

# **Clean Water Fund**

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**Financial Report  
December 31, 2016**

# Clean Water Fund

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## Independent Auditor's Report

To the Board of Directors  
Clean Water Fund

We have audited the accompanying financial statements of Clean Water Fund (the "Organization"), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material 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 Clean Water Fund as of December 31, 2016, and the results of its changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Plante & Moran, PLLC*

May 1, 2017

# Clean Water Fund

## Statement of Financial Position December 31, 2016

<b>Assets</b>	
Cash and cash equivalents	\$ 1,576,603
Accounts receivable:	
Foundation awards receivable (Note 7)	605,532
Institutional and corporate grants receivable	45,017
Governmental grants receivable	66,899
Donated rent receivable	7,435
Due from affiliate (Note 2)	85,845
Investments	382,020
Prepaid expenses and other	31,863
Furniture and equipment - Net of accumulated depreciation of \$106,513	5,248
Intangible assets - Net of accumulated amortization of \$29,974 (Note 5)	8,353
	<hr/>
Total assets	<b>\$ 2,814,815</b>
<b>Liabilities and Net Assets</b>	
<b>Liabilities</b>	
Pass-through liabilities	\$ 344,910
Accounts payable	64,877
Deferred revenue	54,547
Accrued rent	11,453
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Total liabilities	475,787
<b>Net Assets</b>	
Unrestricted	411,216
Temporarily restricted	1,927,812
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Total net assets	2,339,028
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Total liabilities and net assets	<b>\$ 2,814,815</b>

# Clean Water Fund

## Statement of Activities and Changes in Net Assets Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Total
<b>Revenue and Support</b>			
Individual contributions	\$ 1,167,523	\$ 214,605	\$ 1,382,128
Institutional and corporate grants	437,291	-	437,291
Foundation awards	218,324	2,667,404	2,885,728
Governmental grants	166,069	-	166,069
In-kind donations	1,797	-	1,797
Investment income (Note 4)	16,241	-	16,241
Interest income	11,836	-	11,836
Total revenue and support	2,019,081	2,882,009	4,901,090
<b>Net Assets Released from Restrictions</b>	2,898,081	(2,898,081)	-
Total revenue, support, and net assets released from restrictions	4,917,162	(16,072)	4,901,090
<b>Expenses</b>			
Programs	4,241,426	-	4,241,426
General and administrative	568,962	-	568,962
Fundraising	209,007	-	209,007
Total expenses	5,019,395	-	5,019,395
<b>Decrease in Net Assets</b>	(102,233)	(16,072)	(118,305)
<b>Net Assets - Beginning of year</b>	513,449	1,943,884	2,457,333
<b>Net Assets - End of year</b>	<u>\$ 411,216</u>	<u>\$ 1,927,812</u>	<u>\$ 2,339,028</u>

# Clean Water Fund

## Statement of Cash Flows Year Ended December 31, 2016

### Cash Flows from Operating Activities

Decrease in net assets	\$ (118,305)
Adjustments to reconcile decrease in net assets to net cash from operating activities:	
Depreciation	13,608
Amortization	12,774
Unrealized and realized loss on investments	42,617
Donated rent receivable	14,412
Changes in operating assets and liabilities which provided (used) cash:	
Foundation awards receivable	181,719
Institutional and corporate grants receivable	(17,162)
Governmental grants receivable	(28,299)
Individual contributions receivable	25,000
Prepaid expenses and other	2,083
Accounts payable and pass-through liability	73,492
Deferred revenue	9,747
Accrued rent	857
Net cash provided by operating activities	<u>212,543</u>

### Cash Flows from Investing Activities

Purchase of property and equipment	(3,575)
Re-investment of investing earnings	(58,721)
Net advances to affiliate	34,939
Net cash used in investing activities	<u>(27,357)</u>

**Net Increase in Cash and Cash Equivalents** 185,186

**Cash and Cash Equivalents - Beginning of year** 1,391,417

**Cash and Cash Equivalents - End of year** \$ 1,576,603

# Clean Water Fund

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## Notes to Financial Statements December 31, 2016

### Note I - Nature of Business and Significant Accounting Policies

**Nature of Organization** - Clean Water Fund (the "Organization") is a not-for-profit organization incorporated in the District of Columbia. Its major programs include strategies to ensure (1) safe, affordable drinking water; (2) control of community and workplace toxic hazards; (3) protection and conservation of wetlands, surface waters, coastal areas, groundwater, and other critical natural resources; (4) safe waste management practices; and (5) protection of public health and environmental safety for all citizens. These programs are conducted from a national office in Washington, D.C. and from locally staffed field offices serving multistate regions around the country.

Significant accounting policies are as follows:

**Basis of Accounting** - The financial statements of the Organization have been prepared on the basis of generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results could differ from those estimates.

**Cash Equivalents** - The Organization considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

**Investments and Related Income** - Investments consist of mutual funds which are recorded at fair value based on quoted market prices.

**Intangible Assets** - Software, website, and license agreements for certain technologies from a nonaffiliated organization are being amortized using the straight-line method. The assets are recorded at cost and are amortized over three years, the estimated life.

**Contributions and Grants Receivable** - The Organization's accounts receivable consist primarily of amounts due from various grantors and contributors generated from corporations, foundation grants, and governmental grants. No provision for doubtful accounts has been recorded at December 31, 2016 since it is the opinion of management that all accounts receivable are collectible in full.

**Furniture and Equipment** - Furniture and equipment are recorded at cost when purchased or at fair value at the date of donation if contributed. Furniture and equipment are depreciated using the straight-line method over the estimated useful lives of the assets (three to seven years).

**Note 1 - Nature of Business and Significant Accounting Policies**  
**(Continued)**

**Classification of Net Assets** - Net assets of the Organization are classified as unrestricted or temporarily restricted depending on the presence and characteristics of donor-imposed restrictions limiting the Organization's ability to use or dispose of contributed assets. Donor-imposed restrictions that expire with the passage of time or that can be removed by meeting certain requirements result in temporarily restricted net assets. Earnings, gains, and losses on restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law. Temporarily restricted net assets consist primarily of contributions restricted for specific program use.

**Individual Contributions and Foundation Awards** - Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support. Temporarily restricted contributions that are used according to donor restrictions in the same period as the contributions are recognized as temporarily restricted support and reclassified as net assets released from restrictions in the same period.

**Institutional, Corporate, and Governmental Grants** - The Organization recognizes revenue on these receipts as expenses are incurred toward the award's purpose and services are performed by the Organization. The Organization receives advance payments on contracts, which are reported as deferred revenue and recognized as income when earned.

**Pass-through Liabilities** - The Organization enters into agreements where awards are agreed to be passed through to independent organizations. These pass-through liabilities are intended to be passed through based on the Organization's request from the donor and therefore, revenue is not recognized by the Organization.

**Functional Allocation of Expenses** - The costs of providing the program and support services have been reported on a functional basis in the statement of activities and changes in net assets. Indirect costs have been allocated between the various programs and support services based on estimates, as determined by management. Although the methods of allocation used are considered reasonable, other methods could be used that would produce a different amount.

**Federal Income Taxes** - The Organization is exempt from income tax under provisions of Internal Revenue Code Section 501(c)(3).

### **Note 1 - Nature of Business and Significant Accounting Policies (Continued)**

**Concentration of Credit Risk Arising from Deposit Accounts** - The Organization maintains cash balances at a bank. Accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Organization evaluates the financial institutions with which it deposits funds; however, it is not practical to insure all cash deposits.

**Upcoming Accounting Pronouncements** - In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Organization's year ending December 31, 2019. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Organization has not yet determined which application method it will use or the potential effects of the new standard on the financial statements. Management is following discussions by the Financial Accounting Standards Board (FASB) regarding potential clarification on whether the new revenue recognition standard should be applied to the Organization's governmental grants and contracts. Management anticipates the Organization's governmental grants and contracts will not be impacted by the new standard due to the determination that they are not exchange transactions, but this determination is subject to change depending on the outcome of the FASB's deliberations.

### **Note 1 - Nature of Business and Significant Accounting Policies (Continued)**

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Organization's year ending December 31, 2020 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The new lease standard is expected to have a significant effect on the Organization's financial statements as a result of the leases for use of office space and equipment classified as operating leases. The effect of applying the new lease guidance on the financial statements is expected to significantly increase long-term assets and short- and long-term liabilities upon adoption. The overall impact on the statement of activities and changes in net assets is not expected to be significant.

The FASB issued Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, in August 2016. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Organization, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Organization's year ending December 31, 2018 and thereafter and must be applied on a retrospective basis. The Organization is currently evaluating the impact this standard will have on the financial statements.

**Subsequent Events** - The financial statements and related disclosures include evaluation of events up through and including May 1, 2017, which is the date the financial statements were available to be issued.

# Clean Water Fund

## Notes to Financial Statements December 31, 2016

### Note 2 - Related Party

The Organization is affiliated with Clean Water Action (CWA) through common board membership. CWA does not have rights to the assets of the Organization, nor is it liable for the liabilities incurred by the Organization. CWA, a national 501(c)(4) organization, conducts lobbying activities and canvass outreach programs in over 24 states nationwide. CWA acts as a paymaster for the Organization for shared office expenses and allocations of personnel and overhead expenses are recorded in a due to/from affiliate account. The Organization remits an estimated amount to CWA to cover monthly expenses. The difference is then reconciled and applied to the subsequent month's activity. Interest on the balances between the Organization and CWA is calculated at 5 percent per annum.

Related party activities between the Organization and CWA for the year ended December 31, 2016 were approximately as follows:

January 1, 2016 - Amount due from CWA, including interest	\$ 121,000
Add allocated expenses:	
Payroll and payroll-related expenses	(2,754,000)
Health insurance	(284,000)
Rent and occupancy related	(286,000)
Direct expenses	<u>(731,000)</u>
Total expenses paid by CWA on behalf of the Organization	(4,055,000)
Less expense reimbursements by CWF	<u>4,020,000</u>
December 31, 2016 - Amount due from CWA, including interest	<u>\$ 86,000</u>

### Note 3 - Fair Value

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the valuation techniques and inputs used to measure fair value.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets and liabilities that the Organization has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

# Clean Water Fund

## Notes to Financial Statements December 31, 2016

### Note 3 - Fair Value (Continued)

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset or liability.

In instances whereby inputs used to measure fair value fall into different levels of the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Organization's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The Organization measures mutual funds at fair value on a recurring basis. The fair value of mutual funds is based primarily on Level 1 inputs as described above.

### Note 4 - Investment Income

Investment income consists of the following for the year ended December 31, 2016:

Realized and unrealized losses	\$ (42,480)
Dividends and interest	<u>58,721</u>
Total investment income	<u>\$ 16,241</u>

### Note 5 - Intangible Assets

As of December 31, 2016, intangible assets consist of the following:

Software	\$ 17,960
Website	<u>20,366</u>
Total cost	38,326
Accumulated amortization	<u>29,973</u>
Net intangible assets	<u>\$ 8,353</u>

Amortization expense was \$12,774 for the year ended December 31, 2016. Expected amortization expense for the next two years is approximately \$7,800 and \$600, respectively.

# Clean Water Fund

## Notes to Financial Statements December 31, 2016

### Note 6 - Operating Leases

The Organization leases office space in several locations throughout the United States. The leases expire on varying dates through September 2020. Some of these leases include escalating rental terms and those leases have been accounted for on the straight-line presentation. Future minimum lease payments are as follows:

<u>Years Ending December 31</u>	<u>Amount</u>
2017	\$ 107,917
2018	41,414
2019	43,182
2020	<u>29,623</u>
Total	<u>\$ 222,136</u>

Total rent expense for real property was \$291,647 for the year ended December 31, 2016.

### Note 7 - Foundation Awards Receivable

Included in foundation awards receivable are several unconditional promises to give. They are expected to be collected as follows:

Amounts due in:	
Less than one year	\$ 533,866
One to five years	<u>71,666</u>
Total	<u>\$ 605,532</u>