Clean Water Fund

Financial Report

December 31, 2017

Contents

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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, 2017 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, 2017 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.

Plante & Moran, PLLC

May 7, 2018

Statement of Financial Position

December 31, 2017

Assets		
Cash and cash equivalents	$	2,126,219
Investments		476,911
Accounts receivable:		
Foundation awards receivable (Note 4)		804,373
Institutional and corporate grants receivable		20,842
Governmental grants receivable		162,106
Donated rent receivable		3,832
Prepaid expenses and other		34,360
Intangible assets - Net of accumulated amortization of $37,761 (Note 7)		565
Furniture and equipment - Net of accumulated depreciation of $59,762		5,579
Total assets	**$**	**3,634,787**
Liabilities and Net Assets		
Liabilities		
Pass-through liabilities	$	244,671
Accounts payable		101,471
Deferred revenue		31,500
Accrued rent		7,373
Due to affiliate		140,837
Total liabilities		525,852
Net Assets		
Unrestricted		532,454
Temporarily restricted		2,576,481
Total net assets		3,108,935
Total liabilities and net assets	**$**	**3,634,787**

Statement of Activities and Changes in Net Assets

Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Total
Revenue, Gains, and Other Support			
Individual contributions	$ 1,465,344	$ 180,233	$ 1,645,577
Institutional and corporate grants	322,711	-	322,711
Foundation awards	257,254	3,166,769	3,424,023
Governmental grants	293,687	-	293,687
In-kind donations	3,000	-	3,000
Interest income	230	-	230
Investment income (Note 6)	94,891	-	94,891
Gain on sale of fixed assets	179	-	179
Total revenue, gains, and other support	2,437,296	3,347,002	5,784,298
Net assets released from restrictions	2,698,333	(2,698,333)	-
Total revenue, gains, other support, and net assets released from restriction	5,135,629	648,669	5,784,298
Expenses			
Program	4,207,765	-	4,207,765
Support services:			
General and administrative	551,096	-	551,096
Fundraising	255,530	-	255,530
Total support services	806,626	-	806,626
Total expenses	5,014,391	-	5,014,391
Increase in Net Assets	121,238	648,669	769,907
Net Assets - Beginning of year	411,216	1,927,812	2,339,028
Net Assets - End of year	**$ 532,454**	**$ 2,576,481**	**$ 3,108,935**

Statement of Cash Flows

	Year Ended December 31, 2017
Cash Flows from Operating Activities	
Increase in net assets	$ 769,907
Adjustments to reconcile increase in net assets to net cash and cash equivalents from operating activities:	
Depreciation	3,605
Amortization	7,788
Bad debt expense	3,252
Unrealized and realized gain on investments	(37,860)
Donated rent receivable	3,603
Gain on disposal of furniture and equipment	(179)
Changes in operating assets and liabilities which (used) provided cash and cash equivalents:	
Foundation awards receivable	(198,841)
Institutional and corporate grants receivable	20,923
Governmental grants receivable	(95,207)
Prepaid expenses and other	(2,497)
Accounts payable and pass-through liability	(63,645)
Deferred revenue	(23,047)
Accrued rent	(4,080)
Net cash and cash equivalents provided by operating activities	383,722
Cash Flows from Investing Activities	
Purchase of property and equipment	(3,757)
Reinvestment of investing earnings	(57,031)
Net advances to affiliate	85,845
Net cash and cash equivalents provided by investing activities	25,057
Cash Flows Provided by Financing Activities - Net advances from affiliate	140,837
Net Increase in Cash and Cash Equivalents	549,616
Cash and Cash Equivalents - Beginning of year	1,576,603
Cash and Cash Equivalents - End of year	**$ 2,126,219**

See notes to financial statements.

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, 2017 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 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.

Unrestricted net assets are either not restricted by donors or the donor-imposed restrictions have expired.

Note 2 - Significant Accounting Policies (Continued)

Temporarily restricted net assets of the Organization consist of amounts received from donors who have specified the purpose for which or the timing of when the funds are to be spent. The Organization has interpreted donor restrictions to also include related earnings as restricted for the intended purpose of the original donation. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are released to unrestricted net assets.

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 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. 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.

Note 2 - Significant Accounting Policies (Continued)

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 (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. 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.

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 assets and liabilities upon adoption. 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.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that follow the 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 aware the presentation of net assets will change from three classes to two classes, increased footnote disclosures will be included to describe liquidity and availability of resources of the Organization, and certain expenditures within the functional allocation may shift from program services to support services.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including May 7, 2018, which is the date the financial statements were available to be issued.

Note 3 - Related Party Transactions

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 months 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, 2017 were approximately as follows:

January 1, 2017 - Amount due from CWA, including interest	$ 86,000
Add allocated expenses:	
Payroll and payroll-related expenses	(3,047,000)
Health insurance	(337,000)
Rent and occupancy related	(359,000)
Direct expenses	(425,000)
Total expenses paid by CWA on behalf of the Organization	(4,168,000)
Less expense reimbursements by CWF	3,941,000
December 31, 2017 - Amount due to CWA, including interest	$ (141,000)

Note 4 - 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	$ 714,373
One to five years	90,000
Total	$ 804,373

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.

Note 5 - Fair Value Measurements (Continued)

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, 2017:

Realized and unrealized gains	$ 37,860
Dividends and interest	57,031
Total investment income	$ 94,891

Note 7 - Intangible Assets

Intangible assets of the Organization at December 31, 2017 are summarized as follows:

Software	$ 17,960
Website	20,366
Total cost	38,326
Accumulated amortization	(37,761)
Total	$ 565

Amortization expense for intangible assets totaled $7,788 for the year ended December 31, 2017. Expected amortization expense for the next year is $565.

Note 8 - Operating Leases

The Organization leases office space in several locations throughout the United States. The leases expire on varying dates through 2020. Some of these leases include escalating rental terms, and those leases have been accounted for on the straight-line presentation.

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

Years Ending December 31	Amount
2018	$ 142,500
2019	116,038
2020	30,656
Total	$ 289,194

Total rent expense for real property was $339,432 for the year ended December 31, 2017.