



**UTILITY CONSUMERS'
ACTION NETWORK, INC.**

Financial Statements

Year Ended June 30, 2011



UTILITY CONSUMERS' ACTION NETWORK, INC.

Financial Statements

Year Ended June 30, 2011

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements:	
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Utility Consumers' Action Network, Inc.
San Diego, California

We have audited the accompanying statement of financial position of Utility Consumers' Action Network, Inc. (a nonprofit organization) (UCAN) as of June 30, 2011, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Utility Consumers' Action Network, Inc.'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.

As described in Note 9 to the financial statements, certain errors resulting in an overstatement of previously reported net assets as of June 30, 2010, were discovered by management of UCAN during the current year. Accordingly, an adjustment has been made to net assets as of June 30, 2010 to correct the errors.

As described in Note 10 to the financial statements, UCAN has several contingencies related to tax filings, prior year audits, contingent payments, federal grand jury investigation, and going concern. See Note 10 for explanations.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Utility Consumers' Action Network as of June 30, 2011, and the changes in its net assets 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 UCAN will continue as a going concern. As discussed in Note 10 to the financial statements, UCAN has suffered a significant decrease in net assets and uncertain conditions for future revenue sources that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 10. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

AKT LLP

Carlsbad, California
November 28, 2012

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UTILITY CONSUMERS' ACTION NETWORK, INC.

Statement of Financial Position

June 30, 2011

ASSETS

Current Assets:

Cash	\$	3,438,806
Investments		176,112
Prepaid expenses and other current assets		<u>13,042</u>

Total Current Assets 3,627,960

Non-current Assets:

Property and equipment, net of accumulated depreciation		16,359
Deposits		<u>4,800</u>

Total Non-current Assets 21,159

Total Assets \$ 3,649,119

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable	\$	25,392
Accrued expenses		13,896
Payable to other organization		<u>650,000</u>

Total Liabilities 689,288

Net Assets:

Unrestricted		2,045,066
Temporarily restricted		<u>914,765</u>

Total Net Assets 2,959,831

Total Liabilities and Net Assets \$ 3,649,119

UTILITY CONSUMERS' ACTION NETWORK, INC.

Statement of Activities

Year Ended June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and Support:			
Privacy Rights Clearinghouse	\$ -	\$ 1,668,958	\$ 1,668,958
Intervenor compensation	635,869	-	635,869
Other income	100,395	-	100,395
Membership dues	90,542	-	90,542
Contributions	-	89,021	89,021
Investment return	52,529	-	52,529
Net assets released from restrictions, satisfaction of program restrictions	843,214	(843,214)	-
Total Revenue and Support	1,722,549	914,765	2,637,314
Expenses:			
Program services:			
Litigation	740,163	-	740,163
Public education	233,317	-	233,317
Privacy Rights Clearinghouse	330,514	-	330,514
Water project	168,051	-	168,051
Supporting services:			
General and administrative	111,904	-	111,904
Fundraising	79,406	-	79,406
Total Expenses	1,663,355	-	1,663,355
Increase in Net Assets	59,194	914,765	973,959
Net Assets, beginning (restated)	1,985,872	-	1,985,872
Net Assets, ending	\$ <u>2,045,066</u>	\$ <u>914,765</u>	\$ <u>2,959,831</u>

UTILITY CONSUMERS' ACTION NETWORK, INC.

Statement of Functional Expenses

Year Ended June 30, 2011

	Program Services				Supporting Services		Total
	Litigation	Public Education	Privacy Rights Clearinghouse	Water Project	General and Administrative	Fundraising	
Salaries and wages	\$ 356,814	\$ 162,549	\$ 220,843	\$ 124,118	\$ 63,400	\$ 34,047	\$ 961,771
Professional fees	320,605	20,900	67,668	-	-	-	409,173
Newsletter and direct mail	204	18,978	-	23,268	-	30,908	73,358
Health benefits	20,486	15,281	11,394	8,132	4,413	4,560	64,266
Occupancy	4,800	4,800	4,800	4,800	4,800	4,800	28,800
Legal and accounting fees	1,252	-	-	347	23,557	-	25,156
Computer consulting	10,203	1,700	9,044	-	669	-	21,616
Office supplies	2,999	1,710	1,980	1,105	4,042	1,622	13,458
Internet fellowship	2,549	803	5,583	3,015	-	-	11,950
Travel	9,375	1,789	429	14	-	-	11,607
Telephone and utilities	2,654	1,498	1,853	1,498	1,587	1,498	10,588
Insurance	3,572	1,210	1,546	981	1,862	480	9,651
Dues and subscriptions	3,394	-	1,490	125	90	-	5,099
Postage and shipping	1,148	498	498	648	498	1,491	4,781
Office equipment	13	1,601	-	-	2,795	-	4,409
Conferences and workshops	95	-	3,386	-	-	-	3,481
Repairs and maintenance	-	-	-	-	2,932	-	2,932
Miscellaneous	-	-	-	-	1,259	-	1,259
	<u>\$ 740,163</u>	<u>\$ 233,317</u>	<u>\$ 330,514</u>	<u>\$ 168,051</u>	<u>\$ 111,904</u>	<u>\$ 79,406</u>	<u>\$ 1,663,355</u>

See accompanying notes to financial statements.

UTILITY CONSUMERS' ACTION NETWORK, INC.

Statement of Cash Flows

Year Ended June 30, 2011

Cash Flows from Operating Activities:	
Increase in net assets	\$ 973,959
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Realized and unrealized gain on investments	35,817
Changes in operating assets and liabilities:	
Prepaid expenses and other current assets	(8,465)
Accounts payable	24,778
Accrued expenses	11,496
	<hr/>
Net Cash Provided by Operating Activities	1,037,585
Cash Flows from Investing Activities:	
Proceeds from sale of investments	185,640
Funds received to forward to other organization	1,000,000
Payments made to other organization	(350,000)
Increase in deposits	(3,800)
	<hr/>
Net Cash Provided by Investing Activities	831,840
Net Increase in Cash	1,869,425
Cash, beginning	<hr/> 1,569,381
Cash, ending	\$ <u><u>3,438,806</u></u>

UTILITY CONSUMERS' ACTION NETWORK, INC.

Notes to Financial Statements

Year Ended June 30, 2011

Note 1 - Organization and Summary of Significant Accounting Policies

Nature of Activities

Utility Consumers' Action Network, Inc. (UCAN) was incorporated in 1983 under the nonprofit laws of the State of California. It was organized for the purpose of providing information to consumers concerning regulatory matters and representing their viewpoints toward regulatory bodies and proceedings. UCAN brings legal actions, advocates policy initiatives, educates, and guards against corporate abuses in the energy, telecommunications, internet, and gasoline industries, among many other areas.

Privacy Rights Clearinghouse (PRC) is an independent program dedicated to educating, exposing, and informing consumers about poor information handling practices by major corporations, credit bureaus, banks, and the United States government. PRC focuses on raising consumers' awareness of how technology affects personal privacy, advocating for consumers' privacy rights in proceedings, and responding and documenting consumers' complaints and questions about privacy. PRC is primarily funded through grants, contributions, and cy pres awards.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Basis of Presentation

UCAN reports information regarding its financial position and activities according to the three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- Unrestricted net assets represent expendable funds available for operations, which are not otherwise limited by donor restrictions.
- Temporarily restricted net assets consist of contributed funds subject to donor-imposed restrictions contingent upon specific performance of a future event or a specific passage of time before UCAN may spend the funds.
- Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity usually for the purpose of generating investment income to fund current operations.

There were no permanently restricted net assets during the year ended June 30, 2011.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

UCAN frequently participates in hearings before the California Public Utilities Commission (Commission). The Commission approves payments of intervenor compensation to these participants. Only those fees and costs associated with the intervenor's work that the Commission concludes made a substantial contribution are reasonable and eligible for compensation. UCAN recognizes intervenor compensation as revenue when received in cash.

Revenues from cy pres awards are recorded when received in cash.

UTILITY CONSUMERS' ACTION NETWORK, INC.

Notes to Financial Statements

Year Ended June 30, 2011

Note 1 - Organization and Summary of Significant Accounting Policies, continued

Investments

Investments are carried at fair value in the statement of financial position, and realized and unrealized gains and losses are reflected in the changes in net assets in the statement of activities.

Fair Value Measurements

Financial Accounting Standards Board (FASB) *Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that UCAN has the ability to access.

Level 2 - Inputs to the valuation methodology include: 1) quoted prices for similar assets or liabilities in active markets; 2) quoted prices for identical or similar assets or liabilities in inactive markets; 3) inputs other than quoted prices that are observable for the asset or liability; 4) inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the assets or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The carrying value of cash and payables are approximate fair values as of June 30, 2011, due to the relative short maturities of these instruments.

Property and Equipment

Acquisitions of property and equipment of \$1,000 or more are capitalized. Property and equipment acquisitions are recorded at cost. Donated property and equipment are recorded at fair value at the date of the gift. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from three to five years.

Income Taxes

UCAN is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. UCAN may be subject to tax on income which is not related to its exempt purpose. For the year ended June 30, 2011, no such unrelated business taxable income was reported and, therefore, no provision for income taxes has been made. UCAN is not a private foundation.

UCAN recognizes accrued interest and penalties associated with uncertain tax positions as part of the income tax provision, when applicable. As of the financial statement issuance date, UCAN has not filed the informational and income tax returns in the United States and various state and local jurisdictions for the year ended June 30, 2011, penalties and interest which may be assessed have not been accrued in the financial statements. There are no amounts accrued in the financial statements related to uncertain tax positions.

UCAN files informational and income tax returns in the United States and various state and local jurisdictions. UCAN's Federal income tax and informational returns for 2008, 2009, and 2010 are subject to examination by the Internal Revenue Service, generally for 3 years after the returns were filed. State and local jurisdictions have statutes of limitation that generally range from 3 to 5 years.

UTILITY CONSUMERS' ACTION NETWORK, INC.

Notes to Financial Statements

Year Ended June 30, 2011

Note 1 - Organization and Summary of Significant Accounting Policies, continued

Subsequent Events

UCAN has evaluated subsequent events through November 28, 2012 which is the date the financial statements were available to be issued.

Note 2 - Concentration of Credit Risk

UCAN maintains its cash in bank deposit accounts that are either insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000 per depositor or certain non-interest bearing accounts that are fully insured by the FDIC. At June 30, 2011, UCAN's uninsured cash balance was \$2,223,229.

Note 3 - Investments and Fair Value Measurement

The following table presents the investments carried at fair value as of June 30, 2011, by the fair value hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
World stock	\$ 29,337	\$ -	\$ -	\$ 29,337
Closed-end funds				
Fixed income	79,080	-	-	79,080
International	40,417	-	-	40,417
Equities				
Technology	26,000	-	-	26,000
Financial	<u>1,278</u>	<u>-</u>	<u>-</u>	<u>1,278</u>
	<u>\$ 176,112</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 176,112</u>

For the year ended June 30, 2011, investment return consists of the following:

Interest and dividends	\$ 16,712
Realized and unrealized gains	<u>35,817</u>
	<u>\$ 52,529</u>

UCAN invests in a combination of equity securities, mutual funds and closed-end funds. Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect UCAN's investment balance reported in the statement of financial position.

Note 4 - Property and Equipment

Property and equipment consists of the following:

Office equipment	\$ 40,420
Less accumulated depreciation	<u>(24,061)</u>
	<u>\$ 16,359</u>

UTILITY CONSUMERS' ACTION NETWORK, INC.

Notes to Financial Statements

Year Ended June 30, 2011

Note 5 - Payable to Other Organization

During the year ended June 30, 2011, UCAN received \$1,000,000 from Nucor Corporation to forward to Death by China Productions LLC as support for the creation of a documentary film. UCAN forwarded \$350,000 during the year ended June 30, 2011, and the remaining unpaid balance of \$650,000 is reported as a payable to other organization in the statement of financial position. Subsequent to year-end all monies have been repaid. These amounts have not been reported as UCAN's revenues or expenses.

Note 6 - Net Assets

Temporarily restricted net assets of \$914,765 are available for the PRC. During the year ended June 30, 2011, net assets were released from donor restrictions by incurring expenditures satisfying the following restrictions:

Privacy Rights Clearinghouse	\$	709,938
Water Project		<u>133,276</u>
	\$	<u><u>843,214</u></u>

The PRC release of \$709,938 includes costs of \$379,424 incurred in prior years for allocable administrative costs and direct costs incurred during the litigation and award period. It is UCAN's policy to carry forward these costs for a two year period.

Note 7 - Operating Lease Commitments

UCAN has a non-cancelable operating lease for office space that expires in July 2014. The lease includes a provision for rent abatement for two months and annual rental increases based on the consumer price index. Total rent expense for the year ended June 30, 2011 was \$28,800.

At June 30, 2011, future minimum lease payments under operating leases are as follows:

<u>Year Ending</u> <u>June 30,</u>		
2012	\$	32,736
2013		39,049
2014		40,221
2015		<u>3,360</u>
	\$	<u><u>115,366</u></u>

Note 8 - Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

UTILITY CONSUMERS' ACTION NETWORK, INC.

Notes to Financial Statements

Year Ended June 30, 2011

Note 9 - Prior Period Misstatements

UCAN records cy pres awards as revenue when received in cash. At June 30, 2010, UCAN recorded a receivable for a cy pres award to the Privacy Rights Clearinghouse in the amount of \$1,353,705. After further review by management, it concluded that this award should not have been recognized as revenue during the year ended June 30, 2010. The effect of the restatement was to decrease the change in net assets for 2010 by \$1,353,705.

During 2011, management discovered several investment accounts that were not included in the statement of financial position at June 30, 2010. The effect of the restatement was to increase net assets by \$37,926 at June 30, 2010.

The following table presents a reconciliation of previously stated beginning net assets to restated beginning net assets:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Net Assets, June 30, 2010 (as previously stated)	\$ 3,301,651	\$ -	\$ 3,301,651
Less misstatement of accounts receivable	(1,353,705)	-	(1,353,705)
Plus misstatement of investment accounts	<u>37,926</u>	<u>-</u>	<u>37,926</u>
Net Assets, June 30, 2010 (restated)	<u>\$ 1,985,872</u>	<u>\$ -</u>	<u>\$ 1,985,872</u>

Note 10 - Contingencies

Tax Filings

During 2011, management discovered that UCAN filed incomplete federal informational returns for prior years. UCAN has engaged an accounting firm to perform a review of previously filed returns and amend these returns if appropriate.

Prior Year Audit

UCAN failed to have a financial statement audit performed for the year ended June 30, 2006 under California Government Code Section 12586(e). UCAN has engaged an accounting firm to perform an audit for this period and has notified the Registry of Charitable Trust of its intent to have an audit completed.

Contingent Payments

UCAN engages several consultants to provide expert witness testimonies at proceedings before the Commission. Some of these arrangements provide that payments be made on a discounted basis until the Commission awards the intervenor compensation. The final payments to these consultants are contingent upon the percentage of reimbursable expenses awarded by the Commission.

Federal Grand Jury Investigation

UCAN has been notified by the Federal Grand Jury that it is investigating the Organization's business practices. The US Attorney's Office has requested certain documents as part of the process. The investigation is ongoing as of the date of the Independent Auditors' Report.

UTILITY CONSUMERS' ACTION NETWORK, INC.

Notes to Financial Statements

Year Ended June 30, 2011

Note 10 – Contingencies, continued

Going Concern

As indicated in UCAN's unaudited internal financial statements through September 30, 2012, the Organization showed a decrease in net assets of approximately \$1,500,000. As of that date, the Organization's net assets was \$1,400,000 of which approximately \$937,000 is temporarily restricted for PRC activities. Those factors, as well as the uncertain conditions that the Organization faces in developing new revenue sources, retaining staff and eliminating contingencies, create an uncertainty about the Organization's ability to continue as a going concern. Management of the Organization is developing a plan to reduce its costs and develop revenue sources. The ability of the Organization to continue as a going concern depends on the plan's success. The financial statements do not include any adjustments that might be necessary if the Organization is unable to continue as a going concern.