



CHARLES RIVER WATERSHED
ASSOCIATION, INC.

Financial Statements

September 30, 2016

Kevin P. Martin & Associates, P.C.

CHARLES RIVER WATERSHED ASSOCIATION, INC.

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September 30, 2016

Independent Auditors' Report

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Independent Auditors' Report

To the Board of Directors of
Charles River Watershed Association, Inc.

We have audited the accompanying financial statements of Charles River Watershed Association, Inc. (a nonprofit organization), (the Organization), which comprise the statement of financial position as of September 30, 2016, and the related statements of activities, cash flows and functional expenses 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of September 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Nunir P. Mantua & Associates P.C.

July 12, 2017

CHARLES RIVER WATERSHED ASSOCIATION, INC.

Statement of Financial Position

As of September 30, 2016

Current Assets

Cash and cash equivalents	\$	314,517
Accounts receivable		101,901
Promises to give, current portion		193,093
Inventory		2,609
Prepaid expenses		<u>8,130</u>
Total current assets		<u>620,250</u>

Fixed Assets

Property and equipment, net of accumulated depreciation		<u>9,891</u>
Total net fixed assets		<u>9,891</u>

Other Assets

Promises to give, net of current portion		1,004,118
Intangible assets, net		<u>17,483</u>
Total other assets		<u>1,021,601</u>
Total Assets	\$	<u><u>1,651,742</u></u>

Current Liabilities

Accounts payable	\$	85,893
Accrued expenses		<u>26,800</u>
Total current liabilities		<u>112,693</u>
Total liabilities		<u>112,693</u>

Net Assets

Unrestricted		30,449
Temporarily restricted		379,271
Permanently restricted		<u>1,129,329</u>
Total net assets		<u>1,539,049</u>
Total Liabilities and Net Assets	\$	<u><u>1,651,742</u></u>

The accompanying notes are an integral part of the financial statements.

CHARLES RIVER WATERSHED ASSOCIATION, INC.

Statement of Activities

For the Year Ended September 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support				
Contributions	\$ 361,590	\$ 746,604	\$ 1,129,329	\$ 2,237,523
Grants	295,568	-	-	295,568
Events and sponsorships	71,588	-	-	71,588
In-kind revenue	65,259	-	-	65,259
Memberships	40,480	-	-	40,480
Other income	8,648	-	-	8,648
Net assets released from restrictions	587,333	(587,333)	-	-
	1,430,466	159,271	1,129,329	2,719,066
Expenses				
Program	867,085	-	-	867,085
Administrative	236,521	-	-	236,521
Fundraising	364,581	-	-	364,581
	1,468,187	-	-	1,468,187
Change in Net Assets	(37,721)	159,271	1,129,329	1,250,879
Net Assets at Beginning of Year	68,170	220,000	-	288,170
Net Assets at End of Year	\$ 30,449	\$ 379,271	\$ 1,129,329	\$ 1,539,049

The accompanying notes are an integral part of the financial statements.

CHARLES RIVER WATERSHED ASSOCIATION, INC.

Statement of Cash Flows

For the Year Ended September 30, 2016

Cash Flows from Operating Activities

Change in net assets	\$ 1,250,879
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation and amortization	6,266
Contributions restricted for investment	(1,129,329)
Decrease (increase) in assets:	
Accounts receivable	164,841
Promises to give	(387,976)
Inventory	13
Prepaid expenses	41,487
Increase (decrease) in liabilities:	
Accounts payable	(33,689)
Accrued expenses	(46,516)
Net Cash Used in Operating Activities	<u>(134,024)</u>

Cash Flows from Investing Activities

Purchase of property and equipment	<u>(4,936)</u>
Net Cash Used in Investing Activities	<u>(4,936)</u>

Cash Flows from Financing Activities

Proceeds from contributions restricted for investment	<u>333,594</u>
Net Cash Provided by Financing Activities	<u>333,594</u>

Net Increase in Cash and Cash Equivalents

194,634

Cash and Cash Equivalents - Beginning

119,883

Cash and Cash Equivalents - Ending

\$ 314,517

Supplement Data for Noncash Investing and Financing Activities

Disposition of fully amortized other assets	\$ <u><u>65,148</u></u>
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The accompanying notes are an integral part of the financial statements.

CHARLES RIVER WATERSHED ASSOCIATION, INC.

Statement of Functional Expenses

For the Year Ended September 30, 2016

	Total Program Services	General and Administrative	Fundraising	Total
Salaries, related benefits and taxes	\$ 508,805	\$ 163,517	\$ 118,495	\$ 790,817
Subtotal	508,805	163,517	118,495	790,817
Accounting and audit	5,975	9,513	2,512	18,000
Advertising and promotion	13,684	46	13	13,743
Bad debt expense	14,189	22,791	6,020	43,000
Conferences and meetings	7,450	4,355	26,179	37,984
Contract services	235,358	146	184,789	420,293
Depreciation and amortization	2,081	3,310	875	6,266
Dues, fees and permits	8,138	4,581	4,978	17,697
Equipment	4,825	7,679	2,028	14,532
Insurance	4,179	3,439	908	8,526
Postage and delivery	1,344	557	1,112	3,013
Printing and reproduction	5,982	2,328	9,410	17,720
Rent	399	633	168	1,200
Repairs and maintenance	2,978	4,675	1,235	8,888
Supplies	34,524	1,475	2,904	38,903
Training and education	32	44	13	89
Travel and entertainment	12,556	135	1,014	13,705
Utilities and telephone	4,586	7,297	1,928	13,811
Total Functional Expenses	\$ 867,085	\$ 236,521	\$ 364,581	\$ 1,468,187

The accompanying notes are an integral part of these financial statements.

CHARLES RIVER WATERSHED ASSOCIATION, INC.

Statement of Functional Expenses

For the Year Ended September 30, 2016

	Advocacy, Policy and Law	Blue Cities® Initiative	Blue Cities® Exchange	Education and Outreach	Field Science	Events	Urban Smart Sewering	Total Program Services
Salaries, related benefits and taxes	\$ 122,148	\$ 88,544	\$ 1,479	\$ 98,195	\$ 66,662	\$ 37,140	\$ 94,637	\$ 508,805
Subtotal	122,148	88,544	1,479	98,195	66,662	37,140	94,637	508,805
Accounting and audit	917	911	48	925	839	973	1,362	5,975
Advertising and promotion	5	5	-	5	4	13,658	7	13,684
Bad debt expense	2,178	2,163	115	2,197	1,992	3,233	2,311	14,189
Conferences and meetings	672	880	22	1,597	384	579	3,316	7,450
Contract services	14	33,132	5,101	24,812	41,465	45,794	85,040	235,358
Depreciation and amortization	319	318	17	322	292	339	474	2,081
Dues, fees and permits	1,445	439	99	460	516	4,024	1,155	8,138
Equipment	741	736	39	747	677	786	1,099	4,825
Insurance	332	329	18	334	303	2,371	492	4,179
Postage and delivery	54	120	3	310	247	530	80	1,344
Printing and reproduction	225	223	12	227	205	4,757	333	5,982
Rent	61	61	3	62	56	65	91	399
Repairs and maintenance	451	448	24	455	452	479	669	2,978
Supplies	1,437	1,071	8	1,234	4,140	25,953	681	34,524
Training and education	5	5	1	5	4	5	7	32
Travel and entertainment	1,403	2,120	-	1,648	2,808	721	3,856	12,556
Utilities and telephone	704	699	37	710	644	747	1,045	4,586
Total Functional Expenses	<u>\$ 133,111</u>	<u>\$ 132,204</u>	<u>\$ 7,026</u>	<u>\$ 134,245</u>	<u>\$ 121,690</u>	<u>\$ 142,154</u>	<u>\$ 196,655</u>	<u>\$ 867,085</u>

The accompanying notes are an integral part of these financial statements.

CHARLES RIVER WATERSHED ASSOCIATION, INC.

Notes to Financial Statements

September 30, 2016

(1) Summary of Significant Accounting Policies

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The significant accounting policies followed by Charles River Watershed Association, Inc. are described below to enhance the usefulness of the financial statements to the reader.

When used in these notes, the terms “CRWA,” “Organization,” “our,” “ours,” “we,” or “us” are intended to mean Charles River Watershed Association, Inc.

(a) Nature of Activities

The Organization was organized in the Commonwealth of Massachusetts as a nonprofit corporation on September 23, 1966. The mission is to use science, advocacy and the law to protect, preserve and enhance the Charles River (the Charles) and its watershed (the Watershed), including improving and expanding its natural resources and recreational opportunities.

The mission includes efforts focused on reducing greenhouse gas emission programs and initiatives to protect, improve and expand the natural resources and recreational opportunities of the Charles, are critical strategies towards accomplishing our mission. We believe that energy efficient infrastructure, which reduces energy consumption, provides other environmental benefits related to the Charles including, aquifer recharge, stream flow restoration, flood control and improved water quality, all of which protect the environment and enhance the enjoyment of the Charles and the Watershed by its inhabitants.

The Organization’s program divisions are listed below:

Blue Cities® Initiative - Under this program, the Organization plans, designs, implements and promotes green infrastructure approaches for managing water in urban areas. Through research, planning, design and implementation of demonstration projects on public and private properties, the Organization’s goal is to mimic or re-create the natural hydrologic cycle making land and water work together.

The Organization partners with numerous municipalities both within and beyond the watershed of the Charles on Blue Cities® projects. The Organization also advocates for these kinds of projects and staffs numerous committees and task forces to influence planning and permitting for developments at various scales. These projects are models for better site design, serve to educate the public on the importance of storm water management and provide developers with low impact storm water retrofit information.

CHARLES RIVER WATERSHED ASSOCIATION, INC.

Notes to Financial Statements

September 30, 2016

(1) Summary of Significant Accounting Policies - *continued*

(a) *Nature of Activities - continued*

Blue Cities® Exchange - Under this program, the Organization is developing tools and technology to help reduce nutrient pollution to waterways, a key component of which is an online phosphorus reduction storm water trading program. The program provides cost-effective approaches and incentives for industrial, commercial and high density residential private property owners with large impervious surfaces to reduce nutrient-laden storm water runoff to the Charles and enables property owners to evaluate design options and costs for managing their storm water. The Organization is exploring the expansion of this program in connection with the Organization's Urban Smart Sewering program.

Urban Smart Sewering - This multi-year project is investigating the feasibility of small scale distributed wastewater treatment and resource recovery combined with district energy systems and neighborhood green infrastructure installations in an urban setting. This approach to future infrastructure design includes processing food waste, recycling water, and energy production to reduce greenhouse gas emissions, reduce flooding impacts, improve water quality and create green corridors. This project has the potential to relieve overburdened water infrastructure, produce energy where it is needed and decrease water losses, pollution and other environmental impacts typical of large centralized sewers. It will also lessen the likelihood of a complete system failure in the event of a major disaster and help dense urban areas adapt to climate change.

Advocacy, Policy and Law

Advocacy, Policy and Law - the Organization is involved in every major decision affecting the Charles and the Watershed. Advocacy includes lobbying the Massachusetts legislature on environmental and water-related legislation, reviewing all major development projects in the Watershed, challenging permits administratively and occasionally in court, appearing before local boards and commissions, protecting public trust lands and access to parklands, and working with many partner organizations on issues of national, state and regional significance such as climate change, smart growth and water resource protection. CRWA's strong science supports and informs our advocacy and the positions we adopt. Improving policies and regulations for the protection and sustainability of the natural water environment are core components of our work, as is our climate change adaptation work.

Sustainable Water Management Initiative - the Organization's campaign for sustainable water resources, which began with a series of test cases in the Ipswich River Watershed, led to the creation of the Massachusetts' Sustainable Water Management Initiative (SWMI) which resulted in the adoption of new water withdrawal permitting regulations that incorporate biologically-based streamflow criteria and requires that withdrawal impacts be minimized and mitigated. By requiring mitigation, or offsets, the permitting program should bring a more holistic approach to managing water, wastewater and storm water.

CHARLES RIVER WATERSHED ASSOCIATION, INC.

Notes to Financial Statements

September 30, 2016

(1) Summary of Significant Accounting Policies - *continued*

(a) *Nature of Activities - continued*

Stormwater Management - In February 2015, we submitted extensive comments to the United States Environmental Protection Agency (U.S. EPA) on the draft Small Municipal Separate Storm Sewer System (MS4) National Pollutant Discharge Elimination System (NPDES) general permit for Massachusetts. The draft permit builds on the 2003 general permit and requires each municipality in the Watershed to develop a Phosphorus Control Plan. We also continued to educate conservation commissions about their authority under the Wetlands Protection Act to require project applicants to meet daily nutrient loading limits established for the Watershed.

In 2016, CRWA joined with Conservation Law Foundation to file suit against US EPA for its failure to regulate polluted stormwater runoff from large industrial, commercial and high density residential impervious surfaces, which on a per acre basis contribute the highest loading of phosphorus, a nutrient, to the Charles. Studies by EPA and MassDEP demonstrate that phosphorus discharged to the river through storm drain outfalls, needs to be reduced by 50 percent watershed wide.

American Shad Restoration - A settlement with GenOn Energy, LLC (GenOn) of its surface water discharge permit in the Charles by U.S. EPA, CRWA and Conservation Law Foundation, resulted in a planned 95% reduction in the facility's thermal discharge to the Charles Lower Basin. The settlement also established a fund that we manage for the restoration of American shad and other migratory fish. The U.S. Fish and Wildlife Service, Massachusetts Division of Marine Fisheries (DMF) and CRWA have partnered to release 24 million hatchery-reared shad fry into the Charles' historic Lakes District. We continue to explore options for improving fish migration at the Watertown Dam, mapping habitat in the Lakes District and assessing water quality.

Education and Outreach

Education - Our work to promote better watershed management and River stewardship includes a wide range of outreach and educational programming, including: a comprehensive website and online communications; the publication of brochures, plans and reports; educational talks and presentations to schools and community groups; trainings and workshops for municipal employees; and participation in many local and regional events and activities. We host numerous student interns each year and support the Rita Barron Fellowship, a one year position for a young professional entering the fields of watershed science and management. We are quoted regularly in the media and host many national and international groups for educational and networking purposes.

CHARLES RIVER WATERSHED ASSOCIATION, INC.

Notes to Financial Statements

September 30, 2016

(1) Summary of Significant Accounting Policies - *continued*

(a) Nature of Activities - *continued*

Education and Outreach - continued

Twinning - We are committed to sharing best practices and exchanging knowledge with other watershed restoration practitioners. With funding from the International RiverFoundation as part of the *Riverprize*, we are in the third year of a river restoration “Twinning” project for the urban rivers in Jarabacoa, Dominican Republic in partnership with The Nature Conservancy Dominican Republic, Plan Yaque, a local non-governmental organization; and the National Environmental School, a post-secondary school. The project involves community engagement, the development and support of volunteer “citizen scientists,” training and capacity building for local partners, and the development of a long-term river restoration plan.

Field Science

Volunteer Monthly Monitoring - CRWA’s twenty plus year comprehensive study of water quality in the Charles involves a vast network of volunteer citizen scientists who collect samples monthly. This monitoring informs much of our science and advocacy work as it enables us to understand the Charles’ problems and to develop informed cutting edge solutions. Our data is used by numerous researchers, students and policy makers and serves as the basis for the annual Charles River Report Card issued by the EPA.

Lower Charles Water Quality Flagging - From July through October, boaters from Watertown, Massachusetts to Boston are apprised of real-time water quality forecasts through the flying of CRWA’s red, yellow or blue flags at eleven boating locations. CRWA also posts webpage updates, e-mails and Twitter alerts about water quality at each location. CRWA uses a predictive model premised on environmental factors such as rainfall and river flow. Environmental data is collected in real-time from a weather station on the Charles and transmitted wirelessly to CRWA’s server. E. coli bacteria data is collected twice per week to verify forecasts.

Sediment Investigation - The Lower Basin of the Charles, the most heavily recreated stretch of the Charles, is experiencing rapid sedimentation in select areas. Sediment islands are forming at outfall pipes and along certain stretches of the Charles, destroying habitat and impeding recreation. We hired a consultant to analyze the sediments and their extent at the Faneuil Brook outfall in Brighton which resulted in dredging of this area being advocated. The Commonwealth of Massachusetts Department of Conservation and Recreation (DCR) obtained permits to dredge the sediments, which were removed in 2016.

CHARLES RIVER WATERSHED ASSOCIATION, INC.

Notes to Financial Statements

September 30, 2016

(1) Summary of Significant Accounting Policies - *continued*

(a) *Nature of Activities - continued*

Field Science - continued

Canoeing for Clean Water - Non-native and invasive aquatic plants choke sections of the Charles, decreasing oxygen in the water necessary for aquatic life and preventing navigation. We continue to partner with Citizens Alliance for Noxious Weed Eradication (CANoE), the DCR, and municipalities to eliminate the water chestnut infestation in the Charles' historic Lakes District through a combination of mechanical harvesting and hand-pulling. This program increases awareness about invasive species and the impacts of nutrient pollution on aquatic plant growth.

Events (Program)

The Run of the Charles Canoe and Kayak Race - Our annual Run of the Charles Canoe and Kayak race (ROTC), which began 34 years ago, showcases the ongoing improvements to the River. This race is one of the nation's oldest and largest canoe and kayak races with professionals, amateurs, and corporate teams competing on the 26-mile course.

Annual Earth Day Charles River Cleanup - For the 17th Annual Earth Day Charles River Clean Up, volunteers joined together to make the River cleaner, healthier and more beautiful by picking up trash and removing debris from its banks. We organize the cleanup in partnership with a collaborative of environmental groups, communities, legislators, and DCR.

(b) *Basis of Presentation*

The statement of activities reports all changes in net assets, including changes in unrestricted net assets from operating activities. Operating revenues consist of those monies received and other contributions attributable to the Organization's ongoing efforts.

(c) *Standards of Accounting and Reporting*

The Organization's net assets (excess of its assets over liabilities) and its revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

The statement of financial position presents three classes of net assets (unrestricted, temporarily restricted and permanently restricted) and the statement of activities displays the change in each class of net assets.

CHARLES RIVER WATERSHED ASSOCIATION, INC.

Notes to Financial Statements

September 30, 2016

(1) Summary of Significant Accounting Policies - continued

(c) Standards of Accounting and Reporting - continued

The classes of net assets applicable to the Organization are presented as follows:

Unrestricted - Unrestricted net assets are not subject to donor imposed restrictions. Unrestricted net assets consist of assets and contributions available for the support of operations. Unrestricted net assets may be designated for specific purposes by management or the Board of Directors. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or law.

Temporarily Restricted - Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted - Reflects the original amount of gifts and investment earnings required by the donor to be permanently retained. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

(d) Cash and Cash Equivalents

The Organization considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

The Organization maintains its cash balances at financial institutions located in Massachusetts. The cash balances are insured by the Federal Deposit Insurance Corporation. At times these balances may exceed the federal insurance limits; however, the Organization has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these cash balances as of September 30, 2016.

CHARLES RIVER WATERSHED ASSOCIATION, INC.

Notes to Financial Statements

September 30, 2016

(1) Summary of Significant Accounting Policies - continued

(e) Revenue Recognition

The Organization earns revenue as follows:

Contributions and Memberships - Contributions and memberships are recorded upon receipt or pledge as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Grants - Grants are recorded as revenue as costs related to the services provided are incurred.

Events and Sponsorships - Events and sponsorship revenue is primarily derived from contributions collected and fees charged for admission at various sponsored events. Events revenue is recognized when earned. Events are incidental to the Organization's operations and the related direct expenses have been reported with fundraising and event expense in the accompanying statement of activities.

Substantially all of the Organization's revenue is derived from its activities in Massachusetts. During the year ended September 30, 2016, the Organization derived approximately 84% from contributions, 11% of its total revenue from grants, 3% from events and sponsorship, and 2% from membership dues. All revenue is recorded at the estimated net realizable amounts.

(f) Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to an allowance for doubtful accounts based on a history of past write-offs and collections and current credit conditions. As of September 30, 2016, management has determined any allowance would be immaterial.

The Organization does not have a policy to accrue interest on receivables.

As of September 30, 2016, 64% of the Organization's accounts receivable is due from two agencies.

CHARLES RIVER WATERSHED ASSOCIATION, INC.

Notes to Financial Statements

September 30, 2016

(1) Summary of Significant Accounting Policies - continued

(g) Promises to Give

Conditional promises to give are not recognized in the financial statements until the conditions are substantially met. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in more than one year are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. In the absence of donor stipulations to the contrary, promises with payments due in future periods are restricted to use after the due date.

Unconditional promises to give are periodically reviewed to estimate an allowance for doubtful accounts. Management estimates the allowance by review of historical experience and a specific review of collections trends that differ from scheduled collections on individual promises. As of September 30, 2016, the allowance for doubtful accounts was \$43,000.

(h) Inventory

Inventory consists of Charles River Canoe and Kayak Guides. Inventory is stated on a first-in, first-out basis and is valued at the lower of cost or market.

(i) Property and Equipment

Property and equipment are recorded at cost or if donated, fair value on the date of receipt. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. Improvements, including planned major maintenance activities are capitalized, while expenditures for routine maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the statement of activities.

The Organization computes depreciation using the straight-line method over the following estimated lives:

Computer equipment	3-5 years
Equipment	7 years
Furniture and fixtures	7 years
Leasehold improvements	Remaining lease term

Depreciation expense amounted to \$4,418 for the year ended September 30, 2016.

CHARLES RIVER WATERSHED ASSOCIATION, INC.

Notes to Financial Statements

September 30, 2016

(1) Summary of Significant Accounting Policies - continued

(j) Fair Value Measurements

GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Additionally, the inputs used to measure fair value are prioritized based on a three-level hierarchy. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels used to measure fair value are as follows:

Level 1: Quoted prices for identical instruments in active markets.

Level 2: Observable inputs other than quoted prices included in Level 1. Assets and liabilities included in this level are valued using quoted prices for similar assets and liabilities in active markets or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant inputs to the valuation model are unobservable.

Recurring Fair Value Measurements

GAAP requires that certain assets and liabilities be recorded at fair value on a recurring basis. The Organization had no assets and liabilities that were recognized or disclosed at fair value on a recurring basis under the above fair value hierarchy as of September 30, 2016. The Organization's policy is to recognize transfers in and out of levels as of the actual date of the event or change in circumstances that caused the transfer. There were no transfers between levels during the year ended September 30, 2016.

Nonrecurring Fair Value Measurements

In addition to assets and liabilities that are recorded at fair value on a recurring basis, the Organization records assets and liabilities at fair value on a nonrecurring basis as required by GAAP. The following table presents the fair value hierarchy for those assets and liabilities measured at fair value on a nonrecurring basis as of September 30, 2016.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Promises to Give	\$ <u>-</u>	\$ <u>1,047,118</u>	\$ <u>-</u>	\$ <u>1,047,118</u>
	\$ <u>-</u>	\$ <u>1,047,118</u>	\$ <u>-</u>	\$ <u>1,047,118</u>

Promises to give are discounted using the U.S. Treasury yield curve rates ranging from 2.59% to 3.14%.

CHARLES RIVER WATERSHED ASSOCIATION, INC.

Notes to Financial Statements

September 30, 2016

(1) Summary of Significant Accounting Policies - continued

(k) Amortization

Flagging model costs and Charles River Film costs are amortized over 15 and 10 years, respectively, using the straight line method.

(l) Fundraising Expense

Fundraising expense relates to the activities of raising general and specific contributions to the Organization. Fundraising expenses as a percentage of total contribution revenue was 16% for the year ended September 30, 2016. The ratio of expenses to amounts raised is computed using actual expenses and related revenue on an accrual basis. The ratio of expenses to amounts raised excludes activities related to the program events, (see Note 1(a)).

(m) Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are allocated to programs and supporting services. Administration expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Payroll and associated costs are allocated to functions based upon time charges. Occupancy costs are allocated based upon associated payroll costs.

(n) Use of Estimates

In preparing the Organization's financial statements in conformity with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CHARLES RIVER WATERSHED ASSOCIATION, INC.

Notes to Financial Statements

September 30, 2016

(1) Summary of Significant Accounting Policies - continued

(o) Income Taxes

The Organization qualifies as an organization formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC) and is generally not subject to income tax. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization is not a private foundation under Section 509(a)(1).

(p) Compensated Absences

The Organization's employees are entitled to paid time off (vacation personal and sick time) depending on job classification, length of service and other factors. It is impracticable to estimate the amount of compensation for future absences and, accordingly, no liability has been recorded in the accompanying financial statements. The Organization's policy is to recognize the costs of compensated future absences when actually paid to employees. Any paid time off not used by the employees as of the end of the fiscal year is forfeited and not allowed to be carried forward, unless a specific exception is approved by the executive director.

(q) Contributed Services and Gifts in-Kind

Gifts in-kind are reported as contributions in the financial statements at their estimated fair values at the time of receipt. Contributed services are similarly reported when services are performed which would otherwise have been purchased or performed by Organization personnel.

(r) Advertising

The Organization expenses advertising costs when they are incurred. Advertising expense was \$13,743 for the year ended September 30, 2016.

CHARLES RIVER WATERSHED ASSOCIATION, INC.

Notes to Financial Statements

September 30, 2016

(2) Promises to Give

Promises to give consist of the following as of September 30, 2016:

	<u>Gross Promise</u>	<u>Allowance</u>	<u>Net Promise</u>	<u>Unamortized Discount</u>	<u>Total</u>
Receivable less than 1 year	\$ 193,093	\$ -	\$ 193,093	\$ -	\$ 193,093
Receivable in 1 to 5 years	<u>1,116,186</u>	<u>43,000</u>	<u>1,073,186</u>	<u>69,068</u>	<u>1,004,118</u>
	<u>\$ 1,309,279</u>	<u>\$ 43,000</u>	<u>\$ 1,266,279</u>	<u>\$ 69,068</u>	<u>\$ 1,197,211</u>

The applicable discount rates ranged between 2.59% to 3.14%. As of September 30, 2016, 89% or \$1,162,779 of the promises to give are due from individuals and foundations.

(3) Property and Equipment

Property and equipment consists of the following as of September 30, 2016:

Computer equipment	\$ 43,254
Equipment	104,055
Furniture and fixtures	32,934
Leasehold improvements	<u>59,500</u>
	239,743
Less: accumulated depreciation	<u>(229,852)</u>
Total	\$ <u>9,981</u>

Depreciation expense for the year ended September 30, 2016 was \$4,418.

(4) Other Intangible Assets

Intangible assets consist of the following as of September 30, 2016:

Charles River Film, net of accumulated amortization of \$1,557	\$ 14,015
Flagging Model, net of accumulated amortization of \$372	<u>3,468</u>
	<u>\$ 17,483</u>

Amortization expense amounted to \$1,848 for the year ended September 30, 2016. Estimated future amortization expense approximates \$1,848 for each of the next five years.

CHARLES RIVER WATERSHED ASSOCIATION, INC.

Notes to Financial Statements

September 30, 2016

(5) Contributed Services and Gifts In-kind

Contributed services and gifts in-kind for the year ended September 30, 2016 were as follows:

Outside lab expense	\$ 28,500
Advertising	13,653
Consulting	10,000
Project supplies	9,156
Conferences and meetings	<u>3,950</u>
Total	<u>\$ 65,259</u>

(6) Post-Retirement Benefit Plan

The Organization sponsors a post-retirement benefit plan under Section 403(b) of the IRC. The plan allows for voluntary employee contributions and includes all employees. The Organization does not match employee contributions.

(7) Operating Leases and Use and Occupancy Agreement

The Organization leases a photocopier under a non-cancelable lease agreement through April, 2018. The monthly minimum payments are \$208.

The Organization has entered into a use and occupancy agreement with DCR for office space. Under which, the Organization will pay \$100 per month for use of the premises until December 30, 2016. On December 31, 2016, the Organization entered into a new use and occupancy agreement for use of the space through December 31, 2023 under which the use and occupancy fee to be paid to DCR will be \$1,000 per month for the first 9 months of the agreement, \$2,000 per month for each month thereafter within the first 5 years with a 3% increase in years 6 and 7.

The Organization is responsible for all costs of maintenance, water, sewerage, electricity, telephone, or any utility used and consumed in connection with its use of the premises.

The minimum annual operating non-cancelable lease commitments for the Organization are as follows:

2017	\$ 11,796
2018	24,000
2019	24,000
2020	24,000
2021	24,000

Rent expense for the year ended September 30, 2016 was \$2,656.

CHARLES RIVER WATERSHED ASSOCIATION, INC.

Notes to Financial Statements

September 30, 2016

(8) Related Party Transactions

The Organization received donations, including promises to give, of \$1,122,500 during the year ended September 30, 2016 from various board members; of which \$411,000 was received during the year then ended. As of September 30, 2016, the outstanding board member promises to give balance was \$711,500.

(9) Commitments and Contingencies

The Organization has committed to replace a Title V compliant septic system in accordance with DEP regulations and subject to DCR approval of all specifications and plans, including the preparation of a DEP plan for the system prior to submission to the Town of Weston and the DEP. Costs are expected to approximate \$28,071.

(10) Temporarily Restricted Net Assets

Temporarily restricted net assets consist of resources available to meet future obligations, but only in compliance with the restrictions specified by donors. As of September 30, 2016, temporarily restricted net assets are restricted for the following purposes:

Action Fund	\$ 319,271
Urban Smart Sewering	50,000
Special Event Sponsorship	<u>10,000</u>
Total	\$ <u>379,271</u>

To support its mission of protecting, preserving and enhancing the Charles River and its watershed through science, advocacy and the law, the Organization has embarked on an effort to raise Endowment, Action and Project Funds. Donors have agreed to allocate up to 7% of donations to cover the costs; however, one donor has authorized a 17% allocation. During the year ended September 30, 2016 these total allocations amounted to \$229,833; of which \$29,365 was attributable to Action Fund contributions and \$200,468 was attributable to Endowment Fund contributions.

The Action Fund will advance the Organization's unfunded mission-related work, prioritizing work or initiatives, and to respond to external events, decisions, or actions (external events) that have the potential to undermine watershed protection, or public access. Action Funds will also be used for ideas and planning for new Organization initiatives that grow out the expertise of the association, and to leverage grant funding, or to provide grant matching funds.

The Project Fund will be used for donor designated projects and initiatives. As of September 30, 2016, no such donor designations have been received.

CHARLES RIVER WATERSHED ASSOCIATION, INC.

Notes to Financial Statements

September 30, 2016

(11) Endowment

The Organization accepts endowment gifts under the stipulation that the funds are invested in perpetuity. Unless otherwise restricted by the donor, the investment income is to be used in accordance with the Organization's endowment spending policy. The goals of the endowment fund are to enhance existing programs, create new programs, make additional funding opportunities for donors and support capital improvements. The Organization's Board of Directors (the Board) oversees the establishment and revision of goals, spending plans and asset allocations for endowments.

The Organization's endowment consists of contributions restricted by the donor in support of the Organization's mission. Net assets associated with endowment funds, including funds designated by the Board to function as endowments, of which there were none, are classified and reported based on the existence or absence of donor-imposed restrictions.

(a) *Uniform Prudent Management of Institutional Funds Act*

The Organization's management and investment of donor-restricted endowment funds are subject to the provisions of the Uniform Management of Institutional Funds Act (UMIFA). In 2006, the Uniform Law Commission approved the model act, Uniform Prudent Management of Institutional Funds Act (UPMIFA), which serves as a guideline to states to use enacting legislation.

UPMIFA was adopted by the Commonwealth of Massachusetts effective June 30, 2009. Among UPMIFA's most significant changes is the elimination of UMIFA's important concept of historic dollar value threshold, the amount below which an organization could not spend from the fund, in favor of a more robust set of guidelines about what constitutes prudent spending.

The Board has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Further, per the interpretation, the UPMIFA classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

CHARLES RIVER WATERSHED ASSOCIATION, INC.

Notes to Financial Statements

September 30, 2016

(11) Endowment - continued

(b) Endowment Policies

Endowment Funds are held at a financial institution located in Massachusetts. The Organization is currently in the process of establishing the following policies:

- Appropriation of endowment assets for expenditure
- Return objectives and risk parameters
- Strategies employed for achieving investment objectives
- Spending policy and investment objectives
- Funds with deficiencies

(c) Composition and Reconciliation of Endowment Funds

The Endowment Fund is solely comprised of donor-restricted contributions. A reconciliation of the Organization's endowment by net asset class is presented on the statement of activities.

(12) Subsequent Events

The Organization has performed an evaluation of subsequent events through July 12, 2017, which is the date the Organization's financial statements were available to be issued. No material subsequent events, have occurred since September 30, 2016 that required recognition or disclosure in these financial statements.