

WATERKEEPER ALLIANCE, INC.

**Financial Statements
for the Year Ended
June 30, 2018**

Independent Auditor's Report

To the Board of Directors of
Waterkeeper Alliance, Inc.

We have audited the accompanying financial statements of Waterkeeper Alliance, Inc. (the "Alliance") which comprise the statement of financial position as of June 30, 2018 and the related statements of activities, functional expenses 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 in the first paragraph on the previous page present fairly, in all material respects, the financial position of Waterkeeper Alliance, Inc. as of June 30, 2018 and the results of its activities and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Alliance's fiscal 2017 financial statements, and our report dated October 30, 2017, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Condon O'Meara McGinty + Dowd LLP

October 19, 2018

WATERKEEPER ALLIANCE, INC.

Statement of Financial Position

Assets

	June 30	
	2018	2017
Current assets		
Cash	\$5,578,445	\$1,979,216
Investments, at fair value	401,640	-
Contributions and grants receivable, current portion	495,079	283,314
Accounts receivable	-	11,017
Prepaid expenses	59,758	33,731
Total current assets	6,534,922	2,307,278
Contributions and grants receivable, net of current portion	100,000	-
Security deposit	235,340	235,340
Equipment, at cost, net of accumulated depreciation of \$352,334 in 2018 and \$342,357 in 2017	32,358	42,335
Total assets	\$6,902,620	\$2,584,953

Liabilities and Net Assets

Current liabilities		
Accounts payable	\$ 462,251	\$ 409,856
Sponsor initiative payable	1,754,829	-
Accrued vacation	114,761	105,918
Total current liabilities	2,331,841	515,774
Deferred rent	158,003	177,753
Total liabilities	2,489,844	\$ 693,527
Net assets		
Unrestricted net assets (deficit)	(252,809)	211,853
Temporarily restricted	4,565,585	1,679,573
Permanently restricted	100,000	-
Total net assets	4,412,776	1,891,426
Total liabilities and net assets	\$6,902,620	\$2,584,953

WATERKEEPER ALLIANCE, INC.

Statement of Activities
For Year Ended June 30, 2018
(with Summarized Comparative Information
for the Year Ended June 30, 2017)

	2018			2017
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue				
Contributions	\$ 2,453,394	\$ 14,968,041	\$ 100,000	\$ 17,521,435
Fundraising	289,956	-	-	289,956
Fiscal sponsor fees	54,978	-	-	54,978
Licensing fees and other	51,990	-	-	51,990
Net assets released from restrictions	<u>12,082,029</u>	<u>(12,082,029)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>14,932,347</u>	<u>2,886,012</u>	<u>100,000</u>	<u>17,918,359</u>
Expenses				
Program services	<u>13,815,863</u>	<u>-</u>	<u>-</u>	<u>13,815,863</u>
Supporting activities				
Administrative and general	610,898	-	-	610,898
Fundraising	<u>969,376</u>	<u>-</u>	<u>-</u>	<u>969,376</u>
Total supporting activities	<u>1,580,274</u>	<u>-</u>	<u>-</u>	<u>1,580,274</u>
Total expenses	<u>15,396,137</u>	<u>-</u>	<u>-</u>	<u>15,396,137</u>
Increase (decrease) in net assets before other deductions	(463,790)	2,886,012	100,000	2,522,222
Other deductions				
Net (loss) on investments	(872)	-	-	(872)
Foreign exchange (loss)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	<u>(464,662)</u>	<u>2,886,012</u>	<u>100,000</u>	<u>2,521,350</u>
Net assets, beginning of year	<u>211,853</u>	<u>1,679,573</u>	<u>-</u>	<u>1,891,426</u>
Net assets (deficit), end of year	<u>\$ (252,809)</u>	<u>\$ 4,565,585</u>	<u>\$ 100,000</u>	<u>\$ 4,412,776</u>

See notes to financial statements.

WATERKEEPER ALLIANCE, INC.

Statement of Functional Expenses For Year Ended June 30, 2018 (with Summarized Comparative Information for the Year Ended June 30, 2017)

	2018			2017
	Supporting Activities			
	Program Services	Administrative and General	Fund- Raising	Total
Payroll cost	\$ 2,227,936	\$ 416,701	\$ 313,739	\$ 2,958,376
Professional fees	466,974	98,496	173,000	738,470
Sponsor initiative	8,804,084	-	-	8,804,084
Auditing and accounting	9,733	1,138	989	11,860
Insurance	17,906	3,297	3,975	25,178
Fundraising expense	-	-	223,342	223,342
Educational/Outreach	325,783	1,629	178,877	506,289
WKA Support	1,302,382	900	-	1,303,282
Litigation/regulation	125,339	-	187	125,526
Travel	118,296	27,936	20,385	166,617
Telephone	17,231	2,533	2,095	21,859
Postage	9,239	352	1,453	11,044
Office expense	27,541	4,841	2,344	34,726
Staff development	3,709	688	463	4,860
Other	4,266	184	125	4,575
Credit card and banking fees	15,376	9,527	1,785	26,688
Occupancy	340,068	32,699	46,617	419,384
Depreciation	-	9,977	-	9,977
Total	\$ 13,815,863	\$ 610,898	\$ 969,376	\$ 15,396,137
				\$ 19,848,492

See notes to financial statements.

WATERKEEPER ALLIANCE, INC.

Statement of Cash Flows

	Year Ended June 30	
	2018	2017
Cash flows from operating activities		
Increase in net assets	\$2,521,350	\$ 926,750
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	9,977	10,810
Donated stock	144,810	(31,987)
Proceeds from sale of donated stock	(144,810)	31,987
Unrealized loss on investments	872	-
(Increase) decrease in assets		
Contributions and grants receivable	(311,765)	346,053
Accounts receivable	11,017	(4,368)
Prepaid expenses	(26,027)	37,273
Security deposit	-	551
Increase (decrease) in liabilities		
Accounts payable	52,395	(178,104)
Sponsor initiative payable	1,754,829	-
Accrued vacation	8,843	24,067
Accrued expenses	-	(123,258)
Deferred revenue	-	(20,000)
Deferred rent	(19,750)	(19,750)
Net cash provided by operating activities	<u>4,001,741</u>	<u>1,000,024</u>
Cash flows from investing activities		
Purchase of investments	(402,512)	-
Purchase of equipment	-	(9,494)
Net cash (used in) investing activities	<u>(402,512)</u>	<u>(9,494)</u>
Net increase in cash	3,599,229	990,530
Cash, beginning of year	<u>1,979,216</u>	<u>988,686</u>
Cash, end of year	<u>\$5,578,445</u>	<u>\$1,979,216</u>

See notes to financial statements.

WATERKEEPER ALLIANCE, INC.**Notes to Financial Statements
June 30, 2018****Note 1 – Nature of organization**

The Waterkeeper Alliance, Inc. (the “Alliance”) was organized to serve as the umbrella group for the Riverkeeper, Soundkeeper, Baykeeper, and other Waterkeeper programs located throughout North America and in other countries, all of which have their own 501(c)(3) status or the equivalent. The Alliance approves new Waterkeeper programs, licenses the use of the Waterkeeper marks, represents the individual Waterkeeper programs nationally and internationally on issues of common interest, and serves as a meeting place for all Waterkeeper programs.

Note 2 – Summary of significant accounting policies**Financial reporting**

The Alliance maintains three classes of net assets as follows:

- **Unrestricted**

Unrestricted net assets are used to account for the general activities of the Alliance.

- **Temporarily restricted**

Temporarily restricted net assets represent contributions and grants that are restricted by the donor for a specific purpose or pertain to future periods (timing). Once that specific purpose has been met or the time restriction expires, the funds are released and reflected as net assets released from restrictions.

Net assets that are released from donor restrictions, by incurring expenses that satisfied the restricted purposes or by occurrence of other events specified by donors, during the 2018 fiscal year, totaled \$12,082,029 and were used for the general programs of the Alliance as described in note 1 to the financial statements.

Permanently restricted

Permanently restricted net assets are subject to donor-imposed restrictions whose contributions must be maintained in perpetuity by the Alliance. Donors of these assets permit the Alliance to use all or part of the return earned on related investments for general or specific purposes.

WATERKEEPER ALLIANCE, INC.

Notes to Financial Statements (continued)
June 30, 2018

Note 2 – Summary of significant accounting policies (continued)

Financial reporting (continued)

Temporarily restricted

At June 30, 2018, temporarily restricted net assets were restricted for the following:

	Balance June 30, 2017	Additions	Net Assets Released from Restrictions	Balance June 30, 2018
Purpose				
Annual conference	\$ 1,684	\$ 44,800	\$ (44,800)	\$ 1,684
China Regional Coordination	-	214,770	(214,770)	-
Clean and safe energy - domestic	114,132	101,104	(165,713)	49,523
Clean and safe energy – international	12,800	139,193	(151,993)	-
Clean water defense	9,687	60,153	(64,840)	5,000
Domestic start up	54,710	15,815	(70,525)	-
Domestic PFPW (non NC)		25,082	(5,082)	20,000
Himalayas – Pollution and Climate Change	33,678	-	(33,678)	-
North Carolina	1,171,012	2,130,263	(1,905,570)	1,395,705
Butler Conservation Fund	90,000	-	(45,000)	45,000
Splash event series	25,369	180,000	(155,369)	50,000
Sponsor initiative*	18,066	11,098,132	(8,804,084)	2,312,114
Training	100,000	5,000	(105,000)	-
Rapid response	11,000	79,786	(40,786)	50,000
Waterkeeper support	7,435	493,581	(259,819)	241,197
Timing	<u>30,000</u>	<u>380,362</u>	<u>(15,000)</u>	<u>395,362</u>
Total	<u>\$1,679,573</u>	<u>\$ 14,968,041</u>	<u>\$ (12,082,029)</u>	<u>\$4,565,585</u>

- * Sponsor initiative consists of money given by donors to be used for newly formed or being formed Waterkeepers, in addition to ongoing international chapters. However, the Alliance retained the unilateral power to redirect use of the funds to another beneficiary capable of fulfilling the project, if deemed necessary.

WATERKEEPER ALLIANCE, INC.**Notes to Financial Statements (continued)****June 30, 2018****Note 2 – Summary of significant accounting policies (continued)****Financial reporting (continued)**

Permanently restricted – The Alliance classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment.

Cash equivalents

The Alliance considers highly liquid assets with original maturities of 90 days or less to be cash equivalents. At June 30, 2018 the Alliance did not have any cash equivalents.

Fair value measurements

Accounting principles generally accepted in the United States of America established a fair value hierarchy that prioritizes the inputs used to measure fair value into three broad levels giving the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data (Level 3). At June 30, 2018, all of the Alliance's investments are deemed to be Level 1, their fair value is based on quoted prices in active markets for identical assets.

Functional expenses

The costs of providing the various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting activities benefited.

Equipment

Equipment, above a nominal value, is recorded at cost. Depreciation of equipment is provided on a straight-line basis over its estimated useful life of five years.

Allowance for doubtful accounts

The Alliance has not provided for an allowance for doubtful accounts. This estimate is based on management's experience, the aging of the receivables, subsequent receipts and current economic conditions.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from these estimates.

WATERKEEPER ALLIANCE, INC.

Notes to Financial Statements (continued) **June 30, 2018**

Note 2 – Summary of significant accounting policies (continued)

Concentrations of credit risk

The Alliance's financial instruments that are potentially exposed to concentrations of credit risk consist primarily of cash, investments and receivables. The Alliance places its cash with what it believes to be quality financial institutions and the Alliance has not incurred any losses on such accounts to date. Due to the level of uncertainty related to changes in interest rates, market volatility, liquidity and credit risks, it is reasonably possible that changes in these risks could materially effect the fair value of investments reported in the financial statements at June 30, 2018. Receivables are deemed collectible by the Alliance. The Alliance believes no significant concentrations of credit risk exist with respect to its cash, investments and receivables.

Comparative financial information

The financial statements include certain prior-year summarized financial information in total but not by net asset or functional classification. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Alliance's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Reclassification

Certain items in the 2017 financial statements have been reclassified for comparative purposes only.

Subsequent events

The Alliance has evaluated events and transactions for potential recognition or disclosure through October 19, 2018, which is the date the financial statements were available to be issued.

Note 3 – Investments

At June 30, 2018, the balance of the investments that are measured at fair value are as follows:

	<u>Cost</u>	<u>Fair Value</u>
Mutual funds – equities	\$ 83,051	\$ 82,179
Certificates of deposit	<u>319,461</u>	<u>319,461</u>
Total	<u>\$ 402,512</u>	<u>\$ 401,640</u>

WATERKEEPER ALLIANCE, INC.

Notes to Financial Statements (continued)

June 30, 2018

Note 4 – Donated volunteer time

A number of volunteers donate their time and services to the Alliance's program services and fund-raising campaign; however, no amounts are reflected in the financial statements for this donated volunteer time.

Note 5 – Allocation of joint costs

During the 2018 fiscal year, the Alliance incurred joint costs of \$535,487 for informational materials and activities that included fund-raising appeals; such costs were allocated as follows:

Programs	\$ 263,704
Fundraising	<u>271,783</u>
Total	<u>\$ 535,487</u>

Note 6 – Lease agreement

During July 2015, the Alliance entered into a ten-year lease agreement for office space, at a new location, which commenced February 2016 and requires an annual base rental fee of \$470,781 for the first five years of the agreement increasing to \$516,936 for the remainder of the agreement. In connection with this agreement, the Alliance received a five month rent abatement. This amount has been reflected on the statement of activities and corresponding deferred rent on the statement of financial position. As security for the lease, the Alliance obtained an irrevocable standby letter of credit from a bank in the amount of \$235,340. The Alliance granted the bank a security interest in a \$235,340 certificate of deposit as collateral.

The following is the required annual payments under the lease agreement (exclusive of certain increases in operating costs of the landlord):

<u>Fiscal year</u>	<u>Amount</u>
2019	\$ 470,781
2020	470,781
2021	470,781
2022	516,936
2023	516,936
2024 and thereafter	<u>1,550,808</u>
Total	<u>\$ 3,997,023</u>

Rent expense, which is net of a \$3,000 monthly sublease to another entity, is allocated to various program activities, totaled \$419,384 and \$412,038 for the years ended June 30, 2018 and 2017, respectively.

WATERKEEPER ALLIANCE, INC.**Notes to Financial Statements (continued)****June 30, 2018****Note 7 – Tax status**

The Alliance is exempt from federal income taxes under Section 501(c)(3) of the internal Revenue Code (the “Code”). In addition, the Alliance has been determined by the Internal Revenue Service to be a publicly supported organization, and not a private foundation, within the meaning of Section 509(a)(1) of the Code.