Clean Water Action

Financial Report
December 31, 2018

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, 2018 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 Action as of December 31, 2018 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2 to the financial statements, the Organization adopted the provisions of Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, for the year ended December 31, 2018. Our opinion is not modified with respect to this matter.

Plante & Moran, PLLC

May 17, 2019

Statement of Financial Position

December 31, 2018

Assets	
Cash and cash equivalents	$ 992,150
Contribution receivable	23,818
Due from affiliates (Note 4)	405,729
Donated rent receivable	31,901
Deposits	60,750
Prepaid expenses	43,770
Property and equipment - Net (Note 5)	84,586
Total assets	**$ 1,642,704**
Liabilities and Net Assets	
Liabilities	
Accounts payable	$ 102,556
Accrued rent	10,720
Accrued payroll and related expenses	685,793
Accrued vacation	247,360
Total liabilities	1,046,429
Net Assets	
Net assets without donor restrictions	528,259
Net assets with donor restrictions	68,016
Total net assets	596,275
Total liabilities and net assets	**$ 1,642,704**

Statement of Activities and Changes in Net Assets

Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains, and Other Support			
Individual contributions	$ 8,551,740	$ 222,739	$ 8,774,479
In-kind donations	424	36,549	36,973
Institutional giving and corporate contributions	38,238	-	38,238
Interest income	24,590	-	24,590
Gain on sale of fixed assets	1,200	-	1,200
Other income	5,801	-	5,801
Total revenue, gains, and other support	8,621,993	259,288	8,881,281
Net Assets Released from Restrictions	222,403	(222,403)	-
Total revenue, gains, other support, and net assets released from restrictions	8,844,396	36,885	8,881,281
Expenses			
Program	4,393,093	-	4,393,093
Support services:			
General and administrative	1,728,915	-	1,728,915
Fundraising	2,233,479	-	2,233,479
Total support services	3,962,394	-	3,962,394
Total expenses	8,355,487	-	8,355,487
Increase in Net Assets	488,909	36,885	525,794
Net Assets - Beginning of year	39,350	31,131	70,481
Net Assets - End of year	**$ 528,259**	**$ 68,016**	**$ 596,275**

See notes to financial statements.

Statement of Cash Flows

	Year Ended December 31, 2018
Cash Flows from Operating Activities	
Increase in net assets	$ 525,794
Adjustments to reconcile increase in net assets to net cash and cash equivalents from operating activities:	
Depreciation	18,309
Gain on disposal of property and equipment	(1,200)
Donated rent receivable	(20,770)
Amortization	1,320
Changes in operating assets and liabilities that (used) provided cash:	
Contributions receivable	(13,721)
Deposits	591
Prepaid expenses	(21,618)
Accounts payable	(59,990)
Deferred revenue	(3,360)
Accrued interest	(1,102)
Accrued rent	(716)
Accrued payroll and other expenses	148,436
Accrued vacation	479
Net cash and cash equivalents provided by operating activities	572,452
Cash Flows from Investing Activities	
Purchase of property and equipment	(70,413)
Due from affiliates	(189,837)
Net cash and cash equivalents used in investing activities	(260,250)
Cash Flows Used in Financing Activities - Payments on notes payable	(15,000)
Net Increase in Cash and Cash Equivalents	297,202
Cash and Cash Equivalents - Beginning of year	694,948
Cash and Cash Equivalents - End of year	**$ 992,150**
Supplemental Cash Flow Information - Cash paid for interest	$ 19,351

Note 1 - Nature of Business

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.

Note 2 - Significant Accounting Policies

Basis of Accounting

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (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 investments with an original maturity of three months or less when purchased to be cash equivalents.

Contribution 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, 2018 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.

Classification of Net Assets

Net assets of the Organization are classified based on the presence or absence of donor-imposed restrictions.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed or the donor-imposed restriction that have expired or been fulfilled. Net assets in this category may be expended for any purpose in performing the primary objectives of the Organization.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time.

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. Donor promises to give in the future are recorded at the present value of estimated future cash flows.

Contributions without donor-imposed restrictions are reported as contributions without donor restrictions.

Contributions with donor-imposed restrictions and contributions with donor-imposed time or purpose restrictions that are met in the same period as the gift are reported as restricted support and net assets with donor restriction. Contributions with donor restrictions that are used according to donor restrictions in the same time period as the contribution are recognized as restricted support and reclassified as net assets released from restriction in the same period.

Note 2 - Significant Accounting Policies (Continued)

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). Costs of maintenance and repairs are charged to expense when incurred.

Functional Allocation of Expenses

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. Indirect costs have been allocated between the various programs and support services on several bases and estimates, as determined by management and disclosed in further detail in Note 10. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Federal Income Taxes

The Organization is a not-for-profit corporation and is exempt from tax under the provisions of Internal Revenue Code Section 501(c)(4).

Significant Group Concentrations of Credit Risk

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.

Adoption of New Accounting Pronouncement

For the year ended December 31, 2018, the Organization adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities*. The standard requires net assets to be classified in two categories: net assets without donor restrictions and net assets with donor restrictions, rather than the three previous classifications. As a result of the adoption of this standard, net assets of $31,131 previously reported as temporarily restricted net assets as of the beginning of the year are now reported as net assets with donor restrictions. In addition, this standard also requires changes in the way certain information is aggregated and reported by the Organization, including disclosures of quantitative and qualitative information about the liquidity and availability of resources (see Note 3) and the presentation of expenses by both functional and natural classification (see Note 10). The standard also clarifies the definition of management and general and prohibits certain expenses from being allocated out of management and general.

Upcoming Accounting Pronouncements

In June 2018, the Financial Accounting Standards Board (FASB) issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The accounting guidance will result in more governmental contracts being accounted for as contributions and may delay revenue recognition for certain grants and contributions that no longer meet the definition of unconditional. The new guidance will be effective for the Organization’s year ending December 31, 2019 and will be applied on a modified prospective basis. The Organization has not yet determined the impact on the timing of recognition of individual contributions, institutional giving, or corporate contributions.

Note 2 - Significant Accounting Policies (Continued)

In February 2016, the FASB issued 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 the use of office space and equipment being classified as operating leases. The effect of applying the new lease guidance is expected to significantly increase assets and liabilities upon adoption. The effects on the statement of activities and changes in net assets are not expected to be significant, as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including May 17, 2019, which is the date the financial statements were available to be issued.

Note 3 - Liquidity

The Organization has $995,266 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditure consisting of cash of $992,150 and contributions receivable of $3,116 at December 31, 2018. None of these financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date. As of December 31, 2018, the Organization also has contributions receivable of $20,702 that are subject to implied time restrictions or purpose restrictions, making these receivables unavailable to meet cash needs for general expenditure within one year.

The Organization has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet 60 days of normal operating expenses, which are, on average, approximately $1,300,000 at December 31, 2018. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, as part of its liquidity management, the Organization invests cash in excess of daily requirements in various bank depository accounts.

Note 4 - Related Party Transactions

The Organization is affiliated with Clean Water Fund (CWF) through some 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.

Activities between the Organization and the respective affiliates for the year ended December 31, 2018 were approximately as follows:

CWF:	
January 1, 2018 - Amount due from CWF, including interest	$ 141,000
Add allocated expenses:	
Payroll and payroll-related expenses	3,230,000
Health insurance	553,000
Rent and occupancy related	327,000
Direct expenses	432,000
Total expenses paid on behalf of CWF	4,542,000
Less expense reimbursements by CWF	(4,350,000)
December 31, 2018 - Amount due from CWF, including interest	$ 333,000
CCI:	
January 1, 2018 - Amount due from CCI, including interest	$ 75,000
Add allocated expenses:	
Payroll and payroll-related expenses	37,000
Rent and occupancy related	12,000
Direct expenses	176,000
Total expenses paid on behalf of CCI	225,000
Less expense reimbursements by CCI	(227,000)
December 31, 2018 - Amount due from CCI, including interest	$ 73,000

During the year ended December 31, 2018, the Organization had loan payable agreements with members of the board of directors and officers bearing an interest rate of 5 percent per annum and made $15,000 in payments related to these agreements. As of December 31, 2018, the total outstanding balance of the loan payable agreements was $0 and accrued interest payable totaled $0. The Organization did not enter into any additional loan payable agreements with members of the board of directors and officers during the year ended December 31, 2018.

Note 5 - Property and Equipment

Property and equipment are summarized as follows:

Automobiles	$	208,114
Furniture and fixtures		49,756
Total cost		257,870
Accumulated depreciation		173,284
Net property and equipment	$	84,586

Depreciation expense was $18,309 for the year ended December 31, 2018.

Note 6 - Net Assets

Net assets with donor restrictions as of December 31 are available for the following purposes:

Subject to expenditures for a specified purpose:		
Restricted for energy programs	$	20,000
Restricted for conservation programs		16,115
Total subject to expenditures for a specified purpose		36,115
Subject to the passage of time - In-kind rent		31,901
Total	$	68,016

Note 7 - Release of Restrictions

Net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes, or by occurrence of the passage of time or other events specified by donors, as follows:

Purpose restrictions accomplished - Release of contributions	$	206,624
Time restrictions expired - Use of in-kind rent		15,779
Total restrictions released	$	222,403

Note 8 - Operating Leases

The Organization leases office space and equipment in several locations throughout the United States. The operating leases expire on various months through 2024. 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
2019	$	464,413
2020		434,636
2021		126,699
2022		51,011
2023		52,294
Thereafter		17,615
Total	$	1,146,668

Note 8 - Operating Leases (Continued)

Total rent expense for real and personal property under cancelable and noncancelable leases was $437,333 for the year ended December 31, 2018.

Note 9 - 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, 2018:

Program expenses	$ 3,561,281
General and administrative expenses	1,382,968
Fundraising expenses	1,928,641
Total	$ 6,872,890

Note 10 - Functional Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or support function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated are as follows as of December 31:

Program services:	
Salaries and benefits	$ 3,456,915
Professional services	82,604
Office expense	323,463
Meetings and conferences	80,197
Occupancy	250,959
Other	198,955
Total program services	4,393,093
Support services:	
General and administrative:	
Salaries and benefits	1,370,952
Consulting services	32,926
Office expense	149,784
Transportation	135,518
Occupancy	19,629
Other	20,106
Total general and administrative	1,728,915
Fundraising:	
Salaries and benefits	1,539,626
Professional services	63,587
Office expense	338,014
Meetings and conferences	13,770
Occupancy	115,441
Other	163,041
Total fundraising	2,233,479
Total expenses	$ 8,355,487

Note 10 - Functional Expenses (Continued)

Costs have been allocated between program services and support services on several bases and estimates. Indirect costs have been allocated between the various programs and support services on several bases and estimates, as determined by management. The expenses are allocated on the following basis:

Expense	Method of Allocation
Salaries and benefits	Time and effort
Professional services	Time and effort
Office expense	Square footage
Meetings and conferences	Direct usage
Occupancy	Square footage
Depreciation	Square footage
Automobile	Direct usage

Note 11 - Self-insurance

The Organization has a partially self-insured medical plan covering all of its eligible employees. 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, 2018, the following information applies to the Organization's plan:

Health insurance expenses	$ 1,045,408
Amount paid by employees	262,008
Estimated and recorded liability for claims incurred and incurred but not reported	226,076

Note 12 - 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 no employer match contributions to the plan for the year ended December 31, 2018.