</u>	<u>485,683</u>	<u>2,065,047</u>	<u>2,550,730</u>	<u>345,897</u>	<u>1,879,096</u>	<u>2,224,993</u>
<u>NET ASSETS - END OF YEAR</u>	<u>\$ 581,630</u>	<u>\$ 2,107,928</u>	<u>\$ 2,689,558</u>	<u>\$ 485,683</u>	<u>\$ 2,065,047</u>	<u>\$ 2,550,730</u>

WATERTOWN COMMUNITY FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021 (AUDITED)
(With Summarized Comparative Unaudited Totals for 2020)

	<u>PROGRAM</u> <u>SERVICES</u>	<u>ADMINI-</u> <u>STRATIVE</u>	<u>FUND</u> <u>RAISING</u>	<u>TOTAL</u> <u>FUNCTIONAL EXPENSES</u>	
				<u>2021</u> <i>(Audited)</i>	<u>2020</u> <i>(Unaudited)</i>
Grants	\$ 642,481	\$ -	\$ -	\$ 642,481	\$ 234,899
Salaries and Wages	20,940	20,939	20,939	62,818	50,012
Payroll Taxes and Employee Benefits	1,725	1,725	1,725	5,175	4,223
Consultants and Professional Fees	-	27,941	-	27,941	11,466
Office Supplies and Expense	-	5,672	-	5,672	4,089
Fundraising	-	-	594	594	3,009
Telephone, Internet and Equipment Rental	-	5,637	-	5,637	2,727
Printing and Postage	-	2,308	-	2,308	1,362
Dues, Bank Fees and Miscellaneous	-	895	-	895	285
Meetings, Conferences and Events	250	-	-	250	159
Travel	305	-	-	305	135
Advertising	-	885	-	885	77
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Functional Expenses	665,701	66,002	23,258	754,961	312,443
Cost of Direct Benefits to Donors	-	-	-	-	(545)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenses Per Statement of Activities	<u>\$ 665,701</u>	<u>\$ 66,002</u>	<u>\$ 23,258</u>	<u>\$ 754,961</u>	<u>\$ 311,898</u>

WATERTOWN COMMUNITY FOUNDATION, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 (AUDITED) AND 2020 (UNAUDITED)

	<u>2021</u> <i>(Audited)</i>	<u>2020</u> <i>(Unaudited)</i>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Change in Net Assets	\$ 138,828	\$ 325,737
<i>Adjustments to Reconcile the Above to Net Cash Provided (Used) by Operating Activities:</i>		
Investment Return	(359,423)	(292,299)
<i>(Increase) Decrease in Current Assets:</i>		
Pledges Receivable	-	(7,500)
Prepaid Expenses	(4,487)	500
<i>Increase (Decrease) in Current Liabilities:</i>		
Accounts Payable and Accrued Expenses	34,437	-
Accrued Payroll and Related Costs	8,124	-
Conditional Grant Advance	21,090	-
<i>(Increase) Decrease in Non-Current Assets:</i>		
Pledges Receivable	7,500	-
Net Adjustment	<u>(292,759)</u>	<u>(306,799)</u>
<u>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</u>	<u>(153,931)</u>	<u>18,938</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Proceeds from End of Term Certificate of Deposits	15,613	-
Proceeds from Sales of Investments	<u>192,015</u>	<u>79,409</u>
Net Cash Flows from Investing Activities	<u>207,628</u>	<u>79,409</u>
<u>NET INCREASE IN CASH BALANCES</u>	53,697	98,347
<u>CASH BALANCES - BEGINNING OF YEAR</u>	<u>172,701</u>	<u>74,354</u>
<u>CASH BALANCES - END OF YEAR</u>	<u>\$ 226,398</u>	<u>\$ 172,701</u>

WATERTOWN COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021

(With Summarized Comparative Unaudited Information for 2020)

NOTE 1 ORGANIZATION

The Watertown Community Foundation, Inc. (“WCF” or the “Foundation”) was incorporated under the provisions of Massachusetts General Laws Chapter 180 and qualifies as a tax-exempt, not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code (“IRC”). The Watertown Community Foundation has been classified as an organization which is not a private foundation under IRC Section 509(a); accordingly, contributions made to the Foundation qualify for the maximum charitable deduction for federal income tax purposes.

NOTE 2 PROGRAM SERVICES

The Watertown Community Foundation seeks to promote a strong, close-knit community by fostering connections, respect, and mutual support among Watertown’s diverse residents. It provides philanthropic leadership and expands opportunities for charitable giving and not-for-profit activities that meet local needs, now and for future generations.

Since March 2020, the Watertown Community Foundation has confronted COVID-19’s impact, playing a key role in coordinating the community’s response by quickly establishing the Community Resilience Fund (“CRF”). The fund was initially created by a WCF allocation and contributions made by board members, followed by contributions from the local community and funds continue to come in. Additionally, we have received COVID-19 related grants from private foundations and state and federal funds.

The pandemic has fundamentally changed the way we work as a foundation with the community at large. We continue to rapidly deploy essential support to front-line community partners and convene both nonprofit and public entities. It is anticipated that our impact efforts will continue through 2022 with the allocation of additional COVID-19 funding from state and federal grants.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting:

The financial statements of the Foundation have been prepared on the accrual basis of accounting and accordingly, reflect all significant receivables, payables, and other liabilities.

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 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; however, adherence to generally accepted accounting principles has, in management’s opinion, resulted in reliable and consistent financial reporting by the Foundation.

WATERTOWN COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021

(With Summarized Comparative Unaudited Information for 2020)

(Continued)

NOTE 3 *(Continued)*

Fair Value of Financial Instruments:

The Foundation reports its fair value measures using a three-level hierarchy that prioritizes the inputs used to measure fair value. The hierarchy, established by generally accepted accounting principles, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs used to measure fair value are as follows:

- Level 1 - Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments which are generally included in this category include listed equity and debt securities publicly traded on an exchange.

- Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets in markets that are not active; observable inputs other than quoted prices for the asset or liability (for example, interest rate and yield curves); and inputs derived principally from, or corroborated by, observable market data by correlation or by other means.

- Level 3 - Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

When available, the Foundation measures fair value using level 1 inputs because they generally provide the most reliable evidence of fair value. The primary use of fair value measures in the Foundation's financial statements are the recurring measurement of the Foundation's investments.

Financial Statement Presentation:

The Foundation 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. These classifications are related to the existence or absence of donor-imposed restrictions as follows:

Net Assets Without Donor Restrictions - Net assets without donor restrictions are resources available to support operations and not subject to donor restrictions. Net assets without donor restrictions includes resources designated by the Board of Directors for the purpose of supporting the Foundation's mission.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

The financial statements include certain 2020 comparative unaudited information. With respect to the Statement of Functional Expenses, 2020 expenses by line item are in total rather than by functional category or specific program service. The summarized comparative unaudited information does not include sufficient detail to constitute a presentation in conformity with GAAP.

WATERTOWN COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021

(With Summarized Comparative Unaudited Information for 2020)

(Continued)

NOTE 3 *(Continued)*

Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2020, from which the summarized information was derived.

Endowment Funds:

Some of the Foundation's funds are established as endowment funds with the earnings and appreciation either available for general giving or restricted for specific purposes by the endowment agreement. As required by the Commonwealth of Massachusetts, the Foundation follows the guidance of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). UPMIFA establishes law for the management of investment of endowment funds with donor restrictions. The Board of Directors' interpretation of state law is that the Foundation, absent explicit donor stipulations to the contrary, may appropriate as much of the net appreciation as is prudent considering the Foundation's long and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination of whether to invest or appropriate endowment funds with donor restrictions:

- The duration and preservation of the fund
- The purposes of the Foundation and the endowment funds with donor restrictions
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

The Foundation reports the original corpus of the initial and subsequent gift amounts donated to the endowment as restricted in perpetuity. Income and appreciation earned on endowment investments are classified as net assets with donor restrictions until appropriated for expenditure by the Board of Directors based on the above criteria.

The Foundation's endowment funds consists of funds with donor restrictions. The Foundation has adopted investment and spending policies for endowment assets, and funds functioning as endowment, that attempt to provide a predictable stream of funding for programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment is to maintain its purchasing power by generating a total return, net of fees, that exceeds the spending rate over the long-term. The spending rate on the endowment funds and funds held under "spending policy agreements" is 5% of the market value of the fund.

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation to achieve its long-term return objectives within prudent constraints.

WATERTOWN COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021

(With Summarized Comparative Unaudited Information for 2020)

(Continued)

NOTE 3 *(Continued)*

Certificates of Deposit:

As of December 31, 2021 and 2020, the Foundation held certificates of deposit totaling \$5,333 and \$20,946, respectively. As of December 31, 2020, all *Certificates of Deposit* have maturity dates in 2021 and have interest rates ranging from 0.65% - 0.80%. For the year ended December 31, 2021, the Foundation renewed one of its certificates of deposit with a maturity date of March 2023 and an interest rate of 0.28%. *Certificates of Deposit* are carried at cost plus accrued interest and are presented as current or non-current in accordance with the underlying intentions.

Receivables:

Pledges Receivable represent unconditional promises to give as of December 31, 2021 and 2020, respectively. Amounts that are expected to be collected within one year are reported at their net realizable value and amounts expected to be collected in future years are initially recorded at fair value using present value techniques when such amounts are deemed material. Management determines the allowance for uncollectible pledges receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Pledges receivable are written off against the allowance when deemed uncollectible. As of December 31, 2021 and 2020, Management has deemed all receivables fully collectible and, therefore, they have not been reduced by an allowance for uncollectible receivables.

Long-Term Investments:

The Foundation maintains an investment portfolio which includes cash and publicly traded mutual funds and exchange-traded funds. Investments are reported at their fair value, including unrealized gains and losses. Money market funds held in brokerage accounts is reported as cash for purposes of these financial statements. Investments are classified as either short-term or long-term, depending upon the underlying intention.

Revenue Recognition:

The Foundation recognizes revenue from numerous sources as follows:

Gifts, Grants and Contributions: The Foundation is the beneficiary of contributions in the form of grants from other organizations, donations of cash and financial assets from individuals and contributions of nonfinancial assets. Contributions, including promises to give, without donor conditions are recognized as revenue at their estimated fair value at the date of donation and classified as either with or without donor restrictions depending on the donor's stipulations or lack thereof. Unconditional, multi-year commitments are recognized in the year during which the initial commitment is made at the amount that the Foundation reasonably expects to collect. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved.

Conditional donations are those that have a measurable performance or other barrier and include a right of return of the assets or right of release of the donor from further obligation if the conditions are not met. Conditional donations are not recognized until the associated barriers are met. Cash received before the conditions or barriers are met is reported as a *Conditional Grant Advance* in the accompanying Statements of Financial Position.

WATERTOWN COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021

(With Summarized Comparative Unaudited Information for 2020)

(Continued)

NOTE 3 *(Continued)*

Support that is restricted by the donor is reported as an increase in net assets with donor restrictions until the restrictions are met, at which time the net assets are reclassified to net assets without donor restrictions. The Foundation has elected to report conditional contributions restricted by the donors as increases in net assets without donor restrictions if the restrictions and conditions expire in the same reporting period.

A portion of the Foundation's revenue is derived from cost-reimbursable state contracts and grants, which are accounted for as contribution revenue and are conditional upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Such amounts are reported as *Government Grants* in the accompanying Statements of Activities. Amounts received are recognized as revenue when the Foundation has incurred expenditures in compliance with specific contract or grant provisions.

Donations of Nonfinancial Assets: Contributed nonfinancial assets may include donated professional services, donated rent, and other in-kind contributions which are recorded at the respective fair values of the goods or services received. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation. For the years ended December 31, 2021 and 2020, the Foundation did not have donations of nonfinancial assets.

Investment Return: Interest and dividends on investments are recognized when earned. Realized and unrealized gains and losses are recognized as incurred or based on market value changes during the period. External and direct internal investment expenses are netted against the investment return.

Functional Expenses:

Watertown Community Foundation, Inc. allocates its expenses on a functional basis among its various programs and support services. Expenses that are common to several functions are allocated based upon space and time usage. For the year presented, the following expenses are based on employee time and effort: *Salaries and Wages*, and *Payroll Taxes and Employee Benefits*. Supporting services are those related to operating and managing WCF and its programs on a day-to-day basis.

Supporting services have been sub-classified as follows:

Administrative - includes all activities related to Watertown Community Foundation, Inc.'s internal management and accounting for program services.

Fund Raising - includes all activities related to maintaining contributor information, writing grant proposals, distribution of materials, indirect costs of fund raising events and other similar projects related to the procurement of donated funds.

Grants Expense:

The Foundation recognizes a grant expense at the time the Board of Directors approves the award and all significant conditions are met. Grants made by the Foundation are generally approved based on community need and an application process. Designated grants are grants made from funds established to support specific organizations.

WATERTOWN COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021

(With Summarized Comparative Unaudited Information for 2020)

(Continued)

NOTE 4 INVESTMENTS

As of December 31, 2021 and 2020, investment costs and unrealized gains and losses consisted of the following components:

<u>Investment Type</u>	<u>December 31, 2021 (Audited)</u>		
	Cost	Unrealized Gains	Fair Value (Level 1)
Vanguard 500 Index Fund	\$ 265,195	\$ 647,728	\$ 912,923
Vanguard Mutual Funds	249,653	983	250,636
Vanguard ETF Mid Cap	131,341	219,939	351,280
Vanguard ETF Small Cap	134,508	193,484	327,992
Vanguard ETF Total Bond	182,924	3,307	186,231
Vanguard ETF International Stock	192,260	55,626	247,886
Vanguard ETF Inter-Term Bond Fund	<u>221,019</u>	<u>11,524</u>	<u>232,543</u>
Total	<u>\$1,376,900</u>	<u>\$1,132,591</u>	<u>\$2,509,491</u>
<u>December 31, 2020 (Unaudited)</u>			
<u>Investment Type</u>	Cost	Unrealized Gains	Fair Value (Level 1)
Vanguard 500 Index Fund	\$ 310,074	\$556,084	\$ 866,158
Vanguard Mutual Funds	244,506	6,973	251,479
Vanguard ETF Mid Cap	127,423	154,291	281,714
Vanguard ETF Small Cap	130,483	148,522	279,005
Vanguard ETF Total Bond	179,016	10,749	189,765
Vanguard ETF International Stock	184,742	42,796	227,538
Vanguard ETF Inter-Term Bond Fund	<u>221,019</u>	<u>25,405</u>	<u>246,424</u>
Total	<u>\$1,397,263</u>	<u>\$944,820</u>	<u>\$2,342,083</u>

The Foundation uses the following ways to determine the fair value of its investments:

Mutual Funds and Exchange-Traded Funds (“ETFs”): Determined by the published closing price on the last business day of the fiscal year.

Investment activity for the years ended December 31, 2021 and 2020 consists of the following:

<u>Components of Investment Return</u>	<u>2021</u> (Audited)	<u>2020</u> (Unaudited)
Interest and Dividends	\$ 45,168	\$ 42,757
Investment Fees	(1,153)	(1,020)
Net Realized/Unrealized Gain on Investments	<u>315,408</u>	<u>250,562</u>
Net Investment Return	<u>\$359,423</u>	<u>\$292,299</u>

WATERTOWN COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021

(With Summarized Comparative Unaudited Information for 2020)

(Continued)

NOTE 5 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following as of December 31, 2021 and 2020:

<u>Nature of Restriction</u>	<u>2021</u> <i>(Audited)</i>	<u>2020</u> <i>(Unaudited)</i>
Subject to the Passage of Time:		
Watertown Arsenal Education		
Principal Fund Term Endowment	<u>\$1,454,031</u>	<u>\$1,286,556</u>
Subject to Expenditure for Specified Purposes:		
Watertown Arsenal Education Income Fund	511,235	600,288
Watertown Education Fund	87,750	92,681
Community Resilience Fund	31,000	35,753
Sports and Athletics	12,000	30,000
Subject to Time	9,143	12,000
Watertown Fund for the Most Vulnerable	-	5,000
Food for Thought	<u>2,769</u>	<u>2,769</u>
Total Funds Subject to Expenditure for Specified Purposes	<u>653,897</u>	<u>778,491</u>
Total Net Assets with Donor Restrictions	<u>\$2,107,928</u>	<u>\$2,065,047</u>

Net assets released from donor restrictions by incurring expenses which satisfied the restricted purposes, by the passage of time or by the occurrence of events specified by the donors were as follows for the years ended December 31, 2021 and 2020:

<u>Nature of Restriction</u>	<u>2021</u> <i>(Audited)</i>	<u>2020</u> <i>(Unaudited)</i>
Educational Grants and Awards	\$211,191	\$ 75,000
Community Resilience Fund	26,790	151,535
Internships	7,000	-
Sports and Athletics	6,500	-
Health and Healthy Living	6,000	17,231
Watertown Fund for the Most Vulnerable	5,000	6,000
Time	-	<u>6,000</u>
Total	<u>\$262,481</u>	<u>\$255,766</u>

The Watertown Education Fund originated with funds received in the merger with the Watertown Education Foundation. The fund is restricted for the teachers and students of the Watertown Public School's educational efforts.

WATERTOWN COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021

(With Summarized Comparative Unaudited Information for 2020)

(Continued)

NOTE 5 *(Continued)*

Term Endowment:

The Watertown Arsenal Education Principal Fund (the “Principal Fund”) is to be used for educational purposes for residents of the Town of Watertown, as may be determined by the Board of Directors, which may include, but shall not be limited to, the granting of scholarships or other forms of financial assistance for educational purposes to or for the benefit of residents of the Town of Watertown. Under the terms of the gift that established the Fund, the principal of the Fund may not be distributed for a period of 25 years from April 1, 2002. During this period, Fund earnings of up to 5% per annum are to be maintained in the Fund and added to the Fund principal.

The Watertown Arsenal Education Income Fund (the “Income Fund”) represents annual fund earnings in excess of 5%, which become available for distribution as determined by the Board of Directors in accordance with the terms of the gift.

The following schedule summarizes the change in endowment net assets for the years ended December 31, 2021 and 2020:

	<u>With Donor Restrictions</u>		
	<u>Principal</u>	<u>Income</u>	<u>Total</u>
	<u>Fund</u>	<u>Fund</u>	<u>Endowment</u>
			<u>Funds</u>
Term Endowment Net Assets,			
December 31, 2019 (Unaudited)	\$1,225,291	\$ 515,479	\$1,740,770
Investment Income	61,265	159,809	221,074
Appropriated for Expenditures	<u>-</u>	<u>(75,000)</u>	<u>(75,000)</u>
Term Endowment Net Assets,			
December 31, 2020 (Unaudited)	1,286,556	600,288	1,886,844
Investment Income	167,475	122,117	289,592
Appropriated for Expenditures	<u>-</u>	<u>(211,170)</u>	<u>(211,170)</u>
Term Endowment Net Assets,			
December 31, 2021 (Audited)	<u>\$1,454,031</u>	<u>\$ 511,235</u>	<u>\$1,965,266</u>

NOTE 6 CONCENTRATIONS

Cash and Investments:

The Foundation is subject to concentrations in credit risk relating primarily to cash and investments. The Foundation maintains bank accounts at two financial institutions as of December 31, 2021 and five financial institutions as of December 31, 2020. Cash balances are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000 per institution. As of December 31, 2021 and 2020, cash balances did not exceed FDIC coverage limits. Additionally, the Foundation’s investment portfolio is custodied with two financial institutions. The Foundation invests in professionally managed money market, mutual funds and exchange-traded funds that contain various types of marketable securities. The Foundation’s investments are exposed to various risks, such as fluctuations in market value and credit risk. Thus, it is at least reasonably possible that changes in the near term could materially affect investment balances.

WATERTOWN COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021

(With Summarized Comparative Unaudited Information for 2020)

(Continued)

NOTE 6 *(Continued)*

Pledges Receivable and Contributions:

As of December 31, 2021 and 2020, 100% of *Pledges Receivable* were due from one donor.

For the year ended December 31, 2021, revenue recognized the Commonwealth of Massachusetts under two separate grant awards represent 75% of total support and revenues.

NOTE 7 CONDITIONAL COMMITMENTS

In November 2020, the Foundation received a \$200,000 conditional grant award for grantmaking in 2021 from the Commonwealth of Massachusetts under the Community Foundation Grant Program for COVID-19 Relief. The conditional grant was amended during 2021 to \$400,000. Per the terms and conditions of the grant program, the Foundation must disburse the first 50% of the total award within three months of receipt, and the subsequent advances of 40% and 10% of the total award are contingent upon approval of the prior reimbursement invoice, and all funds are required to be disbursed by July 1, 2022. As of December 31, 2021, the Foundation met the conditions and recognized \$400,000 in unrestricted government funding in the Statements of Activities for the year then ended.

In July of 2021, the Foundation received a \$450,000 conditional grant award for grantmaking through September 2023 from the Commonwealth of Massachusetts under the Community Development Block Grants Program to address food security issues. Per the terms and conditions of the grant program, the Foundation received an upfront 5% advance conditional grant award amount as working capital of \$22,500. As of December 31, 2021, the Foundation met certain conditions on the advanced conditional portion and recognized \$1,410 in unrestricted government funding in the Statements of Activities for the year then ended. The remaining balance of \$448,590 is conditional upon the expenditure, or granting of the funds; therefore, this amount has not been recognized in the accompanying Statements of Activities.

On December 29, 2021, the Foundation received a \$129,421 conditional grant award for grantmaking in 2022 from the Commonwealth of Massachusetts under the Community Foundation Grant Program for COVID-19 Relief. Per the terms and conditions of the grant program, the Foundation must disburse the first 50% of the total award within three months of receipt, and the subsequent advances of 40% and 10% of the total award are contingent upon approval of the prior reimbursement invoice, and all funds are required to be disbursed by June 30, 2022. As of December 31, 2021, the Foundation has not yet met the conditions.

Total conditional funding as of December 31, 2021 amounted to \$578,011 and will be recognized as revenue when the qualifying expenditures have been made.

NOTE 8 LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following table reflects the Foundation's financial assets as of December 31, 2021 and 2020, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year or because the governing board has set aside the funds for a specific contingency reserve or a long-term investments.

WATERTOWN COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021

(With Summarized Comparative Unaudited Information for 2020)

(Continued)

NOTE 8 *(Continued)*

The Foundation has a goal to maintain financial assets, which consist of cash, money market funds, and short and long-term investments, on hand to meet at least six months of expenses, which are approximately \$40,000. The Foundation has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

For purposes of analyzing resources available to meet general expenditures over a twelve-month period, the Foundation considers all expenditures related to its ongoing activities of grantmaking as well as the conduct of services undertaken to support those activities to be general expenditures.

	<u>2021</u> <i>(Audited)</i>	<u>2020</u> <i>(Unaudited)</i>
Financial Assets:		
Cash	\$ 226,398	\$ 172,701
Pledges Receivable	7,500	15,000
Certificates of Deposit	5,333	20,946
Investments	<u>2,509,491</u>	<u>2,342,083</u>
Total Financial Assets as of December 31, 2021	2,748,722	2,550,730
Less Amounts Not Available to be Used Within One Year:		
Cash and Investments Held for Funds	(2,142,365)	(2,050,097)
Certificate of Deposit	(5,333)	-
Long-Term Pledges	<u>-</u>	<u>(7,500)</u>
Financial Assets Available to Meet		
General Expenditures Within One Year	<u>\$ 601,024</u>	<u>\$ 493,133</u>

NOTE 9 SUBSEQUENT EVENTS

Management is required to consider events subsequent to the financial statement date for potential adjustment to or disclosure in the financial statements. Therefore, Management has evaluated subsequent events through November 7, 2022, the date which the financial statements were available for issue, and noted no events which met the disclosure or recognition criteria.