

Clean Water Fund

**Financial Report
December 31, 2012**

Clean Water Fund

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Independent Auditor's Report

To the Board of Directors
Clean Water Fund

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

Plante & Moran, PLLC

May 10, 2013

Clean Water Fund

Statement of Financial Position December 31, 2012

Assets	
Cash and cash equivalents	\$ 1,497,092
Foundation grants receivable (Note 2)	1,006,881
Corporate contributions receivable	76,371
Governmental agency receivable	5,411
Investments	315,747
Prepaid expenses and other	16,991
Furniture and equipment - Net of accumulated depreciation of \$58,799	16,347
Total assets	<u><u>\$ 2,934,840</u></u>
Liabilities and Net Assets	
Liabilities	
Pass-through liabilities	\$ 209,163
Accounts payable	46,018
Due to affiliate (Note 3)	132,513
Deferred revenue	64,515
Total liabilities	<u>452,209</u>
Net Assets	
Unrestricted	565,801
Temporarily restricted	1,916,830
Total net assets	<u>2,482,631</u>
Total liabilities and net assets	<u><u>\$ 2,934,840</u></u>

Clean Water Fund

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

	Unrestricted	Temporarily Restricted	Total
Revenue and Support			
Individual contributions	\$ 720,491	\$ -	\$ 720,491
Institutional giving and corporate contributions	761,183	-	761,183
Foundation grants	368,445	2,577,864	2,946,309
Governmental grants	122,644	-	122,644
Interest income	1,013	-	1,013
Total revenue and support before net assets released from restrictions	1,973,776	2,577,864	4,551,640
Net Assets Released from Restrictions	2,455,318	(2,455,318)	-
Total revenue and support and net assets released from restrictions	4,429,094	122,546	4,551,640
Expenses			
Programs	3,552,342	-	3,552,342
General and administrative	450,745	-	450,745
Fundraising	168,352	-	168,352
Total expenses	4,171,439	-	4,171,439
Increase in Net Assets	257,655	122,546	380,201
Net Assets - Beginning of year	308,146	1,794,284	2,102,430
Net Assets - End of year	<u>\$ 565,801</u>	<u>\$ 1,916,830</u>	<u>\$ 2,482,631</u>

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Statement of Cash Flows Year Ended December 31, 2012

Cash Flows from Operating Activities	
Increase in net assets	\$ 380,201
Adjustments to reconcile increase in net assets to net cash from operating activities:	
Depreciation	4,975
Loss on sale of assets	3,259
Unrealized gain on investments	(21,718)
Changes in operating assets and liabilities which provided (used) cash:	
Governmental agency receivable	11,434
Foundation grants receivable	(351,881)
Corporate contributions receivable	36,366
Prepaid expenses and other	(4,073)
Accounts payable	164,702
Deferred revenue	(7,267)
Net cash provided by operating activities	215,998
Cash Flows from Investing Activities - Purchase of property and equipment	(13,503)
Cash Flows from Financing Activities - Net advances from affiliates	117,267
Net Increase in Cash and Cash Equivalents	319,762
Cash and Cash Equivalents - Beginning of year	1,177,330
Cash and Cash Equivalents - End of year	<u>\$ 1,497,092</u>

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Notes to Financial Statements December 31, 2012

Note I - Nature of Activities and Significant Accounting Policies

Nature of Organization - Clean Water Fund (the "Organization") is a not-for-profit organization incorporated in the District of Columbia. Its major programs include strategies to ensure (1) safe, affordable drinking water; (2) control of community and workplace toxic hazards; (3) protection and conservation of wetlands, surface waters, coastal areas, groundwater, and other critical natural resources; (4) safe waste management practices; and (5) protection of public health and environmental safety for all citizens. These programs are conducted from a national office in Washington, D.C. and from locally staffed field offices serving multistate regions around the country.

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.

Investments - Investments consist of mutual funds which are recorded at fair value based on quoted market prices.

Contributions and Grants Receivable - The Organization's accounts receivable consist primarily of amounts due from various grantors and contributors generated from corporations, foundation grants, and governmental grants. No provision for doubtful accounts has been recorded at December 31, 2012 since it is the opinion of management that all accounts receivable are collectible in full. All accounts receivable are expected to be collected within one year.

Furniture and Equipment - Furniture and equipment are recorded at cost when purchased or at fair value at the date of donation if contributed. Furniture and equipment are depreciated using the straight-line method over the estimated useful lives of the assets (three to seven years).

Classification of Net Assets - Net assets of the Organization are classified as unrestricted or temporarily restricted depending on the presence and characteristics of donor-imposed restrictions limiting the Organization's ability to use or dispose of contributed assets. Donor-imposed restrictions that expire with the passage of time or that can be removed by meeting certain requirements result in temporarily restricted net assets. Earnings, gains, and losses on restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law. Temporarily restricted net assets consist primarily of contributions restricted for specific program use.

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

Individual Contributions and Foundation Grants - Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support. Temporarily restricted contributions that are used according to donor restrictions in the same period as the contributions are recognized as temporarily restricted support and reclassified as net assets released from restrictions in the same period.

Institutional and Corporate Contributions and Governmental Grants - The Organization recognizes revenue on these receipts as expenses are incurred toward the award's purpose and services are performed by the Organization. The Organization receives advance payments on contracts, which are reported as deferred revenue and recognized as income when earned.

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. 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.

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.

Clean Water Fund

Notes to Financial Statements December 31, 2012

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

Federal Income Taxes - The Organization is exempt from income tax under provisions of Internal Revenue Code Section 501(c)(3). 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.

Concentration of Credit Risk Arising from Deposit Accounts - The Organization maintains cash balances at a bank. Accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Organization evaluates the financial institutions with which it deposits funds; however, it is not practical to insure all cash deposits.

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 - Foundation Grants Receivable

The Organization's foundation grants receivable consist primarily of amounts due in less than one year. No provision for doubtful accounts has been recorded at December 31, 2012 since it is the opinion of management that all grants receivable are collectible in full. Foundation grants receivable are as follows:

Amounts due in:	
Less than one year	\$ 716,881
One to two years	<u>290,000</u>
Total	<u>\$ 1,006,881</u>

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Notes to Financial Statements December 31, 2012

Note 3 - Related Party

The Organization is affiliated with Clean Water Action (CWA) through common board membership. CWA does not have rights to the assets of the Organization, nor is it liable for the liabilities incurred by the Organization. CWA, a national 501(c)(4) organization, conducts lobbying activities and canvass outreach programs in over 24 states nationwide. CWA acts as a paymaster for the Organization for shared office expenses and allocations of personnel and overhead expenses are recorded in a due to/from affiliate account. The Organization remits an estimated amount to CWA to cover monthly expenses. The difference is then reconciled and applied to the subsequent month's activity. Interest on the balances between the Organization and CWA is calculated at 6 percent per annum.

Related party activities between the Organization and CWA for the year ended December 31, 2012 were approximately as follows:

Allocated expenses:

Payroll and payroll-related expenses	\$ 2,519,000
Health insurance	239,000
Rent and occupancy related	204,000
Direct expenses	<u>90,000</u>
Total expenses paid by CWA on behalf of the Organization	<u>\$ 3,052,000</u>
Total expense reimbursements by the Organization	<u>\$ 2,935,000</u>

The Organization has a payable due to CWA of approximately \$133,000 at December 31, 2012.

Note 4 - Fair Value

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the valuation techniques and inputs used to measure fair value.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

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Notes to Financial Statements December 31, 2012

Note 4 - Fair Value (Continued)

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances where inputs used to measure fair value fall into different levels of the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Organization's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The Organization measures mutual funds at fair value on a recurring basis. The fair value of mutual funds is based primarily on Level 1 inputs as described above.

The Organization's policy is to recognize transfers in and transfers out of Level 1, 2, and 3 fair value classifications as of the actual date of the event of change in circumstances that caused the transfer. There were no significant transfers between levels during the year ended December 31, 2012.

Note 5 - Operating Leases

The Organization leases office space and equipment in several locations throughout the United States. The leases expire on varying dates through June 2014. Future minimum lease payments under all cancelable and noncancelable lease obligations are as follows:

<u>Years Ending December 31</u>	<u>Amount</u>
2013	\$ 72,854
2014	<u>28,190</u>
Total	<u>\$ 101,044</u>

Total rent expense for real property under cancelable and noncancelable leases was \$209,982 for the year ended December 31, 2012.