

BLUE WATER BALTIMORE, INC.

AUDITED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

BLUE WATER BALTIMORE, INC.

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Independent Auditors' Report

Board of Directors
Blue Water Baltimore, Inc.
Baltimore, Maryland

Opinion

We have audited the accompanying financial statements of Blue Water Baltimore, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years 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 Blue Water Baltimore, Inc. as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Blue Water Baltimore, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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 Blue Water Baltimore, Inc.'s ability to continue as a going concern within one year after the date the financial statements are available to be issued.

Independent Auditors' Report (continued)

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.

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 Blue Water Baltimore, 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 Blue Water Baltimore, 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.

Weyrich, Cronin & Serra, LLC

Hunt Valley, Maryland
October 25, 2023

BLUE WATER BALTIMORE, INC.Statements of Financial Position
December 31, 2022 and 2021ASSETS

	<u>2022</u>	<u>2021</u>
CURRENT ASSETS:		
Cash	\$ 1,249,359	\$ 1,257,002
Contributions and grants receivable	384,065	255,960
Accounts receivable	120,820	280,102
Inventory	41,344	17,014
Prepaid expenses	22,707	19,695
Other current assets	895	855
Total Current Assets	<u>1,819,190</u>	<u>1,830,628</u>
NET PROPERTY AND EQUIPMENT - AT COST	<u>46,965</u>	<u>50,088</u>
OTHER ASSETS:		
Contributions and grants receivable	- 0 -	75,000
Right-of-use assets	<u>72,030</u>	<u>- 0 -</u>
Total Other Assets	<u>72,030</u>	<u>75,000</u>
TOTAL ASSETS	<u><u>\$ 1,938,185</u></u>	<u><u>\$ 1,955,716</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:		
Accounts payable	\$ 49,613	\$ 34,249
Accrued expenses	101,999	93,689
Deferred tax liability	- 0 -	18,063
Finance lease liability	3,422	3,316
Operating leases liability	66,578	- 0 -
Other liabilities	<u>- 0 -</u>	<u>2,500</u>
Total Current Liabilities	<u>221,612</u>	<u>151,817</u>
LONG-TERM DEBT:		
Finance lease liability	10,309	13,731
Operating leases liability	<u>6,277</u>	<u>- 0 -</u>
Total Long-Term Debt	<u>16,586</u>	<u>13,731</u>
NET ASSETS:		
Without donor restrictions	1,275,908	1,308,931
With donor restrictions	<u>424,079</u>	<u>481,237</u>
Total Net Assets	<u>1,699,987</u>	<u>1,790,168</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,938,185</u></u>	<u><u>\$ 1,955,716</u></u>

See accompanying notes to financial statements

BLUE WATER BALTIMORE, INC.

Statements of Activities and Changes in Net Assets
For the Years Ended December 31, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE:						
Contributions and grants	\$ 1,650,899	\$ 209,756	\$ 1,860,655	\$ 1,247,842	\$ 89,248	\$ 1,337,090
In-kind services	168,018	- 0 -	168,018	172,998	- 0 -	172,998
Government grants	278,373	5,750	284,123	122,817	46,915	169,732
Special events	82,315	- 0 -	82,315	69,758	- 0 -	69,758
Rain barrel, plant, and nursery sales	499,080	- 0 -	499,080	463,006	- 0 -	463,006
Fees for service	334,573	- 0 -	334,573	375,916	- 0 -	375,916
Other income - PPP forgiveness	- 0 -	- 0 -	- 0 -	292,777	- 0 -	292,777
Other revenue	12,544	- 0 -	12,544	33,562	- 0 -	33,562
Interest income	1,729	- 0 -	1,729	556	- 0 -	556
Net assets released from restrictions	272,664	(272,664)	- 0 -	409,607	(409,607)	- 0 -
Total Support and Revenue	3,300,195	(57,158)	3,243,037	3,188,839	(273,444)	2,915,395
EXPENSES:						
Program services:						
Advocacy	243,813	- 0 -	243,813	167,506	- 0 -	167,506
Education and outreach	78,748	- 0 -	78,748	128,403	- 0 -	128,403
Community forestry	755,332	- 0 -	755,332	561,286	- 0 -	561,286
Nursery and trees	452,729	- 0 -	452,729	389,807	- 0 -	389,807
Green stormwater infrastructure	347,856	- 0 -	347,856	199,312	- 0 -	199,312
Waterkeeper	292,462	- 0 -	292,462	238,558	- 0 -	238,558
	2,170,940	- 0 -	2,170,940	1,684,872	- 0 -	1,684,872
Supporting services:						
General and administrative	893,144	- 0 -	893,144	715,574	- 0 -	715,574
Fundraising	269,134	- 0 -	269,134	216,698	- 0 -	216,698
	1,162,278	- 0 -	1,162,278	932,272	- 0 -	932,272
Total Expenses	3,333,218	- 0 -	3,333,218	2,617,144	- 0 -	2,617,144
CHANGE IN NET ASSETS	(33,023)	(57,158)	(90,181)	571,695	(273,444)	298,251
NET ASSETS AT BEGINNING OF YEAR	1,308,931	481,237	1,790,168	737,236	754,681	1,491,917
NET ASSETS AT END OF YEAR	\$ 1,275,908	\$ 424,079	\$ 1,699,987	\$ 1,308,931	\$ 481,237	\$ 1,790,168

See accompanying notes to financial statements

BLUE WATER BALTIMORE, INC.

Statement of Functional Expenses
For the Year Ended December 31, 2022

	Program Services							Supporting Services			Grand Total
	Advocacy	Education and Outreach	Community Forestry	Nursery and Trees	Green Stormwater Infrastructure	Waterkeeper	Total	General and Administrative	Fundraising	Total	
Salaries	\$ 75,704	\$ 43,872	\$ 261,322	\$ 166,102	\$ 153,923	\$ 175,472	\$ 876,395	\$ 485,775	\$ 167,127	\$ 652,902	\$ 1,529,297
Payroll taxes	5,678	3,290	19,599	12,458	11,544	13,160	65,729	41,189	13,601	54,790	120,519
Other benefits	8,221	4,764	28,376	18,037	16,715	19,055	95,168	52,094	18,148	70,242	165,410
	89,603	51,926	309,297	196,597	182,182	207,687	1,037,292	579,058	198,876	777,934	1,815,226
Advertising	- 0 -	- 0 -	- 0 -	107	- 0 -	- 0 -	107	3,653	4,000	7,653	7,760
Business expenses	703	- 0 -	45	790	- 0 -	517	2,055	3,605	1,318	4,923	6,978
Cost of goods sold											
- trees and plants	- 0 -	- 0 -	- 0 -	219,189	- 0 -	- 0 -	219,189	- 0 -	- 0 -	- 0 -	219,189
Education and training	2,618	- 0 -	608	834	- 0 -	2,284	6,344	9,068	828	9,896	16,240
In-kind services	138,029	- 0 -	- 0 -	- 0 -	- 0 -	8,772	146,801	14,400	6,817	21,217	168,018
Insurance	- 0 -	- 0 -	3,330	- 0 -	- 0 -	4,325	7,655	27,583	- 0 -	27,583	35,238
Interest	- 0 -	- 0 -	30	13,915	- 0 -	- 0 -	13,945	2,485	4,903	7,388	21,333
Miscellaneous	- 0 -	- 0 -	965	370	209	9	1,553	9,026	441	9,467	11,020
Occupancy	480	560	1,903	8,895	1,120	1,440	14,398	116,828	1,200	118,028	132,426
Postage and delivery	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	2,543	2,543	289	1,469	1,758	4,301
Printing and reproduction	- 0 -	37	2,947	- 0 -	- 0 -	- 0 -	2,984	2,325	2,437	4,762	7,746
Professional fees	8,000	25,000	264,243	- 0 -	145,399	25,458	468,100	64,281	24,324	88,605	556,705
Rebates	3,075	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	3,075	- 0 -	- 0 -	- 0 -	3,075
Supplies	130	298	114,680	7,550	5,505	18,944	147,107	20,528	797	21,325	168,432
Travel and meetings	900	376	1,324	925	- 0 -	2,937	6,462	1,965	20,760	22,725	29,187
Utilities	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	31,118	- 0 -	31,118	31,118
Vehicle and equipment expense	- 0 -	- 0 -	53,757	2,593	9,587	16,169	82,106	3,352	- 0 -	3,352	85,458
	243,538	78,197	753,129	451,765	344,002	291,085	2,161,716	889,564	268,170	1,157,734	3,319,450
Depreciation	275	551	2,203	964	3,854	1,377	9,224	3,580	964	4,544	13,768
Total Expenses	\$ 243,813	\$ 78,748	\$ 755,332	\$ 452,729	\$ 347,856	\$ 292,462	\$ 2,170,940	\$ 893,144	\$ 269,134	\$ 1,162,278	\$ 3,333,218

See accompanying notes to financial statements

BLUE WATER BALTIMORE, INC.

Statement of Functional Expenses For the Year Ended December 31, 2021

	Program Services						Supporting Services				Grand Total
	Advocacy	Education and Outreach	Community Forestry	Nursery and Trees	Green Stormwater Infrastructure	Waterkeeper	Total	General and Administrative	Fundraising	Total	
Salaries	\$ 33,561	\$ 106,081	\$ 267,883	\$ 144,250	\$ 124,925	\$ 166,085	\$ 842,785	\$ 187,823	\$ 150,085	\$ 337,908	\$ 1,180,693
Payroll taxes	1,534	4,848	12,243	6,593	5,710	7,591	38,519	42,861	18,011	60,872	99,391
Other benefits	512	14,288	24,714	14,999	15,783	18,726	89,022	46,148	10,679	56,827	145,849
	<u>35,607</u>	<u>125,217</u>	<u>304,840</u>	<u>165,842</u>	<u>146,418</u>	<u>192,402</u>	<u>970,326</u>	<u>276,832</u>	<u>178,775</u>	<u>455,607</u>	<u>1,425,933</u>
Advertising	- 0 -	- 0 -	164	15	40	- 0 -	219	2,831	1,712	4,543	4,762
Business expenses	600	- 0 -	1,920	695	- 0 -	500	3,715	627	15,173	15,800	19,515
Cost of goods sold											
- trees and plants	- 0 -	- 0 -	- 0 -	188,158	- 0 -	- 0 -	188,158	- 0 -	- 0 -	- 0 -	188,158
Education and training	- 0 -	- 0 -	- 0 -	451	- 0 -	- 0 -	451	5,616	- 0 -	5,616	6,067
In-kind services	130,510	- 0 -	8,172	- 0 -	- 0 -	- 0 -	138,682	28,800	5,516	34,316	172,998
Insurance	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	4,732	4,732	32,300	- 0 -	32,300	37,032
Interest	- 0 -	- 0 -	1,615	11,768	- 0 -	- 0 -	13,383	3,228	4,673	7,901	21,284
Miscellaneous	- 0 -	- 0 -	134	605	- 0 -	23	762	3,554	131	3,685	4,447
Occupancy	- 0 -	- 0 -	- 0 -	7,500	- 0 -	- 0 -	7,500	115,510	- 0 -	115,510	123,010
Postage and delivery	91	- 0 -	266	- 0 -	- 0 -	1,616	1,973	5	1,464	1,469	3,442
Printing and reproduction	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	35	35	516	2,133	2,649	2,684
Professional fees	- 0 -	- 0 -	86,186	300	21,885	12,385	120,756	174,000	2,270	176,270	297,026
Supplies	70	663	129,137	3,961	10,257	11,977	156,065	32,948	809	33,757	189,822
Travel and meetings	81	250	1,574	1,314	5	1,494	4,718	4,827	1,028	5,855	10,573
Utilities	120	1,420	2,453	2,550	3,016	1,039	10,598	18,978	1,520	20,498	31,096
Vehicle and equipment expense	- 0 -	- 0 -	21,412	5,155	11,719	10,222	48,508	9,456	- 0 -	9,456	57,964
	<u>131,472</u>	<u>2,333</u>	<u>253,033</u>	<u>222,472</u>	<u>46,922</u>	<u>44,023</u>	<u>700,255</u>	<u>433,196</u>	<u>36,429</u>	<u>469,625</u>	<u>1,169,880</u>
Depreciation	427	853	3,413	1,493	5,972	2,133	14,291	5,546	1,494	7,040	21,331
Total Expenses	<u>\$ 167,506</u>	<u>\$ 128,403</u>	<u>\$ 561,286</u>	<u>\$ 389,807</u>	<u>\$ 199,312</u>	<u>\$ 238,558</u>	<u>\$ 1,684,872</u>	<u>\$ 715,574</u>	<u>\$ 216,698</u>	<u>\$ 932,272</u>	<u>\$ 2,617,144</u>

See accompanying notes to financial statements

BLUE WATER BALTIMORE, INC.

Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (90,181)	\$ 298,251
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Forgiveness of debt obligation - PPP loan	- 0 -	(292,777)
Depreciation	13,768	21,331
Non-cash operating leases expense	825	- 0 -
(Increase) decrease in current assets:		
Contributions and grants receivable	(53,105)	(106,350)
Accounts receivable	159,282	(32,331)
Inventory	(24,330)	(740)
Prepaid expenses	(3,012)	14,499
Other current assets	(40)	(757)
Increase (decrease) in current liabilities:		
Accounts payable	15,364	(196,273)
Accrued expenses	8,310	24,566
Deferred tax liability	(18,063)	(18,063)
Other liabilities	(2,500)	- 0 -
Net cash provided by (used in) operating activities	<u>6,318</u>	<u>(288,644)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	<u>(10,645)</u>	<u>(1,199)</u>
Net cash used in investing activities	<u>(10,645)</u>	<u>(1,199)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Refundable advance	- 0 -	292,777
Principal payments of loans payable	- 0 -	(8,832)
Principal payments on finance lease obligation	<u>(3,316)</u>	<u>(4,926)</u>
Net cash provided by (used in) financing activities	<u>(3,316)</u>	<u>279,019</u>
NET DECREASE IN CASH	(7,643)	(10,824)
CASH AT BEGINNING OF YEAR	1,257,002	1,267,826
CASH AT END OF YEAR	<u>\$ 1,249,359</u>	<u>\$ 1,257,002</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	\$ 21,333	\$ 21,284
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Acquisition of equipment through finance lease	\$ - 0 -	\$ 17,589
Acquisition of right-of-use assets	\$ 129,044	\$ - 0 -
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES:		
Contributed services	\$ 168,018	\$ 172,998

See accompanying notes to financial statements

BLUE WATER BALTIMORE, INC.

Notes to Financial Statements
December 31, 2022 and 2021

1. Organization and Summary of Significant Accounting Policies

Nature of Operations - Blue Water Baltimore, Inc. (the Organization) is grassroots, volunteer-based environmental non-profit organization. The Organization's mission is to restore the quality of Baltimore's rivers, streams, and harbor to foster a healthy environment, a strong economy, and thriving communities. The Organization's main sources of revenue are government and private foundation grants, membership dues, donations from the general public, and program service revenues.

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 certain reported amounts of assets, liabilities, and disclosures at the date of the financial statements and certain reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Basis of Accounting - The financial statements of the Organization have been prepared on the accrual basis of accounting and, accordingly, reflect receivables, payables, and other assets and liabilities. Revenue is recognized when earned and expenses when incurred.

Financial Statement Presentation - The Organization is required to report 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.

Net assets without donor restrictions represent the portion of net assets that is not subject to donor-imposed restrictions. Such net assets are available for use at the discretion of management and/or the Board of Directors for general operating purposes. The Board of Directors may designate a portion of these net assets for specific purposes, which makes them unavailable for use at management's discretion.

Net assets with donor restrictions represent the portion of net assets that is subject to donor-imposed restrictions. Such restrictions may specify a purpose for which, or time in which, resources can be used. Some net assets with donor restrictions include stipulations that assets provided be maintained permanently (perpetual in nature) while permitting the Organization to expend the income generated by the assets in accordance with the provisions of additional donor-imposed stipulations or a Board-approved spending policy.

Contributions and Grants Receivable - Contributions and grants receivable represent amounts due from unrelated third parties and are recorded at their net realizable value. The Organization provides an allowance for doubtful accounts, as needed, for amounts deemed uncollectible. The allowance is based on historical experience and management's analysis of accounts receivable. Revenue is recognized in accordance with the revenue recognition policy.

BLUE WATER BALTIMORE, INC.

Notes to Financial Statements
December 31, 2022 and 2021

1. Organization and Summary of Significant Accounting Policies (continued)

Accounts Receivable - Accounts receivable are uncollateralized obligations and generally require payment upon receipt of the invoice. Accounts receivable are stated at invoice amounts and are presented in the statements of financial position net of an allowance for doubtful accounts. Payments are applied to the specific invoices noted on the remittance advice, or, if unspecified, to the earliest unpaid invoices. Revenue from contracts with customers, and rental income that has been earned but not yet received make up the accounts receivable balance. Revenue is recognized in accordance with the revenue recognition policy. There are no unbilled receivables as of December 31, 2022 and 2021.

Allowance for Doubtful Accounts - The Organization provides an allowance for doubtful accounts, as needed, for amounts deemed uncollectible. The allowance is based on historical experience and management's analysis of accounts receivable. No allowance for uncollectible accounts is provided because management does not deem it necessary based on historical collection experience.

Inventory - Inventory consists of trees and plants purchased or produced for resale and are valued at the lower of cost or market with estimated cost determined on a first-in, first-out (FIFO) basis.

Property and Equipment - Property and equipment are stated at cost, if purchased, or at fair market value at the date of the gift, if donated. Such donations are reported as contributions without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as contributions with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Expenditures for maintenance and repairs are charged against operations as expended. Renewals and betterments that materially extend the life of the assets are capitalized. The Organization's policy is to capitalize all property expenditures and renewals and betterments greater than \$1,000 with a useful life of a year or more. The cost or fair market value of property and equipment is depreciated over the estimated useful lives of the related assets using the straight-line method. The following represents the estimated useful lives:

<u>Category</u>	<u>Years</u>
Leasehold improvements	10
Furniture	5
Equipment	3
Vehicles	3 - 5

BLUE WATER BALTIMORE, INC.

Notes to Financial Statements December 31, 2022 and 2021

1. Organization and Summary of Significant Accounting Policies (continued)

Revenue Recognition - The Organization benefits from several different revenue streams. The disaggregation of revenue for the years ended December 31, 2022 and 2021 is included in the chart below:

Revenue Type	Timing of Revenue Recognition	2022	2021
Contributions and grants	Period earned	\$ 1,860,655	\$ 1,337,090
In-kind services	Upon receipt	168,018	172,998
Government grants	Period earned	284,123	169,732
Special events	Date of the event	82,315	69,758
Sales			
Rain barrel sales	Point in time	- 0 -	30
Plant and tree sales	Point in time	499,080	459,347
Nursery sales	Point in time	- 0 -	3,629
Fees for service	After service is performed	334,573	375,916
Other income - PPP forgiveness	After condition is satisfied	- 0 -	292,777
Other revenue	Period earned	12,544	33,562
Interest income	Period interest is earned	1,729	556
		<u>\$ 3,243,037</u>	<u>\$ 2,915,395</u>

Contributions and grants - Contributions and grants received are recorded as revenue with or without donor restrictions depending on the existence and nature of any such restrictions. All donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires (when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from restrictions. Contributions and support that are restricted by donors are recorded as revenue without donor restrictions if the restriction is satisfied in the same year as the contribution is received. Revenue under grants and contributions is recognized when unconditional promises to give are made by donors or when conditions are substantially met.

When grants or other fees are conditional, wherein the Organization has to perform services in order to earn the income, revenue is recognized when the services are performed. Accordingly, refundable advances are recorded on these types of grants when funds are received but revenue has not been earned.

Contributed Services (In-kind contributions) - The Organization receives a significant amount of donated services from unpaid volunteers who assist in program services. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Donated services meeting these criteria are reflected in the accompanying financial statements as in-kind support and are offset by like amounts included in expense.

BLUE WATER BALTIMORE, INC.

Notes to Financial Statements
December 31, 2022 and 2021

1. Organization and Summary of Significant Accounting Policies (continued)

Contributions of Nonfinancial Assets - Occasionally, the Organization receives donations of nonfinancial assets. The Organization's policy is to use the assets in carrying out the Organization's programs.

Sales - The Organization records sales revenue at the point of sale (transfer of goods). Cost of sales include all direct material, labor, and those indirect costs related to job performance, such as payroll taxes, supplies, and other indirect costs. There are no shipping costs associated with sales. General and administrative costs are expensed as incurred. The Organization satisfies the performance obligation when ownership of goods is transferred to the customer at the time of sale.

Fees for Service - Fees for service revenue represents fees charged for consulting, construction management, and other services rendered to religious institutions, companies, and other organizations. These arrangements are considered contracts and are recognized as earned. The performance obligation is satisfied when the services on the purchase order have been provided.

Special Events - The Organization operates a special event known as the Blue Water Bash. Revenue related to this special event is collected in the same period as the event takes place. Therefore, revenue is recognized in the period it is received. The performance obligation is satisfied on the date of the event.

The Organization follows Financial Accounting Standards Board Topic 958-605, *Revenue Recognition for Not-for-Profit Entities*, in accounting for its Paycheck Protection Program (PPP) loan. The loan is effectively accounted for as a conditional grant (see Note 11).

Functional allocation of expenses - Expenses are presented by both function and natural classification in the statements of functional expenses. Expenses that are directly identifiable with a particular function are charged to the program or supporting service benefited. Other expenses may benefit more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Expenses that are allocated include compensation and benefits, which are allocated on the basis of estimates of time and effort, as well as depreciation and occupancy, which are allocated based on program effort in relation to total expenses.

Advertising Costs - The Organization expenses advertising production costs as they are incurred and advertising communication costs the first time the advertising takes place. Advertising expense was \$7,760 and \$4,762 for the years ended December 31, 2022 and 2021, respectively.

Income Taxes - The Organization is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3) as an organization, other than a private foundation, as described in Section 509(a). The Organization is no longer subject to U.S. federal or state income tax examinations by tax authorities for years before 2019.

BLUE WATER BALTIMORE, INC.

Notes to Financial Statements
December 31, 2022 and 2021

1. Organization and Summary of Significant Accounting Policies (continued)

Conservation Easements - The Organization is party to a conservation easement. This easement is not reflected in the financial statements of the Organization because it bears no monetary value to the Organization.

Compensated Absences - Employees are permitted to carry over unused vacation and sick hours each year. Employees receive payment for the full amount of any accrued vacation time at termination for any reason but no payment for accrued sick time. Accordingly, the Organization has established a liability, reflected as a component of accrued payroll on the statement of financial position. Compensated absences based on unused benefit time as of December 31, 2022 and 2021 totaled \$42,205 and \$36,160, respectively.

In September 2020, the FASB issued ASU 2020-07, Not-for-Profit Entities (Topic 958): *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The new guidance requires nonprofit entities to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets. The standard also increases the disclosure requirements around contributed nonfinancial assets, including disaggregating by category the types of contributed nonfinancial assets a nonprofit entity has received. Adoption of this standard did not have a significant impact on the financial statements with the exception of increased disclosure.

Changes in Accounting Principles - In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes existing guidance from accounting for leases under *Topic 840, Leases*. The most significant change in the new leasing guidance is the requirement to recognize right-of-use (ROU) assets and lease liabilities for operating leases on the statements of financial position. The Organization elected to retrospectively adopt this ASU effective January 1, 2022 and utilized all the available practical expedients to transition using a modified retrospective method. This means that a cumulative-effect adjustment is made on the initial date of adoption for existing leases. The adoption had a material impact on the Organization's statement of financial position but did not have a material impact on the statement of activities and changes in net assets. The most significant impact was the recognition of right-of-use (ROU) assets and lease liabilities for operating leases. The accounting for finance leases remained substantially unchanged. Adoption of the standard required the Organization to restate amounts as of January 1, 2022, resulting in an increase in operating lease ROU assets of \$129,044 and an increase in operating lease liabilities of \$129,044.

2. Contributions and Grants Receivable

Contributions and grants receivable of \$75,000 and \$330,960 as of December 31, 2022 and 2021, respectively, represent amounts due from private organizations or individuals and local government agencies under grant agreements and are deemed fully collectible by management. Contributions and grants receivable consist of the following as of December 31, 2022 and 2021:

BLUE WATER BALTIMORE, INC.

Notes to Financial Statements December 31, 2022 and 2021

2. Contributions and Grants Receivable (continued)

	<u>2022</u>	<u>2021</u>
Receivable in less than one year	\$ 384,065	\$ 255,960
Receivable in two to five years	<u>- 0 -</u>	<u>75,000</u>
Total grants and contributions receivable	<u>\$ 384,065</u>	<u>\$ 330,960</u>

No discount for present value was recorded for contributions and grants receivable for the years ending December 31, 2022 and 2021 as the amounts are deemed immaterial.

3. Net Property and Equipment - At Cost

Property and equipment at December 31, 2022 and 2021 consisted of the following:

	<u>2022</u>	<u>2021</u>
Leasehold improvements	\$ 53,590	\$ 53,590
Furniture	56,513	56,513
Equipment	67,003	67,003
Vehicles	<u>141,282</u>	<u>132,059</u>
	318,388	309,165
Less: accumulated depreciation	<u>271,423</u>	<u>259,077</u>
Net property and equipment	<u>\$ 46,965</u>	<u>\$ 50,088</u>

4. Line of Credit

The Organization has a line of credit from M&T Bank of \$400,000 to fund operational expenses. The line is collateralized by the Organization's bank accounts with M&T Bank. Interest at the rate of the bank's prime rate plus 3.5% (7.5% and 6.75% at December 31, 2022 and 2021, respectively), is payable monthly on outstanding advances. The line of credit may be canceled by either party at any time. The line of credit balance outstanding as of December 31, 2022 and 2021 was \$-0-.

5. Lease Commitments

During 2016, the Organization entered into a finance lease for new copiers under a 60-month lease, meeting the criteria for capital lease treatment. The lease obligation consisted of a monthly payment of \$588 including interest, fees, and maintenance, collateralized by the related office equipment. The cost of equipment under the capital lease was \$13,219. Annual depreciation expense on the copiers totaled \$-0- and \$2,423 for 2022 and 2021, respectively. The equipment was disposed of in November of 2021 and replaced by a new lease.

BLUE WATER BALTIMORE, INC.

Notes to Financial Statements
December 31, 2022 and 2021

5. Lease Commitments (continued)

In November 2021, the Organization leased a new copier under a non-cancelable finance lease with a term of 60 months. The monthly payments for the lease are \$318 and are collateralized by the equipment. The lease expires in October of 2026. The assets included in property and equipment and liabilities under this finance lease are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The asset is amortized over its estimated productive life. Amortization of the asset under finance lease is included in depreciation expense in the statements of activities and changes in net assets.

In January 2017, the Organization entered into an operating lease agreement for office space with an annual base rent of \$100,000, or \$8,333 per month, with a 2% escalation clause. The Organization is also responsible for administrative expenses such as management, real estate taxes, insurance, and other lease related expenses.

In April 2020, the annual base rent was revised to \$52,020, or \$4,335 per month, with a 2% escalation clause, with the intent to break the lease as soon as reasonably practical.

In November 2021, the Organization agreed on a lease extension. The new terms call for a monthly base rent payment of \$5,000 and maintenance fee of \$1,667 starting February 1, 2022 for 24 months, with an option to terminate the lease with 6 months' notice after month 12 of the lease. Base rent and fees escalate 3% annually.

In February 2022, the Organization entered into two operating leases for construction equipment for a total monthly payment of \$565 for 24 months. The leases expire in February 2024.

The following summarizes the line items in the statements of financial position which include amounts for operating and finance leases as of December 31:

	<u>2022</u>	<u>2021</u>
Operating Leases		
Operating lease right-of-use assets	<u>\$ 72,030</u>	<u>\$ - 0 -</u>
Current operating lease liabilities	\$ 66,578	\$ - 0 -
Long-term operating lease liabilities	<u>6,277</u>	<u>- 0 -</u>
Total operating lease liabilities	<u>\$ 72,855</u>	<u>\$ - 0 -</u>

BLUE WATER BALTIMORE, INC.

Notes to Financial Statements
December 31, 2022 and 2021

5. Lease Commitments (continued)

Finance Lease

Property and equipment	\$ 17,589	\$ 17,589
Accumulated depreciation	<u>(4,398)</u>	<u>(880)</u>
Property and equipment, net	<u>\$ 13,191</u>	<u>\$ 16,709</u>
Current finance lease liabilities	\$ 3,422	\$ 3,316
Long-term finance lease liabilities	<u>10,309</u>	<u>13,731</u>
Total finance lease liabilities	<u>\$ 13,731</u>	<u>\$ 17,047</u>

The following summarizes the weighted average remaining lease term and discount rate as of December 31:

	<u>2022</u>	<u>2021</u>
Weighted Average Remaining Lease Term		
Operating Leases	1.1 years	not applicable
Finance Lease	3.8 years	4.8 years
Weighted Average Discount Rate		
Operating Leases	5.0%	not applicable
Finance Lease	3.2%	3.2%

The maturities of lease liabilities as of December 31, 2022 were as follows:

	<u>Operating</u>	<u>Finance</u>
December 31, 2023	\$ 68,427	\$ 3,810
2024	6,279	3,810
2025	- 0 -	3,810
2026	<u>- 0 -</u>	<u>3,175</u>
Total lease payments	74,706	14,605
Less: interest	<u>(1,851)</u>	<u>(874)</u>
Present value of lease liabilities	<u>\$ 72,855</u>	<u>\$ 13,731</u>

BLUE WATER BALTIMORE, INC.

Notes to Financial Statements
December 31, 2022 and 2021

5. Lease Commitments (continued)

The following summarizes the line items in the statements of activities and changes in net assets, which include the components of lease expense for the years ended December 31:

	<u>2022</u>	<u>2021</u>
Operating leases costs:		
Operating lease expense included in program service expenses	\$ 5,647	\$ - 0 -
Operating lease expense included in supporting service expenses	<u>55,825</u>	<u>- 0 -</u>
Total operating lease costs	<u>\$ 61,472</u>	<u>\$ - 0 -</u>
Finance lease costs:		
Amortization of lease asset included in program service expenses	\$ 2,357	\$ 590
Amortization of lease asset included in supporting service expenses	1,161	290
Interest on finance lease liability included in general and administrative expenses	<u>495</u>	<u>93</u>
Total finance lease costs	<u>\$ 4,013</u>	<u>\$ 973</u>

The following summarizes cash flow information related to leases for the years ended December 31:

	<u>2022</u>	<u>2021</u>
Cash paid for amounts included in the measurements of operating leases liability:	\$ 60,647	\$ - 0 -
Cash paid for amounts included in the measurements of finance lease liability:		
Operating cash flow from finance lease	\$ 495	\$ 93
Financing cash flow from finance lease	\$ 3,316	\$ 4,926
Lease assets obtained in exchange for lease obligations:		
Operating leases	\$ 129,044	\$ - 0 -
Finance lease	\$ - 0 -	\$ 17,589

BLUE WATER BALTIMORE, INC.Notes to Financial Statements
December 31, 2022 and 2021

6. Net Assets with Donor Restrictions

Net assets with donor restrictions as of December 31, 2022 and 2021 are to be used for the following purposes:

	<u>2022</u>	<u>2021</u>
Purpose restrictions, available for spending:		
Advocacy	\$ 46,144	\$ 56,555
Education and Outreach	43,710	83,944
Community Forestry	188,555	11,723
Green Stormwater Infrastructure	119,230	167,738
Support Services	15,850	54,932
Waterkeeper	<u>10,590</u>	<u>106,345</u>
Total	<u>\$ 424,079</u>	<u>\$ 481,237</u>

The Organization satisfied the following purpose restrictions related to its net assets with donor restrictions during the years ended December 31, 2022 and 2021 as follows:

	<u>2022</u>	<u>2021</u>
Advocacy	\$ 10,412	\$ 101,270
Education and Outreach	40,984	97,068
Community Forestry	35,326	142,698
Green Stormwater Infrastructure	51,105	30,067
Support Services	39,082	6,284
Waterkeeper	<u>95,755</u>	<u>32,220</u>
Total	<u>\$ 272,664</u>	<u>\$ 409,607</u>

BLUE WATER BALTIMORE, INC.

Notes to Financial Statements
December 31, 2022 and 2021

7. Liquidity and Availability of Financial Assets

The following reflects the Organization's financial assets as of December 31, 2022 and 2021, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date:

	<u>2022</u>	<u>2021</u>
Financial assets at year end	\$ 1,755,139	\$ 1,868,919
Less those unavailable for general expenditures within one year, due to:		
Long term contributions and grants receivable	- 0 -	(75,000)
Restricted by donors with purpose or time restrictions	<u>(424,079)</u>	<u>(481,237)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,331,060</u>	<u>\$ 1,312,682</u>

The Organization maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Additionally, to help management meet unanticipated liquidity needs, the Organization has a committed line of credit of \$400,000, of which \$-0- has been drawn upon as of December 31, 2022 and 2021.

8. Pending Litigations

The Organization is a plaintiff or co-plaintiff in several other legal matters regarding environmental issues. The proceedings do not involve actual or likely monetary claims against the Organization. Legal expenses incurred and paid by the Organization and included in professional fees in the statements of functional expenses amounted to \$-0- and \$3,640 for the years ended December 31, 2022 and 2021, respectively. A substantial portion of litigation costs have been handled on a pro-bono basis by the legal team. No accruals have been made for a gain contingency because the outcomes of the cases are uncertain. Potential future legal expenses are unknown.

In December 2021, the Organization filed a Citizen Suit for Violations of the Clean Water Act against the City of Baltimore. The proceedings do not involve actual or likely monetary claims for the Organization and no accrual has been made for a gain contingency because the outcome of the case is uncertain. The parties previously agreed to temporarily pause the litigation with the hope of developing a settlement agreement. After four months of negotiations no agreement was reached, and the pause on litigation was lifted.

BLUE WATER BALTIMORE, INC.

Notes to Financial Statements
December 31, 2022 and 2021

8. Pending Litigations (continued)

During the years ended December 31, 2022 and 2021, the Organization recognized the total of \$138,029 and \$130,510, respectively, for pro-bono legal services quantifiable as attributable to the Organization. Amounts are included in in-kind contributions and in-kind services in the statements of activities and changes in net assets and functional expenses, respectively.

9. Retirement Plan

The Organization sponsors a Simple Individual Retirement Account (IRA) Plan for the benefit of its full-time employees. Eligible employees may make contributions to the Plan. The Organization matches the first 3% of employees' salaries. Employer contributions to the Plan for the years ended December 31, 2022 and 2021 were \$29,957 and \$24,057, respectively, and are reported as salaries and other benefits expenses in the statements of functional expenses. All contributions to the Plan are 100% vested at the time of contribution.

10. Concentrations of Credit Risk

In the ordinary course of business, the Organization's cash balances may exceed the FDIC insurance limits. The Organization continually reviews credit concentrations as part of its asset and liability management.

11. Paycheck Protection Program

In January 2021, the Organization applied for and received its second PPP loan in the amount of \$292,777. The loan was for a term of two years at a fixed rate of interest of 1% per annum. Payments on this loan were deferred for a period of ten months. This loan qualified for forgiveness after twenty-four weeks, after all criteria for forgiveness were satisfied. The Organization had incurred \$292,777 of eligible expenses to satisfy forgiveness criteria; therefore, the Organization recognized forgiveness income as other income in the statement of activities and changes in net assets for the year ended December 31, 2021. The loan had been forgiven in full in July 2022.

12. Deferred Taxes

Due to the CARES Act, the Organization has elected to defer for up to two years the deposit and payment of its share of the social security tax on employee wages. Amounts normally due between March 27, 2020 and December 31, 2020, can be deferred with 50 percent required to be paid by December 31, 2021, and the remaining 50 percent by December 31, 2022. The deferral only applies to social security taxes and does not apply to Medicare taxes or tax withholdings from employees. Total deferred tax liabilities at December 31, 2022 and 2021 were \$-0- and \$18,063, respectively.

BLUE WATER BALTIMORE, INC.

Notes to Financial Statements December 31, 2022 and 2021

13. Contributed Services

Contributed services received by the Organization during the years ended December 31, 2022 and 2021, valued at the current fair market rates at standard industry pricing for similar services, consist of the following:

	<u>2022</u>	<u>2021</u>
Accounting services	\$ 14,400	\$ 28,800
Legal fees	138,029	130,510
Special events	6,817	5,516
Other	<u>8,772</u>	<u>8,172</u>
	<u>\$ 168,018</u>	<u>\$ 172,998</u>

14. Subsequent Events

In February 2023, the Organization entered into a loan agreement to purchase a dump truck with the loan being collateralized by the truck. The full amount of the loan is \$59,000 and is payable in 60 monthly installments of \$1,185 including interest of 7.5%.

In July 2023, the Organization entered into a loan agreement to purchase a pickup truck with the loan being collateralized by the truck. The full amount of the loan is \$37,868 and is payable in 60 monthly installments of \$779 including interest of 8.5%.

In August 2023, the Organization entered into an agreement to lease office space for a five-year period starting around December 2024. The exact date of the lease term start is unknown due to it being dependent upon the completion of the construction of the new office. Upon lease start, the monthly lease payment amount will be \$5,228. Also upon lease start, a security deposit of \$10,456 will be due.

In August of 2023, the Organization entered into an agreement to lease office space starting December 2023 and ending on the date that the lease outlined above begins. Therefore, the exact term of the lease is unknown. The monthly lease payment will be \$3,026 for the lease's duration.

Management has evaluated subsequent events through October 25, 2023, the date which the financial statements were available to be issued.