Clean Water Action

Financial Report
December 31, 2011

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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, 2011 and the related statements of activities and changes in net 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, 2011 and the changes in its net 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 suffered losses from operations in previous years that have resulted in 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 16, 2012

Praxity MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

Clean Water Action

Statement of Financial Position
December 31, 2011

Assets		
Cash and cash equivalents	$	160,978
Contributions receivable		15,457
Due from affiliates (Note 3)		111,751
Prepaid expenses		19,108
Deposits		84,498
Property and equipment - Net (Note 2)		41,681
Total assets	**$**	**433,473**
Liabilities and Net Deficit		
Liabilities		
Accounts payable	$	221,114
Bank payable (Note 5)		248,049
Loans payable (Note 3)		10,000
Accrued payroll and related expenses		508,612
Accrued vacation		194,039
Total liabilities		1,181,814
Net Deficit - Unrestricted		(748,341)
Total liabilities and net deficit	**$**	**433,473**

Clean Water Action

Statement of Activities and Changes in Net Deficit
Year Ended December 31, 2011

Changes in Unrestricted Net Assets (Deficit)	
Revenue:	
Individual contributions	$ 8,057,930
Institutional giving and corporate contributions	113,113
Interest income	2,422
Total revenue	8,173,465
Net assets released from restrictions	96,341
Total revenue and net assets released from restrictions	8,269,806
Expenses:	
Program	5,993,560
General and administrative	982,191
Fundraising	945,151
Total expenses	7,920,902
Increase in Unrestricted Net Assets	348,904
Changes in Temporarily Restricted Net Assets	
Contributions	78,000
Net assets released from restrictions	(96,341)
Decrease in Temporarily Restricted Net Assets	(18,341)
Increase in Net Assets	330,563
Net Deficit - Beginning of year	(1,078,904)
Net Deficit - End of year	**$ (748,341)**

Statement of Cash Flows
Year Ended December 31, 2011

Cash Flows from Operating Activities		
Increase in net assets	$	330,563
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation		24,987
Gain on sale of property and equipment		(300)
Changes in operating assets and liabilities which provided (used) cash:		
Contributions receivable		3,761
Due from affiliates		(42,485)
Prepaid expenses		6,340
Deposits		(23,818)
Accounts payable		(150,828)
Accrued payroll and related expenses		60,406
Accrued vacation		(27,516)
Net cash provided by operating activities		181,110
Cash Flows from Investing Activities		
Purchase of property and equipment		(14,054)
Proceeds from disposition of property and equipment		1,761
Net cash used in investing activities		(12,293)
Cash Flows from Financing Activities		
Repayment of bank debt		(6,951)
Payments on debt		(36,354)
Proceeds from debt		10,000
Net cash used in financing activities		(33,305)
Net Increase in Cash and Cash Equivalents		135,512
Cash and Cash Equivalents - Beginning of year		25,466
Cash and Cash Equivalents - End of year	**$**	**160,978**
Supplemental Disclosure of Cash Flow Information - Cash paid for interest	**$**	**50,521**

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, 2011. 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, 2011, 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 December 31, 2008.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including May 16, 2012, 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	$ 275,795
Furniture and fixtures	431,213
Leasehold improvements	55,039
Total cost	762,047
Accumulated depreciation	(720,366)
Net carrying amount	$ 41,681

Depreciation expense was $24,987 for the year ended December 31, 2011.

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, 2011 were approximately as follows:

CWF:	
Amount due from CWF including interest	$ 15,000
Allocated expenses:	
Payroll and payroll-related expenses	2,163,000
Health insurance	218,000
Rent and occupancy-related	263,000
Direct expenses	397,000
Total expenses paid on behalf of CWF	$ 3,056,000
Total expense reimbursements by CWF	$ 3,037,000
CCI:	
Amount due from CCI including interest	$ 97,000
Allocated expenses:	
Payroll and payroll-related expenses	137,000
Rent and occupancy-related	29,000
Direct expenses	527,000
Total expenses paid on behalf of CCI	$ 790,000
Total expense reimbursements by CCI	$ 754,000

Note 3 - Related Parties (Continued)

During the year ended December 31, 2011, the Organization entered into a note payable agreement with a corporate officer. The note bears interest at 6 percent. The balance at December 31, 2011 was $10,000 and is included in the loans payable balance.

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 March 2014. Future minimum lease payments under all cancelable and noncancelable lease obligations are as follows:

Years Ending December 31	Amount
2012	$ 445,548
2013	156,677
2014	13,399
Total	$ 615,624

Total rent expense for real and personal property under cancelable and noncancelable leases was $442,689 for the year ended December 31, 2011.

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, 2011. The outstanding balance was $248,049 at December 31, 2011 and is due on demand.

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, 2011:

Program expenses	$ 5,015,412
General and administrative expenses	769,369
Fundraising expenses	667,513
Total	$ 6,452,294

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, 2011, the following information applies to the Organization's plan:

Health insurance expense	$	607,758
Amount paid by employees		198,803
Estimated and recorded liability for claims incurred and incurred but not reported		28,985

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, 2011.

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. The Organization sustained operating losses in 2009 and 2008 and is in a net deficit position. The Organization has reduced the deficit in net assets by $330,563 and $386,171 in 2011 and 2010, respectively. The Organization acknowledges that 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. The Organization is committed to the activities necessary to sustain the upward trend in its financial condition.

Management believes the following actions being taken to revise the Organization’s financial and business practices provide the opportunity for the Organization to continue to strengthen the Organization’s financial condition. The Organization and management continued to make substantial efforts to:

- Increase and diversify fundraising operations including creating opportunities for longer-term stability
- Reduce its overall debt by at least 20 percent and work to reduce the accounts payable timeframe
- Meet with the board’s finance committee at least monthly to review cash flow, accounts payable, and budget to actual performance

Note 9 - Management's Plans (Continued)

- Budget for a substantial end-of-year surplus and enforce cost controls to ensure achievement of this surplus
- On at least a quarterly basis, management will review budget performance and reduce expenses as needed to bring costs commensurate with projected year-end budget to actual income projections. These expense reductions could include the elimination of staff positions, closing of projects and/or offices, or the reduction in compensation or other expenses.

Management believes that these actions enabled the Organization to continue operations and meet all of its primary requirements.