

RIVER NETWORK

**Financial Statements with
Accompanying Independent
Auditor's Report**

September 30, 2017 and 2016

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Financial Statements	
Statement of Financial Position	2
Statement of Activities	3
Statement of Cash Flows	4
Notes to Financial Statements	5 - 11
Supplementary Information	
Schedule of Functional Expenses	12



287 Century Circle, Suite 200
Louisville, Colorado 80027
[p] 303.499.7445
[f] 303.967.2373
www.flewellingcpa.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors
River Network
Boulder, Colorado

We have audited the accompanying financial statements of River Network (a nonprofit corporation), which comprise the statement of financial position as of September 30, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 River Network as of September 30, 2017 and 2016, 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of functional expenses for the years ended September 30, 2017 and 2016 on page 12 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information has been subjected to auditing procedures applied in the audit of the basic financial statements, and in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Flewelling & Mitton, PC

A handwritten signature in cursive script that reads "Flewelling & Mitton, PC".

December 14, 2017

RIVER NETWORK
Statement of Financial Position
September 30, 2017 and 2016

ASSETS

	2017	2016
Assets		
Cash and cash equivalents	\$ 767,829	\$ 353,377
Accounts receivable	41,707	44,501
Grants and contributions receivable, current	326,176	463,385
Prepaid expense	21,110	16,390
Cash restricted by donors for future purposes	682,079	548,785
Security deposit	2,800	2,800
Grants and contributions receivable, non-current	—	149,300
Property and equipment, net of depreciation of \$16,265 and \$7,070	114,316	34,181
Total Assets	\$ 1,956,017	\$ 1,612,719

LIABILITIES AND NET ASSETS

	2017	2016
Liabilities		
Accounts payable	\$ 57,456	\$ 57,871
Grants payable	52,963	—
Accrued payroll	24,535	21,023
Accrued vacation	37,141	37,393
Total Liabilities	172,095	116,287
Net Assets		
Unrestricted	493,674	334,962
Temporarily restricted	1,290,248	1,161,470
Total Net Assets	1,783,922	1,496,432
Total Liabilities and Net Assets	\$ 1,956,017	\$ 1,612,719

See accompanying *Notes to Financial Statements*

RIVER NETWORK

Statement of Activities For the Years Ended September 30, 2017 and 2016

	Unrestricted	Temporarily Restricted	2017 Total	2016 Total
Revenue and Other Support				
Foundation grants and contributions	\$ 200,000	1,192,820	\$ 1,392,820	\$ 1,130,036
Corporate grants and contributions	71,062	427,938	499,000	361,363
Individual and small business contributions	154,014	17,000	171,014	250,809
Government grants and contributions	52,381	—	52,381	39,999
In-kind contributions	10,166	—	10,166	27,795
Annual River Rally registration fees and sales, net of scholarships of \$79,758 and \$89,249 in 2017 and 2016, respectively	119,829	—	119,829	106,693
Membership dues	59,300	—	59,300	59,900
Fees for services	252,585	—	252,585	312,024
Interest income	353	—	353	353
Other	13,685	—	13,685	6,848
Net assets released from restrictions	<u>1,508,980</u>	<u>(1,508,980)</u>	<u>—</u>	<u>—</u>
 Total Revenue and Other Support	 <u>2,442,355</u>	 <u>128,778</u>	 <u>2,571,133</u>	 <u>2,295,820</u>
 Expenses				
Program services	1,782,682	—	1,782,682	1,429,071
Management and general	267,154	—	267,154	245,318
Fund-raising	<u>233,807</u>	<u>—</u>	<u>233,807</u>	<u>232,169</u>
 Total Expenses	 <u>2,283,643</u>	 <u>—</u>	 <u>2,283,643</u>	 <u>1,906,558</u>
 Increase in Net Assets	 158,712	 128,778	 287,490	 389,262
 Net Assets at Beginning of Year	 <u>334,962</u>	 <u>1,161,470</u>	 <u>1,496,432</u>	 <u>1,107,170</u>
 Net Assets at End of Year	 <u>\$ 493,674</u>	 <u>\$ 1,290,248</u>	 <u>\$ 1,783,922</u>	 <u>\$ 1,496,432</u>

See accompanying *Notes to Financial Statements*

RIVER NETWORK
Statement of Cash Flows
For the Years Ended September 30, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Cash received from contributors and grantors	\$ 2,411,890	\$ 1,581,522
Cash received from events, dues and fees for service	448,193	492,826
Cash received from interest	353	353
Cash paid to suppliers, employees and others	(2,223,360)	(1,832,274)
Net Cash Provided (Used) by Operating Activities	637,076	242,427
Cash Flows from Investing Activities		
Purchases of property and equipment	(89,330)	(35,351)
Net Cash Provided (Used) by Investing Activities	(89,330)	(35,351)
Net Increase (Decrease) in Cash and Cash Equivalents	547,746	207,076
Cash and Cash Equivalents at Beginning of Year	902,162	695,086
Cash and Cash Equivalents at End of Year	\$ 1,449,908	\$ 902,162
 Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities		
Change in net assets	\$ 287,490	\$ 389,262
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net change in:		
Depreciation and amortization	9,195	7,070
(Increase) decrease in receivables	2,794	7,361
Grants and contributions receivable	286,509	(200,685)
(Increase) decrease in prepaid expenses	(4,720)	9,623
Increase (decrease) in payables and accrued liabilities	(415)	13,905
Increase (decrease) in accrued payroll and related expenses	3,260	21,175
Increase (decrease) in grants payable	52,963	(5,284)
Net Cash Provided by Operating Activities	\$ 637,076	\$ 242,427
 Cash Reported on Statement of Financial Position		
Cash and cash equivalents	\$ 767,829	\$ 353,377
Cash restricted by donors for future purposes	682,079	548,785
Total Cash and Cash Equivalents	\$ 1,449,908	\$ 902,162

See accompanying *Notes to Financial Statements*

RIVER NETWORK

Notes to Financial Statements *September 30, 2017 and 2016*

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Purpose

River Network envisions a future of clean and ample water for people and nature, where local caretakers are well-equipped, effective and courageous champions for our rivers. River Network's mission is to empower and unite people and communities to protect and restore rivers and other waters that sustain all life. Their current strategic plan and operations directly support this vision and focus their investments around three strategies: STRONG CHAMPIONS, CLEAN WATER and AMPLE WATER.

The Organization maintains an office in Boulder, Colorado, with staff in field locations including Oregon, Ohio, North Carolina, Maryland and Alaska. River Network has invested in the systems necessary to support such a decentralized team, including online work spaces, virtual conferencing and tight alignment between its strategic plan, annual work plan, and personal objectives for each staff person.

Over the past 28 years, River Network has accomplished its mission by investing in local efforts and helping advance impact at more significant scales (system, state, regional, national). River Network has worked with groups and individuals in every state and region of the U.S. and beyond. It provides one-on-one mentoring and consulting, virtual training, and conferences to strengthen local efforts; convenes groups for greater impact; and increases the transfer of practical water management solutions. Over 2,000 organizations and 10,000 individuals are part of its community.

Fiscal Year 2017's efforts were completely focused on three strategies identified within its current strategic plan which build from its strengths and work to date:

Strong Champions: Strengthens coalitions, organizations and leaders. More specifically, River Network ensures that new and existing leaders, organizations and coalitions are strong, effective, sustainable, results-oriented and equipped to make the greatest impact for our rivers and other waters in a rapidly-changing world.

Clean Water: Promotes clean water solutions and innovations. More specifically, River Network improves local understanding the causes of water quality decline; advances policies and restoration practices that can turn this situation around and sustain improvement over the long term; and fosters opportunities for expanded impact through collaboration.

Ample Water: Advance water supply security and sustainability. More specifically, River Network grows local caretaker familiarity with the challenges and opportunities associated with securing an ample supply of water for healthy rivers and communities; crafts solutions that meet both human and ecosystem needs; and fosters expanded impact through collaboration.

The above three strategies inform all aspects of River Network's work throughout the year – from the structure and access to best practices and impact stories offered through their website; to River Voices, their high-quality quarterly newsletter; River Rally, their annual conference; webinars and online discussions for the river and watershed community; and one-on-one mentoring, consulting and engagement to help groups and coalitions expand their impact.

RIVER NETWORK

Notes to Financial Statements *September 30, 2017 and 2016*

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

These strategies are also supported by and are integrated across the structure of functions of River Network staff: Leadership Development, Science and Policy, Community Engagement, Finance and Operations, Fundraising and Communications, and Executive. Staff work, together and within and across these functions to fulfill grant and donor obligation and expanded into new mission-driven areas of opportunity. This alignment and cooperation helps River Network to be a highly effective and strategically focused organization.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Cash Equivalents

The Organization considers all unrestricted, highly liquid investments with an initial maturity of three months or fewer to be cash and cash equivalents.

Accounts Receivable

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Organization provides for losses on accounts receivable using the allowance method. The allowance is based on experience and other circumstances which may affect the ability of customers to meet their obligations. It is the Organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. The balance in allowance for doubtful accounts at September 30, 2017 and 2016 was \$0.

Grant and Contract Revenue

For all grants and contracts which are considered to be exchange transactions, revenue is recognized as allowable reimbursable expenses are incurred. Cash received in excess of allowable expenses is recorded as deferred revenue, and allowable expenses incurred in excess of cash received are recorded as receivables.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted net assets, depending on the absence or existence and nature of any donor restrictions.

Contributions to the Organization which are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire within the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

RIVER NETWORK

Notes to Financial Statements September 30, 2017 and 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated Materials, Equipment and Services

Donated materials, equipment and services are reflected as contributions at their estimated values at date of receipt. These were recorded as in-kind contributions in the statement of activities. During the years ended September 30, 2017 and 2016, donated materials, equipment and services consisted of the following:

	<u>2017</u>	<u>2016</u>
Facility usage	\$ —	\$ 11,500
Travel	—	7,945
Supplies and materials	3,200	5,100
Services	6,966	3,250
Total	<u>\$ 10,166</u>	<u>\$ 27,795</u>

In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization in various ways, but do not meet the requirements for recognition of revenue in the financial statements.

Property and Equipment

Property and equipment are stated at cost, or fair market value if donated, and depreciated on the straight-line method. Expenditures for maintenance and repairs are charged to the appropriate expense accounts as incurred. Expenditures for renewals and betterments of \$5,000 or more that materially extend the useful lives of assets or increase their productivity are capitalized at cost. The costs and related allowances for depreciation of assets retired or otherwise disposed of are eliminated from the accounts. The resulting gains or losses are included in the determination of increase in unrestricted assets.

Uncertain Tax Positions

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on income derived from unrelated business activities. The Organization believes that it has appropriate support for any tax positions taken, and as such does not have any uncertain tax positions that are material to the financial statements. The Organization's Federal Exempt Organization Income Tax Returns Form 990 for 2013, 2014 and 2015 are subject to examination by the IRS, generally for three years after they are filed.

Functional Reporting of Expenses

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

Summarized Prior-Year Information

The amounts shown for the year ended September 30, 2016 in the accompanying financial statements are included to provide a basis for comparison with 2017 and present summarized totals only. Accordingly, the 2016 totals are not intended to present all information necessary for a fair presentation in conformity with accounting principles generally accepted in the United States of America. Such information should be read in conjunction with the Organization's financial statements for the year ended September 30, 2016, from which the summarized information was derived.

RIVER NETWORK

Notes to Financial Statements September 30, 2017 and 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair Value of Financial Instruments

The Organization discloses fair value information about financial instruments when it is practicable to estimate that value. The carrying value of the Organization's cash, receivables, prepaid expenses, accounts payable and accrued expenses approximate their estimated fair values due to their short-term maturities.

Grants Receivable

Grants 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 a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in valuation allowance have not been material to the financial statements.

NOTE 2: GRANTS AND CONTRIBUTIONS RECEIVABLE

Grants and contribution receivable consisted of the following:

	2017	2016
Grants and contributions receivable	\$ 326,176	\$ 612,685
Less: Allowance for uncollectible promises to give	—	—
Less: Discount to present value	—	—
Grants and Contributions Receivable	\$ 326,176	\$ 612,685
Amounts due in:		
Less than one year	\$ 326,176	\$ 463,385
One to five years	—	149,300
Total Amounts Due	\$ 326,176	\$ 612,685

The discount on long-term grants receivable was not significant and therefore was not recorded.

NOTE 3: PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	2017	2016
Land	\$ 5,900	\$ 5,900
Website	35,351	35,351
Software	89,330	—
Total Property and Equipment	130,581	41,251
Less: accumulated amortization	(16,265)	(7,070)
Net Property and Equipment	\$ 114,316	\$ 34,181

RIVER NETWORK

Notes to Financial Statements September 30, 2017 and 2016

NOTE 4: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets represent grants, contributions and other unexpended revenues and gains restricted by the donors as follows:

	2017	2016
Clean Water	\$ 898,090	\$ 288,067
Ample Water	131,124	371,267
Strong Champions	91,884	341,639
Community Engagement	161,375	128,252
River Rescue Fund	7,775	32,245
Total	\$ 1,290,248	\$ 1,161,470

NOTE 5: LEASE COMMITMENTS

The Organization entered into a lease with the University of Colorado in Boulder, CO on July 11, 2016, commencing August 1, 2016 and ending on July 31, 2017, thereafter the lease term changes to month-to-month. The terms of the lease allow for either party to terminate the lease with 30 days written notice. The Organization agreed to pay a user fee of \$300 per full-time employee. The Organization has been given notice and must vacate by January 15, 2018.

The Organization also has a lease in Portland, OR, which commenced January 1, 2015 and ends on December 31, 2017. The lease calls for a base rent of \$2,800 per month, increasing 3% each year. On August 10, 2016, the Organization entered into a sub-lease agreement with a for-profit company due to moving the headquarters to Boulder, CO.

Rental income under the sub-lease agreement for the years ended September 30, 2017 and 2016 was \$0 and \$2,884, respectively. The sub-lessee pays rent to the landlord directly.

The Organization leased a previous office space in Boulder, Colorado with monthly payments of \$500, under a verbal agreement. The fair market value was much higher, and the lessor donated a total of \$0 and \$11,500 during the years ended September 30, 2017 and 2016 for this space.

The Organization entered into a lease for a copier on June 27, 2015 for 60 months, at a payment of \$689 per month.

Total lease expense for the year ended September 30, 2017 and 2016 was \$30,087 and \$59,778, respectively. These amounts include in-kind contributions of \$0 in 2017 and \$11,500 in 2016.

Future minimum lease payments are as follows:

Year	Total	Sub-Lease	Net
2018	\$ 17,172	\$ 8,904	\$ 8,268
2019	8,268	—	8,268
2020	4,134	—	4,134
Thereafter	—	—	—
Total	\$ 29,574	\$ 8,904	\$ 20,670

RIVER NETWORK

Notes to Financial Statements September 30, 2017 and 2016

NOTE 6: CONCENTRATIONS OF FUNDING SOURCE

The Organization recognized the following revenues from significant grantors during the fiscal years ending September 30, 2017 and 2016:

	September 30, 2017		September 30, 2016	
	Amount	% of Total Revenue	Amount	% of Total Revenue
Foundation #1	\$ —	—%	\$ 554,300	24.1%
Foundation #2	\$ 300,000	11.7%	\$ —	—
Foundation #3	\$ 487,320	19.0%	\$ —	—
Foundation #4	\$ 330,000	12.8%	\$ —	—

NOTE 7: LINE OF CREDIT

River Network maintains a line of credit secured by all business assets for a maximum of \$75,000, bearing interest at 5.75%. At September 30, 2017 and 2016, no balance was outstanding under this agreement.

NOTE 8: COMMITMENTS AND CONTINGENCIES

The Organization receives grants from various sources which are subject to final review and approval, depending on the allowability of corresponding expenses charged to those programs. Any expenses not allowed by the granting authority would be reimbursable by the Organization.

On March 31, 2017, the Organization signed a contract with Resort at Squaw Creek for the River Rally event scheduled for April 2018. If cancellation of the event were to occur, the Organization would owe \$102,652 to Squaw Creek Associates, LLC.

NOTE 9: CONCENTRATION OF CREDIT RISK

The Organization maintains cash balances at one financial institution. Accounts are currently insured by the Federal Deposit Insurance Corporation (FDIC insured) up to \$250,000. The Organization has not experienced any loss in such accounts. As of September 30, 2017 and 2016, the uninsured balance was \$1,198,264 and \$652,162, respectively. The Organization believes it is not exposed to any significant credit risk on its cash balances.

At September 30, 2016, the Organization had a concentration of credit risk of \$351,800 for a grant receivable from one foundation located in Michigan.

NOTE 10: SUPPLEMENTAL CASH FLOW INFORMATION

The Organization made no interest or income tax payments for the years ended September 30, 2017 and 2016, respectively.

RIVER NETWORK

Notes to Financial Statements *September 30, 2017 and 2016*

NOTE 11: EMPLOYEE RETIREMENT PLANS

The Organization established a defined contribution retirement plan that operates under Section 401(k) of the Internal Revenue Code. Employees who are over 21 years of age qualify to participate in the retirement plan. The Organization contributes 2% of each eligible employee's compensation. Employees may make voluntary contributions to the plan. The Organization contributed \$23,931 and \$21,753 to the retirement plan for the years ended September 30, 2017 and 2016, respectively. All contributions are immediately vested to the employee.

Effective October 1, 2017, the Organization will sponsor a salary reduction contribution plan pursuant to Section 403(b) of the Internal Revenue Code covering substantially all employees. Under the plan, employees contribute a specified percentage of salary, or a fixed dollar amount, to the plan. The Organization may agree to make a discretionary and "nonelective" contribution to their employees' 403(b) plans.

NOTE 12: SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 14, 2017, which was the date the financial statements were available to be issued. There were no significant subsequent events noted.

RIVER NETWORK

Schedule of Functional Expenses For the Year Ended September 30, 2017 and 2016

	Supporting Services				
	Program Services	Mgt and General	Fund Raising	2017 Total	2016 Total
Awards and grants	\$ 340,496	\$ —	\$ —	\$ 340,496	\$ 112,373
Salaries and wages	879,953	136,026	179,937	1,195,916	1,087,662
Pension plan contributions	16,985	3,403	3,543	23,931	21,753
Employee benefits	5,118	2,310	4,688	12,116	12,968
Payroll taxes	74,372	10,243	14,732	99,347	91,342
Legal fees	—	—	—	—	3,600
Accounting fees	—	51,493	—	51,493	69,327
Other professional fees	115,377	9,273	6,660	131,310	116,830
Advertising and promotion	7,643	908	165	8,716	3,879
Office expenses	10,357	112	2,888	13,357	15,421
Computer and software services	36,392	1,886	2,049	40,327	12,780
Occupancy	17,633	2,387	2,619	22,639	51,453
Travel	76,441	20,010	1,915	98,366	83,211
Meetings and events	140,903	2,420	1,650	144,973	106,175
Depreciation	7,223	900	1,072	9,195	7,070
Insurance	6,447	767	968	8,182	10,064
Bank charges	5,636	5,454	19	11,109	9,743
Dues and subscriptions	3,026	2,763	1,513	7,302	17,110
Equipment rental and maintenance	5,034	11,626	—	16,660	15,485
Miscellaneous	—	467	25	492	14,679
Program materials	22,531	1,117	71	23,719	14,883
Staff training	880	100	—	980	8,790
Taxes and licenses	—	1,211	7,487	8,698	1,269
Telephone	10,235	2,278	1,806	14,319	18,691
Total Expenses	<u>\$ 1,782,682</u>	<u>\$ 267,154</u>	<u>\$ 233,807</u>	<u>\$ 2,283,643</u>	<u>\$ 1,906,558</u>
 Percent of Total Expenses	 78.1%	 11.7%	 10.2%	 100.0%	