

Clean Water Action

**Financial Report
December 31, 2010**

Clean Water Action

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Independent Auditor's Report

To the Board of Directors
Clean Water Action
Washington, D.C.

We have audited the accompanying statement of financial position of Clean Water Action (the "Organization") as of December 31, 2010 and the related statements of activities and changes in net assets (deficit) and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Clean Water Action at December 31, 2010 and the changes in its net assets (deficit) and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Organization will continue as a going concern. As discussed in Note 9 to the financial statements, the Organization has suffered recurring losses from operations and has an unrestricted deficit in net assets, which raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 9. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Plante & Moran, PLLC

May 6, 2011

Clean Water Action

Statement of Financial Position December 31, 2010

Assets	
Cash and cash equivalents	\$ 25,466
Contributions receivable	19,218
Due from affiliates (Note 3)	69,266
Prepaid expenses	25,448
Deposits	60,680
Property and equipment - Net (Note 2)	54,075
Total assets	<u>\$ 254,153</u>
Liabilities and Net Assets (Deficit)	
Liabilities	
Accounts payable	\$ 462,987
Bank line of credit (Note 5)	255,000
Loans payable	36,354
Accrued payroll and related expenses	357,161
Accrued vacation	221,555
Total liabilities	<u>1,333,057</u>
Net Assets (Deficit)	
Unrestricted	(1,097,245)
Temporarily restricted	18,341
Total net assets (deficit)	<u>(1,078,904)</u>
Total liabilities and net assets (deficit)	<u>\$ 254,153</u>

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Statement of Activities and Changes in Net Assets (Deficit) Year Ended December 31, 2010

Changes in Unrestricted Net Assets (Deficit)

Revenue:	
Individual contributions	\$ 8,613,917
Institutional giving and corporate contributions	205,738
Interest income	19,863
Miscellaneous income	12,129
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Total revenue	8,851,647
Net assets released from restrictions	57,969
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Total revenue and net assets released from restrictions	8,909,616
Expenses:	
Program	6,482,249
General and administrative	1,066,962
Fundraising	958,905
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Total expenses	8,508,116
Increase in Unrestricted Net Assets	401,500
Changes in Temporarily Restricted Net Assets	
Contributions	42,640
Net assets released from restrictions	(57,969)
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Decrease in Temporarily Restricted Net Assets	(15,329)
Increase in Net Assets	386,171
Net Deficit - Beginning of year	(1,465,075)
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Net Deficit - End of year	\$ (1,078,904)

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Statement of Cash Flows Year Ended December 31, 2010

Cash Flows from Operating Activities

Increase in net assets	\$ 386,171
Adjustments to reconcile increase in net assets to net cash from operating activities:	
Depreciation	41,533
Gain on sale of property and equipment	(2,922)
Changes in operating assets and liabilities which provided (used) cash:	
Contributions receivable	48,232
Due from affiliates	(69,266)
Prepaid expenses	20,528
Deposits	(2,788)
Accounts payable	(91,878)
Accrued payroll and related expenses	(320,010)
Accrued vacation	(108,209)
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Net cash used in operating activities	(98,609)

Cash Flows from Investing Activities

Purchase of property and equipment	(5,157)
Proceeds from disposition of property and equipment	8,183
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Net cash provided by investing activities	3,026

Cash Flows from Financing Activities

Repayment of line of credit	(10,000)
Payments on debt	(19,705)
Proceeds from debt	36,000
Net payments to affiliates	(225,462)
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Net cash used in financing activities	(219,167)

Net Decrease in Cash and Cash Equivalents (314,750)

Cash and Cash Equivalents - Beginning of year

340,216

Cash and Cash Equivalents - End of year \$ 25,466

Supplemental Disclosure of Cash Flow Information - Cash paid for interest \$ 57,595

Note 1 - Nature of Activities and Significant Accounting Policies

Nature of Organization - Established in 1972 in the District of Columbia, Clean Water Action (the "Organization") is a national not-for-profit organization working for clean, safe, and affordable water, the prevention of health-threatening pollution, and the creation of environmentally safe jobs and businesses. The Organization organizes strong grassroots groups, coalitions, and campaigns to elect environmentally friendly candidates and to protect the environment, health, economic well-being, and community quality of life. The Organization has canvass outreach programs that solicit contributions and communicate its message in 18 states nationwide.

Significant accounting policies are as follows:

Basis of Accounting - The accompanying financial statements have been prepared on the accrual basis of accounting.

Cash Equivalents - The Organization considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Contributions Receivable - The Organization's contributions receivable are comprised primarily of amounts committed from individuals, corporations, or foundations for use in the Organization's activities. All receivables are considered fully collectible at December 31, 2010. All receivables are expected to be collected by the Organization within one year.

Property and Equipment - Property and equipment are recorded at cost when purchased or at fair value at the date of donation and are being depreciated on a straight-line basis over their estimated useful lives (three to seven years). Leasehold improvements are depreciated over the term of the lease.

Contributions - Contributions are recorded as revenue when unconditional promises to give are made. Contributions received are considered to be available for unrestricted use unless specifically restricted by the donor. Temporarily restricted contributions that are used according to donor restrictions in the same time period as the contributions are recognized as temporarily restricted support and reclassified as net assets released from restrictions in the same period.

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

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Notes to Financial Statements December 31, 2010

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Functional Allocation of Expenses - The costs of providing program and support services have been reported on a functional basis in the statement of activities and changes in net assets (deficit). Indirect costs have been allocated between the various programs and support services based on estimates, as determined by management. Although the methods of allocation used are considered reasonable, other methods could be used that would produce a different amount.

Federal Income Taxes - The Organization is exempt from income tax under provisions of Internal Revenue Code Section 501(c)(4).

The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Organization believes it is no longer subject to income tax examinations for years prior to 2007.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including May 6, 2011, which is the date the financial statements are available to be issued.

Note 2 - Property and Equipment

The cost of property and equipment is summarized as follows:

Automobiles	\$ 298,840
Furniture and fixtures	484,446
Leasehold improvements	<u>55,039</u>
Total cost	838,325
Accumulated depreciation	<u>(784,250)</u>
Net carrying amount	<u>\$ 54,075</u>

Depreciation expense was \$41,533 for the year ended December 31, 2010.

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Notes to Financial Statements December 31, 2010

Note 3 - Related Parties

The Organization is affiliated with Clean Water Fund (CWF) and Citizens Campaign Inc. (CCI) through common board membership. The Organization does not have rights to the assets of the affiliated entities, nor is it liable for the liabilities incurred by CWF or CCI. CWF, a national 501(c)(3) organization, conducts research and educational programs. CCI, a C Corporation, provides management and project consulting for organizations that are interested in canvass-based projects. The Organization acts as a paymaster for the affiliated entities for shared office space, equipment usage, and certain employees with their associated expenses. Shared expenses and allocations of personnel and overhead expenses are recorded in a due to/due from affiliated account. The affiliated entities remit an estimated amount to the Organization to cover monthly expenses. The difference is then reconciled and applied to the subsequent month's activity. Interest on balances between the Organization and the affiliated entities is calculated at 6 percent per annum.

Activities between the Organization and the respective affiliates for the year ended December 31, 2010 are as follows:

CWF:

Amount due from CWF including interest	\$ 11,000
Allocated expenses:	
Payroll and payroll-related expenses	2,230,000
Health insurance	266,000
Rent and occupancy-related	305,000
Direct expenses	<u>727,000</u>
Total expenses paid on behalf of CWF	<u>\$ 3,528,000</u>
Total expense reimbursements by CWF	<u>\$ 3,202,000</u>

CCI:

Amount due from CCI including interest	\$ 59,000
Allocated expenses:	
Payroll and payroll-related expenses	126,000
Health insurance	6,000
Rent and occupancy-related	25,000
Direct expenses	<u>649,000</u>
Total expenses paid on behalf of CCI	<u>\$ 806,000</u>
Total expense reimbursements by CCI	<u>\$ 828,000</u>

During the year ended December 31, 2010, the Organization entered into note payable agreements with members of the board of directors. The balance at December 31, 2010 was \$31,000 and is included in the loans payable balance.

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Notes to Financial Statements December 31, 2010

Note 4 - Lease Commitments

The Organization leases office space and equipment in several locations throughout the United States. The leases expire on varying dates through December 2015. Future minimum lease payments under all cancelable and noncancelable lease obligations are as follows:

<u>Years Ending December 31</u>	<u>Amount</u>
2011	\$ 428,284
2012	434,142
2013	180,065
2014	23,408
2015	5,367
Total	<u>\$ 1,071,266</u>

Total rent expense for real and personal property under cancelable and noncancelable leases was \$468,268 for the year ended December 31, 2010.

Note 5 - Line of Credit

The Organization has a line of credit agreement with a financial institution with a limit of \$265,000. The line of credit bears interest at the prime rate plus three percentage points (with a 6 percent floor) and is collateralized by all of the assets of the Organization. The interest rate was 6.25 percent at December 31, 2010. The line expired on February 2, 2011 and was not renewed. The outstanding balance was \$255,000 at December 31, 2010.

Note 6 - Allocation of Joint Costs

The Organization incurs joint costs in its field and phone canvass programs for informational materials and activities that include fundraising appeals. The Organization allocates these field and phone canvass costs between program, general and administrative, and fundraising expenses based on program methodology and employees' total labor. The following is a schedule of total joint costs and allocation for the year ended December 31, 2010:

Program expenses	\$ 5,154,338
General and administrative expenses	819,284
Fundraising expenses	775,448
Total	<u>\$ 6,749,070</u>

Note 7 - Self-insurance

The Organization funds its employees' health benefit plan on a partially self-insured basis, providing coverage for employees' medical claims. The Organization's maximum loss is limited to \$50,000 per year, per employee covered under the plan. The estimated and recorded liability for claims incurred and incurred but not reported is included in accrued payroll and related expenses. For the year ended December 31, 2010, the following information applies to the Organization's plan:

Health insurance expense	\$	694,623
Amount paid by employees		197,238
Estimated and recorded liability for claims incurred and incurred but not reported		30,000

Note 8 - Retirement Plan

The Organization sponsors a 401(k) retirement plan. Under the plan, employees can elect to defer a portion of their compensation. In addition, the Organization may make contributions to the plan on behalf of eligible employees. The Organization made no contributions to the plan for the year ended December 31, 2010.

Note 9 - Management's Plans

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles which contemplate continuation of the Organization as a going concern. However, the Organization has sustained operating losses in the last three fiscal years and is in a net deficit position. In view of these matters, realization of a major portion of the assets in the accompanying statement of financial position is dependent upon continued operations of the Organization, which in turn is dependent upon the Organization's ability to meet its obligations as they become due and the success of its future operations.

Management believes the following actions being taken to revise the Organization's financial and business practices will continue to strengthen the Organization's financial condition.

- The Organization continued to make substantial efforts to reduce expenses and control costs. For this fiscal year, there were additional expense savings from:
 - * Layoffs and position eliminations
 - * Mandatory pay reductions
 - * Streamlining and improving efficiency of its canvass operations by reducing compensation and benefits, implementing stricter performance standards, closing field operations, and cutting operating costs
 - * Renegotiating fee reductions with contractors and vendors

Note 9 - Management's Plans (Continued)

- Management continues to take steps to increase and diversify fundraising operations including creating opportunities for longer-term stability.
- Management's goal is to reduce its deficit position by 20 percent.
- The board's finance committee will continue to meet at least monthly to review budget to actual performance. Management is required to provide a list of additional cuts if income is below budget projections or expenses are above budget projections. On a quarterly basis, management will make cuts commensurate with projected year-end budget-to-actual projections. These reductions will include elimination of staff positions, closing of more offices, reduction in compensation, or project closings totally.

Management believes that these actions will enable the Organization to continue its operations and meet all of its operating requirements.