

**BLUE WATER BALTIMORE, INC.**

AUDITED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

**BLUE WATER BALTIMORE, INC.**

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Independent Auditors' Report

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

We have audited the accompanying financial statements of Blue Water Baltimore, Inc. (a non-profit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, 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.

**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.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 Blue Water Baltimore, Inc. as of December 31, 2018 and 2017, 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.

A handwritten signature in black ink that reads "Weyrich, Cronin &amp; Sorra".

Lutherville, MD  
May 30, 2019

**BLUE WATER BALTIMORE, INC.**Statements of Financial Position  
December 31, 2018 and 2017ASSETS

	<u>2018</u>	<u>2017</u>
CURRENT ASSETS:		
Cash	\$ 368,570	\$ 121,838
Accounts receivable	471,509	554,791
Inventory	39,653	34,005
Prepaid expenses	40,909	28,310
Other current assets	592	- 0 -
	<u>921,233</u>	<u>738,944</u>
NET PROPERTY AND EQUIPMENT - AT COST	100,596	129,985
OTHER ASSETS:		
Building held for sale	- 0 -	245,810
	<u>\$ 1,021,829</u>	<u>\$ 1,114,739</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:		
Accounts payable	\$ 211,014	\$ 121,817
Accrued expenses	116,466	108,000
Current portion of loans payable	11,097	17,014
Current portion of capital lease payable	2,426	1,805
Deferred revenue	- 0 -	84,246
	<u>341,003</u>	<u>332,882</u>
LONG-TERM DEBT:		
Loans payable	17,370	152,889
Capital lease payable	7,645	10,071
	<u>25,015</u>	<u>162,960</u>
NET ASSETS:		
Without donor restrictions	264,820	165,656
With donor restrictions	390,991	453,241
	<u>655,811</u>	<u>618,897</u>
	<u>\$ 1,021,829</u>	<u>\$ 1,114,739</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, 2018 and 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>SUPPORT AND REVENUE:</b>						
Contributions and grants	\$ 507,984	\$ 730,156	\$ 1,238,140	\$ 363,300	\$ 771,356	\$ 1,134,656
In-kind contributions	51,195	- 0 -	51,195	227,279	- 0 -	227,279
Government grants	4,679	427,065	431,744	32,275	1,544,199	1,576,474
Rainbarrel and tree sales	345,125	- 0 -	345,125	332,906	- 0 -	332,906
Fees for service	1,811,802	- 0 -	1,811,802	555,239	- 0 -	555,239
Memberships	81,140	- 0 -	81,140	90,040	- 0 -	90,040
Special events	114,716	- 0 -	114,716	86,624	- 0 -	86,624
Interest income	2	- 0 -	2	2	- 0 -	2
Other revenue	84,958	- 0 -	84,958	70,875	- 0 -	70,875
Gain on disposal of property and equipment	12,690	- 0 -	12,690	4,958	- 0 -	4,958
Net assets released from restrictions	1,219,471	(1,219,471)	- 0 -	2,380,400	(2,380,400)	- 0 -
	<u>4,233,762</u>	<u>(62,250)</u>	<u>4,171,512</u>	<u>4,143,898</u>	<u>(64,845)</u>	<u>4,079,053</u>
<b>EXPENSES:</b>						
Program services:						
Advocacy	120,695	- 0 -	120,695	152,489	- 0 -	152,489
Downspout disconnection	- 0 -	- 0 -	- 0 -	8,639	- 0 -	8,639
Education and outreach	130,166	- 0 -	130,166	231,944	- 0 -	231,944
Environmental construction	787,043	- 0 -	787,043	603,707	- 0 -	603,707
Greening	402,497	- 0 -	402,497	565,480	- 0 -	565,480
Nursery and trees	343,250	- 0 -	343,250	323,352	- 0 -	323,352
Stormwater reduction	1,420,693	- 0 -	1,420,693	1,110,909	- 0 -	1,110,909
Waterkeeper	190,677	- 0 -	190,677	397,595	- 0 -	397,595
	<u>3,395,021</u>	<u>- 0 -</u>	<u>3,395,021</u>	<u>3,394,115</u>	<u>- 0 -</u>	<u>3,394,115</u>
Supporting services:						
General and administrative	511,200	- 0 -	511,200	431,495	- 0 -	431,495
Fundraising	228,377	- 0 -	228,377	227,515	- 0 -	227,515
	<u>739,577</u>	<u>- 0 -</u>	<u>739,577</u>	<u>659,010</u>	<u>- 0 -</u>	<u>659,010</u>
<b>CHANGE IN NET ASSETS BEFORE UNUSUAL ITEM</b>	<u>99,164</u>	<u>(62,250)</u>	<u>36,914</u>	<u>90,773</u>	<u>(64,845)</u>	<u>25,928</u>
Impairment loss on building held for sale	- 0 -	- 0 -	- 0 -	(400,679)	- 0 -	(400,679)
<b>CHANGE IN NET ASSETS</b>	<u>99,164</u>	<u>(62,250)</u>	<u>36,914</u>	<u>(309,906)</u>	<u>(64,845)</u>	<u>(374,751)</u>
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>165,656</u>	<u>453,241</u>	<u>618,897</u>	<u>475,562</u>	<u>518,086</u>	<u>993,648</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 264,820</u>	<u>\$ 390,991</u>	<u>\$ 655,811</u>	<u>\$ 165,656</u>	<u>\$ 453,241</u>	<u>\$ 618,897</u>

See accompanying notes to financial statements

**BLUE WATER BALTIMORE, INC.**

Statement of Functional Expenses  
For the Year Ended December 31, 2018

	Program Services							Supporting Services				
	Advocacy	Education and Outreach	Environmental Construction	Greening	Nursery and Trees	Stormwater Reduction	Waterkeeper	Total	General and Administrative	Fundraising	Total Supporting Services	Total
Advertising	\$ - 0 -	\$ - 0 -	\$ - 0 -	\$ 952	\$ 657	\$ - 0 -	\$ 5	\$ 1,614	\$ 7,980	\$ 2,500	\$ 10,480	\$ 12,094
Bad debt	- 0 -	- 0 -	- 0 -	1,680	- 0 -	7,866	- 0 -	9,546	- 0 -	- 0 -	- 0 -	9,546
Business expenses	150	- 0 -	1,940	1,750	3,070	3,624	1,624	12,158	664	1,558	2,222	14,380
Cost of goods sold - trees and plants	- 0 -	- 0 -	- 0 -	- 0 -	145,018	- 0 -	- 0 -	145,018	- 0 -	- 0 -	- 0 -	145,018
Depreciation	827	892	5,403	2,759	2,389	9,765	1,308	23,343	4,479	1,567	6,046	29,389
Education and training	- 0 -	93	183	510	200	393	44	1,423	3,706	- 0 -	3,706	5,129
In-kind services	- 0 -	- 0 -	- 0 -	- 0 -	481	- 0 -	180	661	29,195	21,338	50,533	51,194
Insurance	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	6,364	6,364	32,029	- 0 -	32,029	38,393
Interest	- 0 -	- 0 -	1,538	- 0 -	7,804	60	- 0 -	9,402	8,517	5,950	14,467	23,869
Miscellaneous	- 0 -	- 0 -	693	66	1,042	93	858	2,752	236	144	380	3,132
Occupancy	4,916	5,305	32,122	16,402	14,204	58,051	7,775	138,775	26,629	9,313	35,942	174,717
Office supplies	- 0 -	203	46	34	1,875	- 0 -	- 0 -	2,158	4,770	469	5,239	7,397
Postage and delivery	- 0 -	- 0 -	35	- 0 -	- 0 -	7	9	51	1,422	1,577	2,999	3,050
Printing and reproduction	- 0 -	257	236	- 0 -	1,241	683	- 0 -	2,417	987	8,911	9,898	12,315
Professional fees	5,714	22,279	202,330	195	1,035	1,101,956	41,911	1,375,420	101,103	27,866	128,969	1,504,389
Salaries, benefits and payroll taxes	104,768	97,733	332,293	314,222	151,971	225,396	120,904	1,347,287	246,921	140,987	387,908	1,735,195
Supplies	2,018	548	134,402	43,096	6,361	11,104	2,261	199,790	15,336	3,974	19,310	219,100
Travel and meetings	2,042	2,312	3,295	1,581	1,896	1,626	4,069	16,821	10,782	2,168	12,950	29,771
Utilities	260	425	1,909	695	1,596	- 0 -	160	5,045	8,413	- 0 -	8,413	13,458
Vehicle and equipment expense	- 0 -	119	70,618	18,555	2,410	69	3,205	94,976	8,031	55	8,086	103,062
	<u>\$ 120,695</u>	<u>\$ 130,166</u>	<u>\$ 787,043</u>	<u>\$ 402,497</u>	<u>\$ 343,250</u>	<u>\$ 1,420,693</u>	<u>\$ 190,677</u>	<u>\$ 3,395,021</u>	<u>\$ 511,200</u>	<u>\$ 228,377</u>	<u>\$ 739,577</u>	<u>\$ 4,134,598</u>

See accompanying notes to financial statements

**BLUE WATER BALTIMORE, INC.**

Statement of Functional Expenses  
For the Year Ended December 31, 2017

	Program Services								Supporting Services				
	Advocacy	Downspout Disconnection	Education and Outreach	Environmental Construction	Greening	Nursery and Trees	Stormwater Reduction	Waterkeeper	Total	General and Administrative	Fundraising	Total Supporting Services	Total
Advertising	\$ 154	\$ - 0 -	\$ 430	\$ 589	\$ 546	\$ 793	\$ 1,006	\$ 523	\$ 4,041	\$ 592	\$ 208	\$ 800	\$ 4,841
Business expenses	1,050	- 0 -	- 0 -	2,171	1,776	230	2,852	- 0 -	8,079	724	1,424	2,148	10,227
Cost of goods sold - trees and plants	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	148,304	- 0 -	- 0 -	148,304	- 0 -	- 0 -	- 0 -	148,304
Depreciation	1,444	- 0 -	2,166	6,136	5,414	1,805	10,466	2,527	29,958	3,970	2,166	6,136	36,094
Education and training	6	- 0 -	247	286	25	38	73	35	710	4,369	159	4,528	5,238
In-kind services	623	- 0 -	1,956	6,647	2,335	778	4,515	127,849	144,703	7,004	21,981	28,985	173,688
Insurance	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	3,778	3,778	49,626	- 0 -	49,626	53,404
Interest	4	- 0 -	7	696	17	3,911	32	8	4,675	17,756	5,208	22,964	27,639
Miscellaneous	- 0 -	- 0 -	831	18	16	453	11	75	1,404	214	69	283	1,687
Occupancy	6,033	- 0 -	9,050	25,641	22,625	7,551	43,743	10,559	125,202	26,935	9,613	36,548	161,750
Office supplies	682	- 0 -	1,022	2,896	2,770	866	4,941	1,193	14,370	12,869	1,339	14,208	28,578
Postage and delivery	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	7	32	57	96	747	477	1,224	1,320
Printing and reproduction	292	- 0 -	762	1,292	1,180	1,380	2,780	509	8,195	960	2,587	3,547	11,742
Professional fees	22,740	- 0 -	37,388	87,466	31,596	10,132	727,183	88,465	1,004,970	46,438	25,437	71,875	1,076,845
Rebates	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	14,830	- 0 -	14,830	- 0 -	- 0 -	- 0 -	14,830
Salaries, benefits and payroll taxes	108,356	4,986	164,806	288,478	365,921	124,201	266,779	143,289	1,466,816	229,311	151,844	381,155	1,847,971
Supplies	3,443	3,452	7,150	95,345	92,164	15,562	26,040	553	243,709	13,707	1,655	15,362	259,071
Travel and meetings	7,374	54	4,661	2,056	1,686	2,442	2,774	6,482	27,529	3,896	2,690	6,586	34,115
Utilities	288	147	1,468	1,804	658	2,024	180	557	7,126	8,649	- 0 -	8,649	15,775
Vehicle expense	- 0 -	- 0 -	- 0 -	82,186	36,751	2,875	2,672	11,136	135,620	3,728	658	4,386	140,006
	<u>\$ 152,489</u>	<u>\$ 8,639</u>	<u>\$ 231,944</u>	<u>\$ 603,707</u>	<u>\$ 565,480</u>	<u>\$ 323,352</u>	<u>\$ 1,110,909</u>	<u>\$ 397,595</u>	<u>\$ 3,394,115</u>	<u>\$ 431,495</u>	<u>\$ 227,515</u>	<u>\$ 659,010</u>	<u>\$ 4,053,125</u>

See accompanying notes to financial statements

**BLUE WATER BALTIMORE, INC.**

Statements of Cash Flows  
For the Years Ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 36,914	\$ (374,751)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	29,389	36,094
Noncash contribution	- 0 -	(53,590)
Impairment loss on building held for sale	- 0 -	400,679
Gain on disposal of property and equipment	(12,690)	(4,958)
(Increase) decrease in current assets:		
Accounts receivable	83,282	(95,670)
Inventory	(5,648)	(1,886)
Prepaid expenses	(12,599)	(26,772)
Other current assets	(592)	442
Increase (decrease) in current liabilities:		
Accounts payable	89,197	(193,112)
Accrued expenses	8,466	13,696
Deferred revenue	(84,246)	38,227
Net cash provided by (used in) operating activities	<u>131,473</u>	<u>(261,601)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of property and equipment and disposition of leased assets	258,500	14,000
Purchase of property and equipment	<u>- 0 -</u>	<u>(5,630)</u>
Net cash provided by investing activities	<u>258,500</u>	<u>8,370</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments of notes payable	(141,436)	(36,536)
Principal payments on capital lease obligation	<u>(1,805)</u>	<u>(1,343)</u>
Net cash used in financing activities	<u>(143,241)</u>	<u>(37,879)</u>
NET INCREASE (DECREASE) IN CASH	246,732	(291,110)
CASH AT BEGINNING OF YEAR	<u>121,838</u>	<u>412,948</u>
CASH AT END OF YEAR	<u>\$ 368,570</u>	<u>\$ 121,838</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	\$ 23,869	\$ 27,639
SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS:		
Non-cash in-kind income and expenses	\$ 22,395	\$ 49,570
Contributed services	\$ 28,800	\$ 124,119
Contributed property and equipment	\$ - 0 -	\$ 53,590

See accompanying notes to financial statements



## BLUE WATER BALTIMORE, INC.

Notes to Financial Statements  
December 31, 2018 and 2017

### 1. Organizations and Summary of Significant Accounting Policies

**Nature of Operations** - Blue Water Baltimore, Inc. (the Organization) is a 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 grants, membership dues, donations from the general public, and program service revenues.

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

**Basis of 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.

**Revenue and Support** - Grants, contracts, and contributions 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 statement 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, contracts, 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 exchange transactions, wherein the Organization has to perform services in order to earn the income, revenue is recognized when the services are performed. Accordingly, deferred revenue is recorded on these types of grants when funds are received but revenue has not been earned.

**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 exchange transactions and are recognized as earned.

**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.

**BLUE WATER BALTIMORE, INC.**

Notes to Financial Statements  
December 31, 2018 and 2017

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

Accounts Receivable - Accounts receivable are uncollateralized obligations. 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.

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, or if donated, at the fair value at date of gift. 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.

The Organization capitalizes property additions over \$1,000 and with a useful life of a year or more. Expenditures for maintenance and repairs are charged against operations. Renewals and betterments that materially extend the life of the assets are capitalized. 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>
Buildings and building improvements	39
Furniture	5
Equipment	3
Vehicles	3-5

Valuation of Long-Lived Assets - Generally accepted accounting standards require that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the estimated fair value of the asset. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

Impairment Loss on Building Held for Sale – The Organization owned a green building that was its primary office space. During the year ended December 31, 2017, the Organization entered into a lease agreement for new office space and the Organization elected to put the building up for sale. The new lease commenced in March 2017 and a letter of intent to sell the building was signed in May 2017. The net carrying amount of the building including improvements of \$646,489 exceeded the expected future cash flows of \$245,810 resulting in an impairment loss of \$400,679. The building held for sale was valued at \$245,810, as of December 31, 2017, based on the purchase price less costs to sell. The sale of the building settled in February 2018.

## BLUE WATER BALTIMORE, INC.

Notes to Financial Statements  
December 31, 2018 and 2017

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

**Deferred Revenue** - The Organization receives grant monies that are due to be returned in the event that certain conditions are not met. The Organization recognizes grant revenue based on a pro-rata allocation of non-federal match to date, compared to non-federal match required over the grant period. Accordingly, a portion of the grant monies are deferred based on the match and recognized in the grant period in which the conditions are met.

**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 2015.

**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.

**Donated Services** - 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. The Organization has an agreement with Baltimore Municipal Golf Corporation to house its inventory of trees and plants on its property at no cost. There is no determinable value for donated rent, and accordingly, is not disclosed in the financial statements.

**Functional allocation of expenses** - Expenses are presented by both function and natural classification in the statement 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 \$12,094 and \$4,841 for the years ended December 31, 2018 and 2017.

**New Accounting Pronouncement** - In August 2016, the Financial Accounting Standard Board (FASB) issued Accounting Standards Update 2016-14 (ASU 2016-14), *Not-for-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities*. The Organization has adjusted the presentation of its financial statements accordingly, applying the changes retrospectively to the comparative period presented. The new standards change the following aspects of the Organization's financial statements:

- The temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions. The Organization had no permanently restricted net assets as of December 31, 2017.
- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The financial statements include a new disclosure about liquidity and availability of resources (Note 10).

**BLUE WATER BALTIMORE, INC.**Notes to Financial Statements  
December 31, 2018 and 2017

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

The changes have had the following effect on net assets at December 31, 2017:

	As Originally Presented	After Adoption of ASU 2016-14
Unrestricted net assets	\$ 165,656	\$ - 0 -
Temporarily restricted net assets	453,241	- 0 -
Net assets without donor restrictions	- 0 -	165,656
Net assets with donor restrictions	- 0 -	453,241
	<u>\$ 618,897</u>	<u>\$ 618,897</u>

In addition, certain amounts in the prior period financial statements have been reclassified for comparative purposes to conform to the current period presentation.

## 2. Conditional Promises to Give and Related Deferred Revenue

National Fish and Wildlife Foundation (NFWF) - 2014 Grant

The Organization was awarded a matching grant from NFWF to fund the Blue Water Congregations project over the period of January 1, 2014 to December 30, 2016. During 2016, the period of performance was extended to March 31, 2017. The total award was \$248,573 and required a total non-federal match by the Organization of \$378,820. As of December 31, 2017, the project was completed and closed. The Organization has drawn down \$248,573 or 100% of the grant funds as of as of December 31, 2017. The Organization received matching funds totaling \$378,820 as of December 31, 2017. The Organization recognizes grant revenue based on a pro-rata allocation of non-federal match to date, compared to non-federal match required over the grant period. Accordingly, revenue of \$54,130 has been recorded on the financial statements for the year ended December 31, 2017. Therefore, \$ -0- of the draw has been accounted for as a deferred revenue and accrued as a liability as of December 31, 2017. The Organization reflected \$ -0- as net assets with donor restrictions at December 31, 2017. Under the terms of the grant, city capital projects qualify as a match. However, those amounts matched with city capital projects are not shown as in-kind contributions on the financial statements because the city retains ownership of these infrastructure assets.

National Fish and Wildlife Foundation (NFWF) - 2015 Grant

The Organization was awarded a matching grant from NFWF to fund the Deep Blue project over the period of October 1, 2015 to September 30, 2017. During 2017, the period of performance was extended to May 31, 2018. The total award was \$500,000 and required a total non-federal match by the Organization of \$600,000. As of December 31, 2018, the project was completed and closed. The Organization has drawn down \$500,000 or 100% of the grant funds as of December 31, 2018, and \$400,079 or 80% of the grant funds as of December 31, 2017. The Organization has received matching funds totaling \$600,000 and \$379,000 as of December 31, 2018 and 2017. The Organization recognizes grant revenue based on a pro-rata allocation of non-federal match to date, compared to non-federal match required over the grant period. Accordingly, revenue of \$184,167 and \$170,000 has been recorded on the financial statements as of December 31, 2018 and 2017. Therefore, \$ -0- and \$84,246 of the draw has been accounted for as a deferred revenue and accrued as a liability as of December 31, 2018 and 2017. The Organization reflected \$ -0- and \$ 2,816 as net assets with donor restrictions at December 31, 2018 and 2017. Under the terms of the grant, city capital projects qualify as a match. However, those amounts matched with city capital projects are not shown as in-kind contributions on the financial statements because the city retains ownership of these infrastructure assets.

**BLUE WATER BALTIMORE, INC.**

Notes to Financial Statements  
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2. Conditional Promises to Give and Related Deferred Revenue (continued)

National Fish and Wildlife Foundation (NFWF) - 2016 Grant

The Organization was awarded a matching grant from NFWF to fund the Urban Forestry project over the period of August 1, 2016 to August 31, 2017. The total award was \$50,000 and requires a total non-federal match by the Organization of \$60,000. As of December 31, 2017, the project was completed and closed. The Organization has drawn down \$50,000 or 100% of the grant funds as of December 31, 2017. The Organization has received matching funds totaling \$60,000 December 31, 2017. The Organization recognizes grant revenue based on a pro-rata allocation of non-federal match to date, compared to non-federal match required over the grant period. Accordingly, revenue of \$50,000 has been recorded on the financial statements as of December 31, 2017. Therefore, \$ -0- of the draw has been accounted for as a deferred revenue and accrued as a liability as December 31, 2017. The Organization reflected \$ -0- as net assets with donor restrictions at December 31, 2017. Under the terms of the grant, city capital projects qualify as a match. However, those amounts matched with city capital projects are not shown as in-kind contributions on the financial statements because the city retains ownership of these infrastructure assets.

3. Deferred Revenue

Total deferred revenue reported on the statements of financial position at December 31 is as follows:

	<u>2018</u>	<u>2017</u>
Deep Blue – NFWF 2015	\$ - 0 -	\$ 84,246

4. Net Property and Equipment - At Cost

Property and equipment at December 31, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Leasehold improvements	\$ 53,590	\$ 53,590
Furniture	56,513	56,513
Equipment	83,640	83,640
Vehicles	<u>134,059</u>	<u>145,271</u>
	327,802	339,014
Less: accumulated depreciation	<u>227,206</u>	<u>209,029</u>
Net property and equipment	<u>\$ 100,596</u>	<u>\$ 129,985</u>

**BLUE WATER BALTIMORE, INC.**

Notes to Financial Statements  
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5. Long-Term Debt

Long-term debt at December 31 consisted of the following:

	<u>2018</u>	<u>2017</u>
Mortgage payable in current monthly installments of \$1,177 including principal and interest based on a 120 month amortization period and matures in March 2022. Interest of 1.75% above prime, with a minimum 4%. The rate was 5.95% at December 31, 2017. The note is collateralized by the Organization's remodeled "green" building.	\$ - 0 -	\$ 130,916
Auto loan payable in current monthly installments of \$603, including interest of 4.75% and matures in May 2021. The loan is collateralized by the related automobile.	16,377	22,641
Auto loan payable in current monthly installments of \$415, including interest of 4.75% and matures in July 2021. The loan is collateralized by the related automobile.	<u>12,090</u>	<u>16,346</u>
	28,467	169,903
Less: current portion	<u>11,097</u>	<u>17,014</u>
	<u>\$ 17,370</u>	<u>\$ 152,889</u>

The mortgage payable was paid in full in February 2018 with the proceeds from the sale of the building.

Annual maturities of long-term debt at December 31, 2018 are as follows:

Year ending December 31, 2019	\$ 11,097
2020	11,635
2021	<u>5,735</u>
Total	<u>\$ 28,467</u>

6. Line of Credit

The Organization had a line of credit from M&T Bank of \$125,000 to fund operational expenses. The line of credit was collateralized by the Organization's bank accounts with M&T Bank. Interest at the rate of the bank's prime rate plus 1% (5.25% at December 31, 2017), was payable monthly on outstanding advances. The line of credit was replaced with a new line in March 2018. The new line is with M&T Bank for \$400,000 and collateralized by the Organization's bank accounts with M&T Bank. Interest at the rate of the bank's prime rate plus 3% (8.75% at December 31, 2018), 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, 2018 and 2017 was \$ -0-.

**BLUE WATER BALTIMORE, INC.**

Notes to Financial Statements  
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7. Capital Lease Obligation

During 2016 the Organization entered into a capital lease for new copiers under a 60-month lease, meeting the criteria for capital lease treatment. The lease obligation consists 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 as of December 31, 2018. The accumulated depreciation was \$5,508 and \$2,864 as of December 31, 2018 and 2017. The balances are included in the statements of financial position in net property and equipment – at cost. Annual depreciation expense totaled \$2,644 for both 2018 and 2017.

Future minimum lease payments at December 31, 2018 are as follows:

Year ending December 31,	2019	\$	5,127
	2020		5,127
	2021		<u>5,127</u>
			15,381
Less amount representing interest and fees			<u>(5,310)</u>
Present value of net minimum lease payments			<u>10,071</u>
Less: current portion			<u>(2,426)</u>
		\$	<u>7,645</u>

8. Office Lease Obligation

In January 2017, the Organization entered into a lease agreement for office space with an annual base rent of \$100,000 or \$8,333 per month with a 2% escalation clause. In addition, in February 2017 the Organization entered into a sublease agreement to lease out a portion of this office space with an annual base rent of \$50,000 or \$4,167 per month with a 2% escalation clause. Occupancy of the space began in April 2017. The lease is for 10 years with a one-time option to terminate at the end of the 5th lease year. The sublease is for 3 years with an option for an additional 2 year term.

Future minimum rent payments and sublease rentals receivable are as follows:

	Rent		
Year ending December 31,	2019	\$	103,700
	2020		105,774
	2021		107,889
	2022		110,047
	2023		112,248
	Thereafter		<u>370,313</u>
	Total	\$	<u>909,971</u>

For the years ended December 31, 2018 and 2017 total rent expense was \$122,307 and \$105,226, respectively and total sublease rental income earned was \$83,465 and \$70,259.

During the year ended December 31, 2018, it was determined that the tenant had stopped paying on the sublease and ultimately vacated the space subsequent to year end. As of December 31, 2018, rent income owed was \$55,705 and is included in accounts receivable. The Organization is pursuing collection of the outstanding rent (see Note 14).

**BLUE WATER BALTIMORE, INC.**

Notes to Financial Statements  
December 31, 2018 and 2017

9. Net Assets with Donor Restrictions

Net assets with donor restrictions as of December 31, 2018 and 2017 are to be used for the following purposes:

	<u>2018</u>	<u>2017</u>
<u>Restrictions as to Purpose:</u>		
Advocacy	\$ 51,471	\$ 68,843
Deep Blue	- 0 -	2,816
Education and Outreach	5,139	7,306
Greening	138,026	248,149
Stormwater Reduction	8,288	34,720
Waterkeeper	<u>188,067</u>	<u>91,407</u>
 Total	 <u>\$ 390,991</u>	 <u>\$ 453,241</u>

The Organization satisfied the following purpose restrictions related to its net assets with donor restrictions during the years ended December 31, 2018 and 2017 as follows:

	<u>2018</u>	<u>2017</u>
Advocacy	\$ 67,372	\$ 56,030
Blue Water Congregations	- 0 -	40,018
Capacity Building	- 0 -	97,747
Deep Blue	102,737	219,522
Education and Outreach	2,167	20,163
Greening	794,423	1,187,051
Urban Forestry	- 0 -	50,000
Stormwater Reduction	26,432	433,530
Waterkeeper	<u>226,340</u>	<u>276,339</u>
 Total	 <u>\$ 1,219,471</u>	 <u>\$ 2,380,400</u>

10. Liquidity and Availability of Financial Assets

The following reflects the Organization's financial assets as of December 31, 2018 and 2017, 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>2018</u>	<u>2017</u>
Financial assets at year end	\$ 806,868	\$ 676,629
Less those unavailable for general expenditures within one year, due to:		
Restricted by donors with purpose or time restrictions	<u>390,991</u>	<u>453,241</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 415,877</u>	<u>\$ 223,388</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, which it could draw upon.



## BLUE WATER BALTIMORE, INC.

Notes to Financial Statements  
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### 11. Pending Litigation

The Organization is a plaintiff or co-plaintiff in several 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 on the statements of activities and changes in net assets amounted to \$1,000 and \$11,293 for 2018 and 2017. A substantial portion of litigation costs have been handled on a pro-bono basis by the legal team. During 2018 and 2017, the Organization recognized costs of \$ - 0 - and \$124,119, respectively, for pro-bono legal services. No accruals have been made for a gain contingency because the outcomes of the cases are uncertain.

### 12. 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, 2018 and 2017 was \$31,731 and \$30,938, respectively is reported as salaries and benefits expenses. All contributions to the Plan are 100% vested at the time of contribution.

### 13. 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.

### 14. Subsequent Events

As discussed in Note 8, the subtenant failed to make required payments under the sublease agreement and ultimately vacated the space. In an effort to collect on the outstanding rent, the Organization filed a complaint in Baltimore City. In April 2019, the matter proceeded to court and a judgement was entered in favor of the Organization in the amount of \$78,141, of which \$55,705 is included in accounts receivable as of December 31, 2018. The Organization intends to take every action to collect.

Management has evaluated subsequent events through May 30, 2019, the date which the financial statements were available to be issued.