Clean Water Action

Financial Report
December 31, 2016

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, 2016, and the related statements of activities and changes in net assets (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, 2016, and the changes in its net assets (deficit) 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 1, 2017

Clean Water Action

Statement of Financial Position
December 31, 2016

Assets		
Cash and cash equivalents	$	400,548
Contributions receivable		11,941
Due from affiliates (Note 3)		70,159
Donated rent receivable		3,240
Prepaid expenses		17,308
Deposits		58,377
Property and equipment - Net (Note 2)		47,571
Intangible assets - Net (Note 4)		23,360
Total assets	**$**	**632,504**
Liabilities and Net Deficit		
Liabilities		
Accounts payable	$	308,056
Due to affiliates (Note 3)		85,845
Bank payable (Note 6)		30,948
Loan payable (Note 3)		53,000
Accrued rent		10,619
Accrued payroll and related expenses		448,527
Accrued vacation		229,128
Total liabilities		1,166,123
Net Deficit		
Unrestricted		(536,859)
Temporarily restricted		3,240
Total net deficit		(533,619)
Total liabilities and net deficit	**$**	**632,504**

Clean Water Action

Statement of Activities and Changes in Net Assets (Deficit)
Year Ended December 31, 2016

Changes in Unrestricted Net Deficit	
Revenue:	
Individual contributions	$ 7,587,092
Institutional giving and corporate contributions	258,929
Other income	13,813
Interest income	3,919
Total revenue	7,863,753
Net assets released from restrictions	289,546
Total revenue and net assets released from restrictions	8,153,299
Expenses:	
Program	6,121,061
Support services:	
General and administrative	982,424
Fundraising	951,399
Total expenses	8,054,884
Increase in Unrestricted Net Assets (Decrease in Unrestricted Net Deficit)	98,415
Changes in Temporarily Restricted Net Assets	
Contributions	174,106
In-kind donations	6,480
Net assets released from restrictions	(289,546)
Decrease in Temporarily Restricted Net Assets	(108,960)
Decrease in Net Assets (Increase in Net Deficit)	(10,545)
Net Deficit - Beginning of year	(523,074)
Net Deficit - End of year	**$ (533,619)**

Statement of Cash Flows
Year Ended December 31, 2016

Cash Flows from Operating Activities		
Decrease in net assets (increase in net deficit)	$	(10,545)
Adjustments to reconcile decrease in net assets (increase in net deficit) to net cash from operating activities:		
Depreciation		33,085
Amortization		53,041
Gain on disposition of property and equipment		(563)
Bad debt expense		351
Changes in operating assets and liabilities which provided (used) cash:		
Contributions receivable		10,693
Prepaid expenses		142
Deposits		3,401
Donated rent receivable		(3,240)
Accounts payable		3,079
Accrued payroll and related expenses		23,556
Accrued vacation		10,362
Accrued rent		(19,974)
Net cash provided by operating activities		103,388
Cash Flows from Investing Activities		
Purchase of property and equipment		(21,713)
Due from affiliates		(3,168)
Proceeds from sale of property and equipment		750
Net cash used in investing activities		(24,131)
Cash Flows from Financing Activities		
Net advances from affiliates		(34,939)
Payments on bank payable		(25,324)
Proceeds from loan payable		42,000
Net cash used in financing activities		(18,263)
Net Increase in Cash and Cash Equivalents		60,994
Cash and Cash Equivalents - Beginning of year		339,554
Cash and Cash Equivalents - End of year	**$**	**400,548**
Supplemental Disclosure of Cash Flow Information - Cash paid for interest	$	16,175

Note 1 - Nature of Business 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 financial statements of the Organization have been prepared on the basis of generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results could differ from those estimates.

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 composed primarily of amounts committed from individuals, corporations, or foundations for the use in the Organization's activities. Contributions receivable at December 31, 2016 are expected to be collected within one year. The Organization has not recorded a provision for doubtful accounts since it is the opinion of management that those receivables are collectible in full.

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 five years). Leasehold improvements are depreciated over the term of the lease. Costs of maintenance and repairs are charged to expense when incurred.

Intangible Assets - Software, website, and license agreements for certain technologies from a nonaffiliated organization are being amortized using the straight-line method. The assets are recorded at cost and are amortized over three years, the estimated life.

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

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.

Contributions - Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value.

Contributions without donor-imposed restrictions and contributions with donor-imposed time or purpose restrictions are reported as restricted support and temporarily restricted net assets. Temporarily restricted contributions that are used according to donor restrictions in the same time period as the contribution are recognized as temporarily restricted support and reclassified as net assets released from restrictions in the same period.

Functional Allocation of Expenses - The costs of providing the 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 the provisions of Internal Revenue Code Section 501(c)(4).

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

Upcoming Accounting Pronouncements - In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Organization's year ending December 31, 2020 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The new lease standard is expected to have a significant effect on the Organization's financial statements as a result of the leases for use of office space and equipment classified as operating leases. The effect of applying the new lease guidance on the financial statements is expected to significantly increase long-term assets and short- and long-term liabilities upon adoption. There is not expected to be a significant impact on the statement of activities.

The FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, in August 2016. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Organization, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Organization's year ending December 31, 2018 and thereafter and must be applied on a retrospective basis. The Organization is currently evaluating the impact this standard will have on the financial statements.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including May 1, 2017, 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	$ 216,203
Furniture and fixtures	356,443
Total cost	572,646
Accumulated depreciation	(525,075)
Net property and equipment	$ 47,571

Depreciation expense was $33,085 for the year ended December 31, 2016.

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 5 percent per annum.

Note 3 - Related Parties (Continued)

Activities between the Organization and the respective affiliates for the year ended December 31, 2016 were approximately as follows:

CWF:		
January 1, 2016 - Amount due to CWF, including interest	$	(121,000)
Add allocated expenses:		
Payroll and payroll-related expenses		2,754,000
Health insurance		284,000
Rent and occupancy related		286,000
Direct expenses		731,000
Total expenses paid on behalf of CWF		4,055,000
Less expense reimbursements by CWF		(4,020,000)
December 31, 2016 - Amount due to CWF, including interest	$	(86,000)
CCI:		
January 1, 2016 - Amount due from CCI, including interest	$	67,000
Add allocated expenses:		
Payroll and payroll-related expenses		278,000
Rent and occupancy related		34,000
Direct expenses		279,000
Total expenses paid on behalf of CCI		591,000
Less expense reimbursements by CCI		(588,000)
December 31, 2016 - Amount due from CCI, including interest	$	70,000

During the year ended December 31, 2016, the Organization entered into loan payable agreements with members of the board of directors and officers of the Organization totaling $42,000 and bearing an interest rate of 5 percent per annum. In addition, $11,000 of loans payable to board members related to loans made during the year ended December 31, 2015 remained outstanding as of December 31, 2106. During the year ended December 31, 2016, the Organization made no payments related to the loan payable agreements. As of December 31, 2016, the total outstanding balance of the loan payable agreements was $53,000.

Note 4 - Intangible Assets

As of December 31, 2016, intangible assets are as follows:

Software	$ 111,601
Website	47,520
Total cost	159,121
Accumulated amortization	135,761
Net intangible assets	$ 23,360

Amortization expense was $53,041 for the year ended December 31, 2016. Expected amortization expense for the next two years is approximately $22,000 and $1,300.

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 2018. Some of these leases include escalating rental terms and those leases have been accounted for on the straight-line presentation. Future minimum lease payments under all cancelable and noncancelable lease obligations are as follows:

Years Ending December 31	Amount
2017	$ 396,984
2018	152,287
Total	$ 549,271

Total rent expense for real and personal property under cancelable and noncancelable leases was $397,362 for the year ended December 31, 2016.

Note 6 - Bank Payable

The Organization entered into a commercial loan agreement with a financial institution, which will mature on February 25, 2018. The outstanding balance is reflected as a bank payable on the statement of financial position. The debt bears interest at 4.25 percent and is collateralized by all of the assets of the Organization. The outstanding balance was $30,948 at December 31, 2016.

Principal payments are due as follows:

2017	$ 26,365
2018	4,583
Total	$ 30,948

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, 2016:

Program expenses	$ 4,871,019
General and administrative expenses	821,737
Fundraising expenses	792,240
Total	$ 6,484,996

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 on the statement of financial position. For the year ended December 31, 2016, the following information applies to the Organization's plan:

Health insurance expense	$ 753,161
Amount paid by employees	214,309
Estimated and recorded liability for claims incurred and incurred but not reported	19,384

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, as well as provide employer match contributions. The Organization made $70,897 in employer match contributions to the plan for the year ended December 31, 2016.