Clean Water Action

Financial Report
December 31, 2012

Contents

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Independent Auditor's Report

To the Board of Directors
Clean Water Action

We have audited the accompanying financial statements of Clean Water Action (the "Organization") which comprise the statement of financial position as of December 31, 2012 and the related statements of activities and changes in net deficit 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 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 Clean Water Action as of December 31, 2012 and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The accompanying financial statements have been prepared assuming that the Organization will continue as a going concern. As discussed in Note 10 to the financial statements, the Organization has suffered recurring losses from operations and has a net capital deficiency that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 10. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter

Plante & Moran, PLLC

May 10, 2013

Clean Water Action

Statement of Financial Position
December 31, 2012

Assets		
Cash and cash equivalents	$	455,410
Contributions receivable		48,411
Due from affiliates (Note 3)		231,701
Prepaid expenses		20,793
Deposits		85,386
Property and equipment - Net (Note 2)		44,934
Total assets	**$**	**886,635**
Liabilities and Net Deficit		
Liabilities		
Accounts payable	$	268,456
Bank payable (Note 5)		183,069
Contracts payable (Note 6)		61,200
Accrued payroll and related expenses		531,002
Accrued vacation		187,280
Total liabilities		1,231,007
Net Deficit		
Unrestricted		(399,883)
Temporarily restricted		55,511
Total liabilities and net deficit	**$**	**886,635**

Statement of Activities and Changes in Net Deficit
Year Ended December 31, 2012

Changes in Unrestricted Net Assets (Deficit)	
Revenue:	
Individual contributions	$ 8,575,921
Institutional giving and corporate contributions	585,245
Interest income	5,913
Total revenue	9,167,079
Net assets released from restrictions	131,506
Total revenue and net assets released from restrictions	9,298,585
Expenses:	
Program	6,866,645
General and administrative	1,086,192
Fundraising	997,290
Total expenses	8,950,127
Increase in Unrestricted Net Assets	348,458
Changes in Temporarily Restricted Net Assets	
Contributions	187,017
Net assets released from restrictions	(131,506)
Increase in Temporarily Restricted Net Assets	55,511
Increase in Net Assets	403,969
Net Deficit - Beginning of year	(748,341)
Net Deficit - End of year	**$ (344,372)**

Clean Water Action

Statement of Cash Flows
Year Ended December 31, 2012

Cash Flows from Operating Activities	
Increase in net assets	$ 403,969
Adjustments to reconcile increase in net assets to net cash from operating activities:	
Depreciation	23,557
Contract payable	61,200
Gain on sale of property and equipment	(934)
Changes in operating assets and liabilities which (used) provided cash:	
Contributions receivable	(32,954)
Prepaid expenses	(1,685)
Deposits	(888)
Accounts payable	47,342
Accrued payroll and related expenses	22,390
Accrued vacation	(6,759)
Net cash provided by operating activities	515,238
Cash Flows from Investing Activities	
Purchase of property and equipment	(27,489)
Proceeds from disposition of property and equipment	1,613
Net cash used in investing activities	(25,876)
Cash Flows from Financing Activities	
Repayment of bank payable	(64,980)
Payments on loans payable	(20,000)
Proceeds from loans payable	10,000
Due from affiliates	(119,950)
Net cash used in financing activities	(194,930)
Net Increase in Cash and Cash Equivalents	294,432
Cash and Cash Equivalents - Beginning of year	160,978
Cash and Cash Equivalents - End of year	**$ 455,410**
Supplemental Disclosure of Cash Flow Information - Cash paid for interest	**$ 42,409**

See Notes to Financial Statements.

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 24 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, 2012. 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.

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 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). Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the Organization, and has concluded that as of December 31, 2012, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2009.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including May 10, 2013, which is the date the financial statements were available to be issued.

Note 2 - Property and Equipment

The cost of property and equipment is summarized as follows:

Automobiles	$ 208,842
Furniture and fixtures	421,315
Total cost	630,157
Accumulated depreciation	(585,223)
Net carrying amount	$ 44,934

Depreciation expense was $23,557 for the year ended December 31, 2012.

Note 3 - Related Parties

The Organization is affiliated with Clean Water Fund (CWF) through common board membership. The Organization is also affiliated with Citizens Campaign Inc. (CCI). CCI is a separate corporation that shares offices and expenses with the Organization. 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, 2012 were approximately as follows:

CWF:	
Amount due from CWF including interest	$ 133,000
Allocated expenses:	
Payroll and payroll-related expenses	$ 2,519,000
Health insurance	239,000
Rent and occupancy-related	204,000
Direct expenses	90,000
Total expenses paid on behalf of CWF	$ 3,052,000
Total expense reimbursements by CWF	$ 2,935,000
CCI:	
Amount due from CCI including interest	$ 99,000
Allocated expenses:	
Payroll and payroll-related expenses	$ 127,000
Rent and occupancy-related	30,000
Direct expenses	184,000
Total expenses paid on behalf of CCI	$ 341,000
Total expense reimbursements by CCI	$ 339,000

Note 3 - Related Parties (Continued)

During the year ended December 31, 2011 the Organization entered into a note payable agreement with a corporate officer. During the year ended December 31, 2012 the Organization entered into a separate note payable agreement with a director of the Organization. The notes bore interest at 6 percent. Both notes were paid off during the year ended December 31, 2012.

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 April 2018. Future minimum lease payments under all cancelable and noncancelable lease obligations are as follows:

Years Ending December 31	Amount
2013	$ 348,999
2014	197,392
2015	185,032
2016	170,582
2017	168,977
Thereafter	23,222
Total	$ 1,094,204

Total rent expense for real and personal property under cancelable and noncancelable leases was $507,084 for the year ended December 31, 2012.

Note 5 - Bank Payable

The Organization had a line of credit agreement with a financial institution which expired on February 2, 2011 and was not renewed. 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, 2012. The outstanding balance was $183,069 at December 31, 2012 and is due on demand.

The line of credit agreement includes a financial covenant that requires a $15,000 per month average pay down of principal. During 2012, the financial institution notified the Organization that it was in violation of this covenant, resulting in default under the terms of the agreement. The financial institution waived the default in exchange for the Organization's commitment to make monthly payments of $7,500 in principal plus interest beginning in August 2012. The Organization has made the required payments through the opinion date of these financial statements and is not currently in violation of the amended agreement with the financial institution.

Note 5 - Bank Payable (Continued)

Principal payments are due as follows:

2013	$	90,000
2014		90,000
2015		3,069
Total	$	183,069

Note 6 - Contracts Payable

During the year, the Organization ended a contract with a third party in which they used to help in canvassing and fundraising activities, considered normal operating activities of the Organization. Terms of this agreement included the Organization paying the third party a contracted fee over the next three years, totaling $61,200. The amount payable during the subsequent year is $25,200. A total of $20,500 and $15,500 are to be paid during 2014 and 2015, respectively, to satisfy the commitment.

Note 7 - 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, 2012:

Program expenses	$	5,328,512
General and administrative expenses		874,993
Fundraising expenses		680,894
Total	$	6,884,399

Note 8 - 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, 2012, the following information applies to the Organization's plan:

Health insurance expense	$	691,793
Amount paid by employees		197,949
Estimated and recorded liability for claims incurred and incurred but not reported		89,237

Note 9 - 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, 2012.

Note 10 - Management's Plans

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 continues to make substantial efforts to increase revenue and control costs.

- Management continues to take steps to increase and diversify fundraising operations including creating opportunities for longer-term stability
- Eliminate positions where no funding is identified.
- Streamline and improve efficiency of our canvass operations by using new technologies, enforcing stricter performance standards and cutting operating costs.
- Make strategic investments that will strengthen the Organization's future financial position.
- Management's goal is to reduce its deficit by at least 70 percent.

The board's Finance Committee will continue to meet at least monthly to review budget to actual performance. If income is below budget projections or expenses are above budget projections, management will make the necessary cuts to ensure the organization meets its projected year end budget projections. Management believes that these actions will enable the Organization to continue its operations and meet all of its operating requirements.