

ALLIANCE FOR WATER EFFICIENCY

FINANCIAL STATEMENTS

**For the Year Ended
December 31, 2020**

ALLIANCE FOR WATER EFFICIENCY

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Desmond & Ahern, Ltd.

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Independent Auditor's Report

To the Board of Directors of
Alliance for Water Efficiency
Chicago, IL

We have audited the accompanying financial statements of Alliance for Water Efficiency (a nonprofit Alliance), which comprise the statement of financial position as of December 31, 2020 and 2019, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 Alliance for Water Efficiency as of December 31, 2020, 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.

Desmond & Ahern, Ltd

June 3, 2021
Chicago, IL

**ALLIANCE FOR WATER EFFICIENCY
STATEMENT OF FINANCIAL POSITION
December 31, 2020**

Assets

Current Assets

Cash and cash equivalents	\$ 529,949
Investments	141,314
Accounts Receivable	100,477
Inventory	12,079
Prepaid Expenses	8,819
Total current assets	<u>792,638</u>

Furniture and Equipment	78,609
Less accumulated depreciation	<u>(74,256)</u>
Net property and equipment	<u>4,353</u>

Other Assets

Security deposits	<u>10,236</u>
Total other assets	<u>10,236</u>

Total Assets	<u><u>\$ 807,227</u></u>
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Liabilities and Net Assets

Accounts payable	157,272
Accrued expenses	45,728
Deferred revenue	90,057
Refundable advances	126,088
Funds held for other entities	<u>10,042</u>
Total current liabilities	429,187

Net Assets

Without donor restrictions	172,637
With donor restrictions	<u>205,403</u>
Total net assets	<u>378,040</u>

Total Liabilities and Net Assets	<u><u>\$ 807,227</u></u>
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See independent auditor's report and notes to financial statements.

ALLIANCE FOR WATER EFFICIENCY
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
<u>Revenues and Other Support</u>			
Membership dues	678,278	\$ -	678,278
Special projects	494,747	157,144	651,891
Grants and contributions	115,536	150,742	266,278
Board member donations	5,550	-	5,550
Investment income	3,131	-	3,131
PPP loan forgiveness	123,077	-	123,077
Miscellaneous income	13,480	-	13,480
Net assets released from restrictions	164,023	(164,023)	-
Total public support and revenue	<u>1,597,822</u>	<u>143,863</u>	<u>1,741,685</u>
<u>Expenses</u>			
Program services	1,146,979	-	1,146,979
Administrative	200,722	-	200,722
Fundraising	44,362	-	44,362
Total expenses	<u>1,392,063</u>	<u>-</u>	<u>1,392,063</u>
Change in net assets	205,759	143,863	349,622
Net assets, beginning of year	<u>(33,122)</u>	<u>61,540</u>	<u>28,418</u>
Net assets, end of year	<u>\$ 172,637</u>	<u>\$ 205,403</u>	<u>\$ 378,040</u>

See independent auditor's report and notes to financial statements.

ALLIANCE FOR WATER EFFICIENCY
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2020

	Program Services	Administrative	Fundraising	Total
<u>Functional Expenses</u>				
Salaries and Wages	\$ 387,387	\$ 89,872	\$ 26,163	503,422
Payroll taxes	30,152	7,742	2,852	40,746
Employee benefits	52,618	13,510	4,977	71,105
Consultant and program costs	538,854	14,669	-	553,523
Telephone and internet costs	37,966	7,463	2,749	48,178
Occupancy	48,731	12,512	4,610	65,853
Bad debt expense	-	26,807	-	26,807
Professional fees	1,710	19,977	-	21,687
Travel and meetings	10,446	2,693	992	14,131
Printing and postage	13,893	1,411	520	15,824
Dues and subscriptions	13,593	1,080	398	15,071
Insurance	3,902	1,002	369	5,273
Supplies	1,858	478	176	2,512
Advertising	1,543	396	146	2,085
Miscellaneous	2,830	726	268	3,824
Depreciation	1,496	384	142	2,022
Total Expenses	\$ 1,146,979	\$ 200,722	\$ 44,362	\$ 1,392,063

See independent auditor's report and notes to financial statements.

ALLIANCE FOR WATER EFFICIENCY
STATEMENT OF CASH FLOW
For the Year Ended December 31, 2020

Cash Flows from Operating Activities

Increase in net assets	\$ 349,622
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	2,022
Unrealized gain from investments	(1,102)
Changes in operating assets and liabilities	
Accounts receivable	(10,153)
Inventory	(3,152)
Prepaid expenses	8,353
Accounts payable	67,134
Accrued liabilities	11,927
Deferred revenue	34,832
Refundable advances	68,590
Funds held for other entities	(9,486)
Net cash provided by operating activities	<u>518,587</u>

Cash Flows from Investing Activities

Purchases of furniture and equipment	(1,888)
Proceeds from sale of investments	4,233
Purchases of investments	(26,574)
Net cash used in investing activities	<u>(24,229)</u>

Net increase in cash and cash equivalents 494,358

Cash and cash equivalents

Beginning of year	<u>35,591</u>
End of year	<u><u>\$ 529,949</u></u>

See independent auditor's report and notes to financial statements.

**ALLIANCE FOR WATER EFFICIENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2020**

Note 1 – Nature of Operations and Summary of Significant Accounting Policies

Alliance

The Alliance for Water Efficiency (“the Alliance”) is a stakeholder-based not-for-profit entity founded in 2006. The Alliance’s mission is dedicated to the efficient and sustainable use of water in North America by advocating for water-efficient products, programs, information, and assistance on water conservation efforts. The Alliance is a partnership Alliance that is comprised of a collective of Alliances and professionals that belief using water efficiently saves money, preserves the environment, and helps communities thrive.

Basis of Accounting

The financial statements of the Alliance have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities in accordance with the accounting principles generally accepted in the United States of America (“GAAP”).

Basis of Presentation

As required by the generally accepted accounting principles for Not-for-Profit accounting, the Alliance is required to report information regarding its financial position and activities according to two classes:

Without Donor Restrictions – Net assets that are available to finance the general operations of the Alliance. The only limits on the use of net assets without donor restrictions are the broad limits resulting from the nature of the Alliance, the environment in which it operates, and the purposes specified in its articles of incorporation. Voluntary resolutions by the Alliance’s Board of Directors to designate a portion of its net assets without donor restrictions for specific purposes do not result in restricted funds, therefore are included within the category net assets without donor restrictions. At December 31, 2020, no amounts were Board restricted.

With Donor Restrictions – Net assets that are either purpose restricted or perpetual in nature. Purpose restricted net assets result from (a) contributions and other inflows of assets, the Alliance’s use of which is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Alliance pursuant to those stipulations, (b) other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) reclassifications to (or from) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time or their fulfillment. Purpose restricted contributions, for which the purpose is accomplished in the same year, are classified as without donor restrictions in the consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

**ALLIANCE FOR WATER EFFICIENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2020**

Note 1 – Nature of Operations and Summary of Significant Accounting Policies (cont.)

Cash and Cash Equivalents

Cash and cash equivalents consist of bank deposits in federally insured accounts. The accounts may at times exceed the Federal Deposit Insurance Corporation (FDIC) insurance limit.

For purposes of the statements of cash flows, the Alliance considers certificates of deposits with an original maturity date of three months or less to be cash equivalents. No cash was paid for taxes or interest during the year ended December 31, 2020.

Investments

Investments are measured at fair value, determined by quoted market price, in the statements of financial position. Investment income or loss (including gains and losses on investments and interest and dividends) are included in the statement of activities as increases or decreases in net assets without donor restrictions unless the income or loss is restricted by donor or law.

Receivables

Receivables are recorded at fair value and recognized as revenue in the period in which the grant pledge is made. The Alliance reviews receivables and determines the need for an allowance for doubtful accounts based on management's experience and information. The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of the amounts that will be collected. Management has determined that no allowance is necessary as of December 31, 2020.

Furniture and Equipment

Expenditures for furniture and equipment, and items which substantially increase the useful lives of existing assets, are capitalized at cost. The Alliance capitalizes all expenditures and contributions of property and equipment valued over \$500. Any donated property and equipment are recorded at their estimated fair value when received. Depreciation is computed on the straight-line method at rates designed to depreciate the costs of assets over the estimated useful lives of depreciable assets, currently at 3 years for equipment and 5 years for furniture. Depreciation for the year ended December 31, 2020 was \$2,022.

Support and Revenue

The Alliance recognizes contributions when cash, securities, or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met. At December 31, 2020, the Alliance has \$126,088 in assets received with donor-imposed conditions reported on the Statement of Financial Position.

The Alliance reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, 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 as net assets released from restrictions.

**ALLIANCE FOR WATER EFFICIENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2020**

Note 1 – Nature of Operations and Summary of Significant Accounting Policies (cont.)

The Alliance reports gifts of land, buildings, and equipment as net assets without donor restricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations regarding how long those long-lived assets must be maintained, the Alliance reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. During the year ending December 31, 2020 no such gifts of land, buildings, or equipment were received.

Membership Dues

Membership dues are on a calendar year basis and management has identified distinct performance obligations, including bi-monthly journal subscription, and general member services, such as advocacy and education. Because all performance obligations related to membership dues are in the calendar year and refundable, the Alliance has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. Membership dues received but applicable to the following year are recorded as deferred revenue.

In-Kind Contributions

In addition to receiving cash contributions, the Alliance may receive in-kind contributions from various donors. It is the policy of the Alliance to record the estimated fair market value of certain in-kind donations as an expense in its financial statements, and similarly increase donations by a like amount. For the year ending December 31, 2020, the Alliance did not receive any in-kind donations.

Inventory

Inventory consists of various publications sold or distributed by the Alliance. Total inventory at December 31, 2020 is recorded at \$12,079, at the lower of cost or market.

Funds Held for Other Entities

Various third-party entities have transferred funds to the Alliance with the specification that the Alliance is to hold and distribute the funds to pre-determined designees as work is performed on certain projects that are of interest to the Alliance and the water efficiency community. The Alliance has no variance power over the funds and is required to return any unspent funds that the contributors choose to work with another organization. The Alliance has recognized amounts received as funds held for other entities on the statement of financial position in the amount of \$10,042.

**ALLIANCE FOR WATER EFFICIENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2020**

Note 1 – Nature of Operations and Summary of Significant Accounting Policies (cont.)

Income Taxes

The Alliance was granted an exemption from federal income taxes by the Internal Revenue Service pursuant to the provisions of Internal Revenue Code Section 501(c)(3). The Alliance qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an Alliance that is not a private foundation under Section 509(a)(1). The tax-exempt purpose of the Alliance and the nature in which it operates is described above. The Alliance continues to operate in compliance with its tax-exempt purpose. The Alliance's annual information and income tax returns filed with the federal and state governments are subject to examination by the IRS, generally for three years after they were filed.

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 the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The financial statements report certain categories of expenses that are attributable to one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Expenses such as consultants and program costs that can be identified with a specific program are recorded directly according to their natural expense classification. All other expenses are allocated based on estimates of time and effort.

Subsequent Events

Accounting principles generally accepted in the United States of America establish general standards of accounting for, and disclosure of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Alliance has evaluated subsequent events through June 3, 2021, which is the date the statements were available to be issued. No subsequent events have been identified that are required to be disclosed as of that date.

Note 2 – Financial Assets and Liquidity

The Alliance regularly monitors the availability of resources required to meet its operating needs and other contractual commitments. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Alliance considers all expenditures related to its ongoing program activities as well as the conduct of services undertaken to support those activities to be general expenditures.

As of December 31, 2020, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, were as follows:

**ALLIANCE FOR WATER EFFICIENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2020**

Note 2 – Financial Assets and Liquidity (cont.)

	<u>2020</u>
Financial assets, at year-end:	
Cash and cash equivalents	\$ 529,949
Investments	141,314
Accounts receivable	<u>100,477</u>
Total financial assets, at year-end	771,740
Less: Amounts not available to be used within one year, due to contractual or donor-imposed restrictions:	
Refundable advances	(126,088)
Funds held for other entities	(10,042)
Net assets with donor restrictions	<u>(205,403)</u>
Financial assets available to meet cash need for general expenditures within one year	<u>\$ 430,207</u>

The Alliance manages its liquidity and reserves following three guiding principles: 1) operating within a prudent range of financial soundness and stability; 2) maintaining adequate liquid assets to fund near-term operating needs; and 3) maintaining sufficient reserves to provide reasonable assurance that programming is continued, and obligations will be adequately discharged in the

Note 3 – Paycheck Protection Loan

On April 30, 2020, the Alliance received loan proceeds in the amount of \$123,077 under the Paycheck Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after twenty-four weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the twenty-four-week period.

The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. The Alliance has used the proceeds for purposes consistent with the PPP and elected to follow ASC 958-605 and record the loan as a refundable advance where once forgiveness conditions are substantially met or explicitly waived, the entity would reduce the refundable advance and record a contribution for the amount forgiven. As of December 31, 2020, the \$123,077 was completely forgiven and has been recorded as revenue on the statement of activities.

**ALLIANCE FOR WATER EFFICIENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2020**

Note 4 – Fair Value Measurements

Generally accepted accounting principles (GAAP) define fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required to be recorded at fair value, the Organization considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance.

GAAP also establishes a fair value hierarchy that requires the Organization to maximize the use of observable inputs and minimized the use of unobservable inputs when measuring fair value. The hierarchy consists of three levels:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or dissimilar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets, or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodology used for assets measured at fair value. There have been no changes in the methodology used at December 31, 2020:

Cash and cash equivalents: The Organization considers all highly liquid instruments with an original maturity of three months or less to be cash equivalents.

Mutual Funds: Valued at the closing price reported on the active market on which the individual securities are traded.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

For the year ended December 31, 2020, the Alliance held cash and cash equivalents of \$20,364 and mutual funds of \$120,950 both with the classification and method of valuation as Level 1.

**ALLIANCE FOR WATER EFFICIENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2020**

Note 5 – Employee Benefit Plan

The Alliance has a retirement plan under IRS Code Section 401(k) that covers all eligible employees. Employees are eligible after six months of continued employment. The Alliance contributes up to 6% of the employee’s annual salary to the plan and matches 100% of the employee contributions to the plan up to 3% of the employee’s contribution. Employer contributions vest immediately. Employer contributions to the 401(k) plan amounted to \$25,708.

Note 6 – Commitments

In April 2015, the Alliance entered into a lease for office space for its headquarters in Chicago, IL. The lease agreement expired July 31, 2020 and the Alliance extended until July 31, 2023. The Alliance is committed for 2021, 2022 and 2023 to a minimum annual rent payment of \$81,860, \$83,022, and \$48,825, respectively.

Note 7 – Net Assets with Donor Restrictions

Net assets with donor restrictions for the year ended December 31, 2020 available in future periods are designated for the following:

Cooling towers and technology studies	\$ 128,806
Water conservation low income	8,169
Tracking tool revision	<u>68,428</u>
Total net assets with donor restrictions	<u>\$ 205,403</u>