Clean Water Action

Financial Report

December 31, 2017

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, 2017 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, 2017 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.

Plante & Moran, PLLC

May 7, 2018

Statement of Financial Position

	December 31, 2017
Assets	
Cash and cash equivalents	$ 694,948
Contribution receivable	10,097
Due from affiliates (Note 3)	215,892
Donated rent receivable	11,131
Deposits	61,341
Prepaid expenses	22,152
Intangible assets - Net (Note 4)	1,320
Property and equipment - Net (Note 5)	31,282
Total assets	**$ 1,048,163**
Liabilities and Net Assets	
Liabilities	
Accounts payable	$ 162,546
Deferred revenue	3,360
Loan payable (Note 3)	15,000
Accrued interest (Note 3)	1,102
Accrued rent	11,436
Accrued payroll and related expenses	537,357
Accrued vacation	246,881
Total liabilities	977,682
Net Assets	
Unrestricted	39,350
Temporarily restricted	31,131
Total net assets	70,481
Total liabilities and net assets	**$ 1,048,163**

Statement of Activities and Changes in Net Assets

Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Total
Revenue, Gains, and Other Support			
Individual contributions	$ 8,583,122	$ 90,697	$ 8,673,819
In-kind donations	2,697	7,891	10,588
Institutional giving and corporate contributions	69,060	-	69,060
Interest income	13,695	-	13,695
Gain on sale of fixed assets	550	-	550
Other income	21,353	-	21,353
Total revenue, gains, and other support	8,690,477	98,588	8,789,065
Net assets released from restrictions	70,697	(70,697)	-
Total revenue, gains, other support, and net assets released from restriction	8,761,174	27,891	8,789,065
Expenses			
Program	6,207,083	-	6,207,083
Support services:			
General and administrative	901,203	-	901,203
Fundraising	1,076,679	-	1,076,679
Total support services	1,977,882	-	1,977,882
Total expenses	8,184,965	-	8,184,965
Increase in Net Assets	576,209	27,891	604,100
Net Assets (Deficit) - Beginning of year	(536,859)	3,240	(533,619)
Net Assets - End of year	**$ 39,350**	**$ 31,131**	**$ 70,481**

See notes to financial statements.

Statement of Cash Flows

	Year Ended December 31, 2017
Cash Flows from Operating Activities	
Increase in net assets	$ 604,100
Adjustments to reconcile increase in net assets to net cash and cash equivalents from operating activities:	
Depreciation	28,796
Gain on disposal of property and equipment	(550)
Bad debt expense	2,820
Donated rent receivable	(7,891)
Amortization	22,040
Changes in operating assets and liabilities which (used) provided cash:	
Contributions receivable	(976)
Deposits	(2,964)
Prepaid expenses	(4,844)
Accounts payable	(145,510)
Deferred revenue	3,360
Accrued interest	1,102
Accrued rent	817
Accrued payroll and other expenses	88,830
Accrued vacation	17,753
Net cash and cash equivalents provided by operating activities	606,883
Cash Flows from Investing Activities	
Purchase of property and equipment	(11,957)
Due from affiliates	(145,733)
Net cash and cash equivalents used in investing activities	(157,690)
Cash Flows from Financing Activities	
Net advances from affiliates	(85,845)
Payments on bank payable	(30,948)
Payments on notes payable	(38,000)
Net cash and cash equivalents used in financing activities	(154,793)
Net Increase in Cash and Cash Equivalents	294,400
Cash and Cash Equivalents - Beginning of year	400,548
Cash and Cash Equivalents - End of year	**$ 694,948**
Supplemental Cash Flow Information - Cash paid for interest	$ 18,249

See notes to financial statements.

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, 2017 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.

Intangible Assets

Software, website, and license agreements for certain technologies from a nonaffiliated organization are stated at cost and are amortized using the straight-line method over three years, the estimated useful lives of the assets. Intangible assets are reviewed for potential impairment whenever events or circumstances indicate that carrying amounts may not be recoverable.

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.

Classification of Net Assets

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

Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired.

Temporarily restricted net assets of the Organization consist of amounts received from donors who have specified the purpose for which or the timing of when the funds are to be spent. The Organization has interpreted donor restrictions to also include related earnings as restricted for the intended purpose of the original donation. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are released to unrestricted net assets.

Note 2 - Significant Accounting Policies (Continued)

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 and other restricted gifts are reported as restricted support and temporarily or permanently 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

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. 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.

Upcoming Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (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 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.

Note 2 - Significant Accounting Policies (Continued)

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. 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 aware the presentation of net assets will change from three classes to two classes: increased footnote disclosures will be included to describe liquidity and availability of resources of the Organization, and certain expenditures within the functional allocation may shift from program services to support services.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including May 7, 2018, which is the date the financial statements were available to be issued.

Note 3 - Related Party Transactions

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.

Activities between the Organization and the respective affiliates for the year ended December 31, 2017 were approximately as follows:

CWF:	
January 1, 2017 - Amount due to CWF, including interest	$ (86,000)
Add allocated expenses:	
Payroll and payroll related expenses	3,047,000
Health insurance	337,000
Rent and occupancy related	359,000
Direct expenses	425,000
Total expenses paid on behalf of CWF	4,168,000
Less expense reimbursements by CWF	(3,941,000)
December 31, 2017 - Amount due to from CWF, including interest	$ 141,000

Note 3 - Related Party Transactions (Continued)

CCI:		
January 1, 2017- Amount due from CCI, including interest	$	70,000
Add allocated expenses:		
Payroll and payroll-related expenses		118,000
Rent and occupancy related		19,000
Direct expenses		84,000
Total expenses paid on behalf of CCI		221,000
Less expense reimbursements by CCI		(216,000)
December 31, 2017- Amount due from CCI, including interest	$	75,000

During the year ended December 31, 2017, 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 $38,000 in payments related to these agreements. As of December 31, 2017, the total outstanding balance of the loan payable agreements was $15,000 and accrued interest payable totaled $1,102. 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, 2017.

Note 4 - Intangible Assets

Intangible assets of the Organization at December 31, 2017 are summarized as follows:

Software	$	111,601
Website		47,520
Total cost		159,121
Accumulated amortization		(157,801)
Total	$	1,320

Amortization expense for intangible assets totaled $22,040 for the year ended December 31, 2017. Expected amortization expense for the next year is $1,320.

Note 5 - Property and Equipment

Property and equipment are summarized as follows:

Automobiles	$	197,167
Furniture and fixtures		41,240
Total cost		238,407
Accumulated depreciation		207,125
Net property and equipment	$	31,282

Depreciation expense was $28,796 for the year ended December 31, 2017.

Note 6 - 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
2018	$ 251,492
2019	48,539
2020	48,948
2021	49,911
2022	51,011
Thereafter	103,763
Total	$ 553,664

Total rent expense for real and personal property under cancelable and noncancelable leases was $402,894 for the year ended December 31, 2017.

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, 2017:

Program expenses	$ 5,305,895
General and administrative expenses	870,292
Fundraising expenses	879,323
Total	$ 7,055,510

Note 8 - 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, 2017, the following information applies to the Organization's plan:

Health insurance expenses	$ 799,980
Amount paid by employees	238,934
Estimated and recorded liability for claims incurred and incurred but not reported	16,506

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 no employer match contributions to the plan for the year ended December 31, 2017.