Clean Water Action

Financial Report

December 31, 2009

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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, 2009 and the related statements of activities and changes in net assets (deficit) and cash flows for the 15-month period 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, 2009 and the changes in its net assets (deficit) and its cash flows for the 15-month period 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 has suffered recurring losses from operations and has 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

June 14, 2010

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Statement of Financial Position
December 31, 2009

Assets		
Cash and cash equivalents	$	340,216
Contributions receivable		67,450
Prepaid expenses		45,976
Deposits		57,892
Property and equipment - Net (Note 2)		95,712
Total assets	**$**	**607,246**
Liabilities and Net Assets (Deficit)		
Liabilities		
Accounts payable	$	554,865
Due to affiliates - Net (Note 3)		225,462
Bank line of credit (Note 5)		265,000
Loans payable		20,059
Accrued payroll and related expenses		647,394
Accrued severance payable		29,777
Accrued vacation		329,764
Total liabilities		2,072,321
Net Assets (Deficit)		
Unrestricted		(1,498,745)
Temporarily restricted		33,670
Total net assets (deficit)		(1,465,075)
Total liabilities and net assets (deficit)	**$**	**607,246**

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Statement of Activities and Changes in Net Assets (Deficit)
For the 15-month Period Ended December 31, 2009

Changes in Unrestricted Net Assets (Deficit)	
Revenue:	
Individual contributions	$ 11,574,701
Institutional giving and corporate contributions	519,449
Interest income	2,148
Total revenue	12,096,298
Net assets released from restrictions	664,129
Total revenue and net assets released from restrictions	12,760,427
Expenses:	
Program	9,501,394
General and administrative	1,782,841
Fundraising	1,964,834
Total expenses	13,249,069
Decrease in Unrestricted Net Assets	(488,642)
Changes in Temporarily Restricted Net Assets	
Contributions	410,000
Net assets released from restrictions	(664,129)
Decrease in Temporarily Restricted Net Assets	(254,129)
Decrease in Net Assets	(742,771)
Net Deficit - Beginning of year	(722,304)
Net Deficit - End of year	**$ (1,465,075)**

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Statement of Cash Flows
For the 15-month Period Ended December 31, 2009

Cash Flows from Operating Activities	
Decrease in net assets	$ (742,771)
Adjustments to reconcile decrease in net assets to net cash from operating activities:	
Depreciation	112,707
Loss on sale of property and equipment	93
Changes in operating assets and liabilities which provided (used) cash:	
Contributions receivable	194,410
Prepaid expenses	15,702
Deposits	17,858
Accounts payable	105,434
Accrued payroll and related expenses	(85,074)
Accrued vacation	(28,368)
Net cash used in operating activities	(410,009)
Cash Flows from Investing Activities	
Purchase of property and equipment	(6,717)
Proceeds from disposition of property and equipment	3,751
Net cash used in investing activities	(2,966)
Cash Flows from Financing Activities	
Proceeds from line of credit - Net	73,000
Payments on loans payable	(18,435)
Net repayments from affiliates	152,496
Net cash provided by financing activities	207,061
Net Decrease in Cash and Cash Equivalents	(205,914)
Cash and Cash Equivalents - Beginning of period	546,130
Cash and Cash Equivalents - End of period	**$ 340,216**
Supplemental Disclosure of Cash Flow Information - Cash paid for interest	**$ 84,194**

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 25 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, 2009. 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 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 provisions of Internal Revenue Code Section 501(c)(4).

Concentration of Credit Risk Arising from Deposit Accounts - The Organization maintains cash balances at various banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $250,000. The Organization believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Organization evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including June 14, 2010, which is the date the financial statements are available to be issued.

Note 2 - Property and Equipment

The cost of property and equipment is summarized as follows:

Automobiles	$ 356,445
Furniture and fixtures	534,141
Leasehold improvements	55,039
Total cost	945,625
Accumulated depreciation	(849,913)
Net carrying amount	$ 95,712

Depreciation expense was $112,707 for the 15-month period ended December 31, 2009.

Note 3 - Related Parties

The Organization is affiliated with Clean Water Fund (CWF) and Citizens Campaign Inc. (CCI) through common board membership. 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 15-month period ended December 31, 2009 are as follows:

CWF:	
Amount due to CWF including interest	$ (309,000)
Allocated expenses:	
Payroll and payroll-related expenses	3,651,000
Health insurance	330,000
Rent and occupancy-related	459,000
Direct expenses	713,000
Total expenses paid on behalf of CWF	$ 5,153,000
Total expense reimbursements by CWF	$ 5,415,000
CCI:	
Amount due from CCI including interest	$ 83,000
Allocated expenses:	
Payroll and payroll-related expenses	203,000
Health insurance	13,000
Rent and occupancy-related	23,000
Direct expenses	772,000
Total expenses paid on behalf of CCI	$ 1,011,000
Total expense reimbursements by CCI	$ 1,030,000

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 December 2015. Future minimum lease payments under all cancelable and noncancelable lease obligations are as follows:

Years Ending December 31		Amount
2010		$ 597,656
2011		506,842
2012		430,579
2013		241,012
2014		38,004
Thereafter		5,909
	Total	$ 1,820,002

Total rent expense for real and personal property under cancelable and noncancelable leases was $651,452 for the 15-month period ended December 31, 2009.

Note 5 - Line of Credit

The Organization has a line of credit agreement with a financial institution. The line of credit bears interest at the prime rate plus 2.50 percent (with a 6 percent floor) and is collateralized by all of the assets of the Organization. The interest rate was 6.0 percent at December 31, 2009. The Organization may borrow up to $300,000 on the line of credit. The outstanding balance was $265,000 at December 31, 2009.

Subsequent to year end, the Organization renewed the line of credit agreement which now 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 borrowing limit on the new line of credit is $265,000. The line expires on February 2, 2011.

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 15-month period ended December 31, 2009:

Program expenses	$ 7,602,678
General and administrative expenses	790,065
Fundraising expenses	1,638,318
Total	$ 10,031,061

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 15-month period ended December 31, 2009, the following information applies to the Organization's plan:

Health insurance expense	$ 1,055,000
Amount paid by employees	300,000
Estimated and recorded liability for claims incurred and incurred but not reported	100,000

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 15-month period ended December 31, 2009.

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. However, the Organization has sustained operating losses in the last three fiscal years and is in a net deficit position. In view of these matters, realization of 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.

Note 9 - Management's Plans (Continued)

Management believes the following actions being taken to revise the Organization's financial and business practices provide the opportunity for the Organization to continue in operation:

- The Organization will continue to make substantial efforts to reduce expenses, control costs, and repay outstanding debt. In addition to the $1.2 million expense reduction in 2009, management will closely review budget to actual reports and take all steps necessary including, but not limited to, additional:
  - Layoffs and position eliminations
  - Imposed mandatory pay reductions
  - Streamlined and improved efficiency of canvass operations by reducing compensation and benefits, implementing stricter performance standards, closing field operations, and cutting operating costs
  - Suspension of nonessential travel and discretionary spending
  - Negotiations with existing contractors and vendors to secure fee reductions and restructuring of debt
- Management has made changes to its vacation accrual policy that will result in a 20 percent reduction in its expense and liability.
- Management has earmarked in its budget a specific debt reduction amount. The highest priority is to ensure that the accounts payable to Clean Water Fund are substantially reduced. To do this, the Organization continues to take steps to increase and diversify fundraising operations including creating opportunities for longer-term stability.
- Management has implemented a plan for obtaining short-term loans of working capital to invest in high-confidence fundraising activities.
- The board's finance committee will continue to meet at least monthly to review budget to actual performance. Management is required to provide a list of additional cuts if income is below budget projections or expenses are above budget projections. On a quarterly basis, management will make cuts commensurate with projected year-end budget to actual projections. These reductions will include elimination of staff positions, closing of more offices, reduction in compensation, or projects closing totally.