Clean Water Fund

Financial Report

December 31, 2018

Contents

Plante & Moran, PLLC
1098 Woodward Avenue
Detroit, MI 48226-1906
Tel: 313.496.7200
Fax: 313.496.7201
plantemoran.com

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, 2018 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, 2018 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2 to the financial statements, the Organization adopted the provisions of Accounting Standards Update No. 2016-14 for the year ended December 31, 2018. Our opinion is not modified with respect to this matter.

Plante & Moran, PLLC

May 17, 2019

Statement of Financial Position

	December 31, 2018
Assets	
Cash and cash equivalents	$ 1,936,324
Investments (Note 5)	497,487
Accounts receivable:	
Foundation awards receivable	301,454
Institutional and corporate grants receivable	31,891
Governmental grants receivable	261,245
Donated rent receivable	3,832
Prepaid expenses and other	31,960
Furniture and equipment - Net of accumulated depreciation of $63,655	4,772
Total assets	**$ 3,068,965**
Liabilities and Net Assets	
Liabilities	
Pass-through liabilities	$ 165,184
Accounts payable	54,583
Deferred revenue	126,065
Accrued rent	6,644
Due to affiliate	332,426
Total liabilities	684,902
Net Assets	
Without donor restrictions	315,179
With donor restrictions (Note 8)	2,068,884
Total net assets	2,384,063
Total liabilities and net assets	**$ 3,068,965**

See notes to financial statements.

Statement of Activities and Changes in Net Assets

Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains, and Other Support			
Individual contributions	$ 1,231,390	$ 130,705	$ 1,362,095
Institutional and corporate grants	436,423	-	436,423
Foundation awards	282,522	2,242,806	2,525,328
Governmental grants	489,162	-	489,162
In-kind donations	684	-	684
Interest income	1,073	-	1,073
Investment income (Note 6)	20,576	-	20,576
Total revenue, gains, and other support	2,461,830	2,373,511	4,835,341
Net Assets Released from Restrictions	2,881,108	(2,881,108)	-
Total revenue, gains, other support, and net assets released from restrictions	5,342,938	(507,597)	4,835,341
Expenses			
Program	4,505,994	-	4,505,994
Support services:			
General and administrative	686,669	-	686,669
Fundraising	367,550	-	367,550
Total support services	1,054,219	-	1,054,219
Total expenses	5,560,213	-	5,560,213
Decrease in Net Assets	(217,275)	(507,597)	(724,872)
Net Assets - Beginning of year	532,454	2,576,481	3,108,935
Net Assets - End of year	**$ 315,179**	**$ 2,068,884**	**$ 2,384,063**

See notes to financial statements.

Statement of Cash Flows

	Year Ended December 31, 2018
Cash Flows from Operating Activities	
Decrease in net assets	$ (724,872)
Adjustments to reconcile decrease in net assets to net cash and cash equivalents from operating activities:	
Depreciation	3,892
Amortization	567
Unrealized and realized loss on investments	46,056
Changes in operating assets and liabilities that provided (used) cash and cash equivalents:	
Foundation awards receivable	502,919
Institutional and corporate grants receivable	(11,049)
Governmental grants receivable	(99,139)
Prepaid expenses and other	2,400
Accounts payable and pass-through liability	(126,375)
Deferred revenue	94,565
Accrued rent	(729)
Net cash and cash equivalents used in operating activities	(311,765)
Cash Flows from Investing Activities	
Purchase of property and equipment	(3,087)
Reinvestment of investment earnings	(66,632)
Net cash and cash equivalents used in investing activities	(69,719)
Cash Flows Provided by Financing Activities - Net advances from affiliate	191,589
Net Decrease in Cash and Cash Equivalents	(189,895)
Cash and Cash Equivalents - Beginning of year	2,126,219
Cash and Cash Equivalents - End of year	**$ 1,936,324**

Note 1 - Nature of Business

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.

Note 2 - Significant Accounting Policies

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 investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments and Related income

Investments consist of mutual funds that are recorded at fair value based on quoted market prices.

Intangible Assets

Software, website, and license agreements subject to amortization are stated at cost and are amortized using the straight-line method over three years, the estimated useful lives of the assets. Intangible assets are reviewed for potential impairment whenever events or circumstances indicate that carrying amounts may not be recoverable.

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, 2018 since it is the opinion of management that all accounts receivable are collectible in full. All accounts receivable are expected to be collected in less than one year.

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 useful lives of the assets (three to seven years). Costs of maintenance and repairs are charged to expense when incurred.

Classification of Net Assets

Net assets of the Organization are classified based on the presence or absence of donor-imposed restrictions.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions or the donor-imposed restrictions have expired or been fulfilled. Net assets in this category may be expended for any purpose in performing the primary objectives of the Organization.

Note 2 - Significant Accounting Policies (Continued)

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.

Earnings, gains, and losses on donor-restricted net assets are classified as net assets without donor restrictions unless specifically restricted by the donor or by applicable state law.

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 support with donor restrictions. Contributions that are used according to donor restrictions in the same period as the contributions are received are recognized as support with donor restrictions and reclassified as net assets released from restriction in the same period. Donor promises to give in the future are recorded at the present value of estimated future cash flows.

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; therefore, revenue is not recognized by the Organization.

Functional Allocation of Expenses

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 on several bases and estimates, as determined by management and disclosed in further detail in Note 10. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Federal Income Taxes

The Organization is a not-for-profit corporation and is exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3).

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.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including May 17, 2019, which is the date the financial statements were available to be issued.

Note 2 - Significant Accounting Policies (Continued)

Adoption of New Accounting Pronouncement

For the year ended December 31, 2018, the Organization adopted Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. This standard requires net assets to be classified in two categories, net assets without donor restrictions and net assets with donor restrictions, rather than the three previous classifications. In addition, the underwater portion of donor-restricted endowments is now reported as net assets with donor restrictions. As a result of the adoption, net assets of $2,576,481 previously reported as temporarily restricted net assets have been reported as net assets with donor restrictions. This standard also requires changes in the way certain information is aggregated and reported by the Organization, including disclosures of quantitative and qualitative information about the liquidity and availability of resources (see Note 3) and the presentation of expenses by both functional and natural classification (see Note 10). The standard also clarifies the definition of management and general expenses and prohibits certain expenses from being allocated out of management and general.

Upcoming Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, 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 using one of two retrospective application methods. The Organization has not yet determined which application method it will use.

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-to-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 either the beginning of the earliest period presented or the beginning of the year of adoption. The new lease standard is expected to have a significant effect on the Organization’s financial statements as a result of the Organization's operating leases, as disclosed in Note 7, that will be reported on the statement of financial position at adoption. Upon adoption, the Organization will recognize a lease liability and corresponding right-to-use asset based on the present value of the minimum lease payments. The effects on the statement of activities and changes in net assets are not expected to be significant, as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

Note 2 - Significant Accounting Policies (Continued)

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchanges (reciprocal transactions) and (2) determining whether a contribution is conditional. The accounting guidance will result in more governmental contracts being accounted for as contributions and may delay revenue recognition for certain grants and contributions that no longer meet the definition of "unconditional." The new guidance will be effective for the Organization’s year ending December 31, 2019 and will be applied on a modified prospective basis. The Organization does not expect the standard to have a significant impact on the timing of revenue recognition for government grants and contracts, but has not yet determined the impact on the timing of recognition of foundation and individual grants and contributions.

Note 3 - Liquidity

The Organization has $2,467,900 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditure consisting of cash of $1,936,324, receivables of $34,089, and short-term investments of $497,487 at December 31, 2018. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date.

The Organization has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet 60 days of normal operating expenses, which are, on average, approximately $900,000 at December 31, 2018. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, as part of its liquidity management, the Organization invests cash in excess of daily requirements in various short-term investments, including depository accounts and mutual funds.

Note 4 - Related Party Transactions

The Organization is affiliated with Clean Water Action (CWA) through some 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, 2018 were approximately as follows:

January 1, 2018 - Amount due to CWA, including interest	$ (141,000)
Add allocated expenses:	
Payroll and payroll-related expenses	(3,230,000)
Health insurance	(553,000)
Rent and occupancy related	(327,000)
Direct expenses	(432,000)
Total expenses paid by CWA on behalf of the Organization	(4,542,000)
Less expense reimbursement by the Organization	4,350,000
December 31, 2018 - Amount due to CWA, including interest	$ (333,000)

Note 5 - Fair Value Measurements

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 inputs and valuation techniques used to measure fair value.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or 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.

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 in the above 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 6 - Investment Income

Investment income consists of the following for the year ended December 31, 2018:

Realized and unrealized losses	$ (46,056)
Dividends and interest	66,632
Total investment income	$ 20,576

Note 7 - Operating Leases

The Organization leases office space in several locations throughout the United States. The leases expire on varying dates through 2021. Some of these leases include escalating rental terms, and those lease expenses have been accounted for on a straight-line basis.

Future minimum annual commitments under these operating leases are as follows:

Years Ending December 31	Amount
2019	$ 121,816
2020	32,111
2021	1,320
Total	$ 155,247

Total rent expense for real property was $334,040 for the year ended December 31, 2018.

Note 8 - Net Assets

Net assets with donor restrictions as of December 31 are available for the following purposes:

Subject to expenditures for a specified purpose:	
Water programs	$ 685,524
Health programs	639,165
Energy programs	433,944
Waste programs	209,350
Voter education	50,000
Boston Foundation	29,000
Infrastructure	18,069
Total subject to expenditures for a specified purpose	2,065,052
Subject to the passage of time - In-kind rent	3,832
Total	$ 2,068,884

Note 9 - Release of Restrictions

During the year ended December 31, 2018, net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes, or by the passage of time or occurrence of other events specified by donors, as follows:

Purpose restrictions accomplished:	
Release of contributions and awards	$ 2,877,405
Use of in-kind rent	3,703
Total restrictions released	$ 2,881,108

Note 10 - Functional Expenses

The Organization provides various services to its members. Expenses related to providing these services are as follows for the year ended December 31, 2018:

Note 10 - Functional Expenses (Continued)

Program services:	
Salary and wage expense	$ 3,562,036
Consulting services	401,365
Office expenses	118,861
Conferences and meetings	100,548
Occupancy	267,062
Other	56,122
Total program services	4,505,994
General and administrative:	
Salary and wage expense	546,557
Consulting services	5,799
Office expenses	73,433
Occupancy	56,421
Depreciation and amortization	4,459
Total general and administrative	686,669
Fundraising:	
Salary and wage expense	232,705
Consulting services	6,373
Office expenses	66,191
Conferences and meetings	3,105
Occupancy	52,660
Other	6,516
Total fundraising	367,550
Total	$ 5,560,213

Costs have been allocated between program services and support services on several bases and estimates. The expenses are allocated on the following basis:

Expense	Method of Allocation
Salary and wage expense	Time and effort
Consulting services	Time and effort
Office expense	Square footage
Conferences and meetings	Direct usage
Transportation	Direct usage
Occupancy	Square footage
Depreciation	Square footage