

Clean Water Action

Financial Report
September 30, 2004

Clean Water Action

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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 September 30, 2004 and 2003 and the related statements of activities and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide 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 as of September 30, 2004 and 2003 and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

January 27, 2005

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Statement of Financial Position

	September 30	
	2004	2003
Assets		
Cash and cash equivalents	\$ 855,943	\$ 545,058
Contributions receivable	175,282	162,222
Due from affiliates (Note 3)	246,955	112,725
Prepaid expenses	68,058	97,101
Property and equipment - Net (Note 2)	495,151	257,166
Deposits	81,808	77,925
Total assets	<u>\$ 1,923,197</u>	<u>\$ 1,252,197</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 356,586	\$ 243,203
Accrued payroll and related expenses (Note 3)	954,034	624,448
Accrued vacation (Note 3)	283,039	217,605
Total liabilities	1,593,659	1,085,256
Net Assets - Unrestricted	<u>329,538</u>	<u>166,941</u>
Total liabilities and net assets	<u>\$ 1,923,197</u>	<u>\$ 1,252,197</u>

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Statement of Activities

	Year Ended September 30	
	2004	2003
Revenue		
Individual contributions	\$ 10,572,524	\$ 10,402,459
Institutional giving and corporate contributions	486,254	349,896
Interest	10,714	5,321
Miscellaneous	205	15,461
	<u>11,069,697</u>	<u>10,773,137</u>
Total revenue	11,069,697	10,773,137
Expenses		
Program	7,682,578	7,635,521
General and administrative	1,492,711	1,842,249
Fund-raising	1,731,811	1,726,268
	<u>10,907,100</u>	<u>11,204,038</u>
Total expenses	10,907,100	11,204,038
Increase (Decrease) in Unrestricted Net Assets	162,597	(430,901)
Net Assets - Beginning of year	<u>166,941</u>	<u>597,842</u>
Net Assets - End of year	<u><u>\$ 329,538</u></u>	<u><u>\$ 166,941</u></u>

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Statement of Cash Flows

	Year Ended September 30	
	2004	2003
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$ 162,597	\$ (430,901)
Adjustments to reconcile increase (decrease) in net assets to net cash from operating activities:		
Depreciation expense	139,378	113,564
Gain on sale of property and equipment	(817)	(659)
Changes in certain assets and liabilities:		
(Increase) decrease in contributions receivable	(13,060)	5,964
Decrease (increase) in prepaid expenses	29,043	(20,929)
Increase in deposits	(3,883)	(14,394)
Increase in accounts payable and accrued expenses	113,383	56,745
Increase in accrued payroll and related expenses	329,586	324,610
Increase in accrued vacation	65,434	2,632
Net cash provided by operating activities	821,661	36,632
Cash Flows from Investing Activities		
Purchases of property and equipment	(383,337)	(124,216)
Payments to affiliate - Net	(134,230)	(122,347)
Proceeds from sales of property and equipment	6,791	11,670
Net cash used in investing activities	(510,776)	(234,893)
Net Increase (Decrease) in Cash and Cash Equivalents	310,885	(198,261)
Cash and Cash Equivalents - Beginning of year	545,058	743,319
Cash and Cash Equivalents - End of year	\$ 855,943	\$ 545,058
Supplemental Cash Flow Information - Cash paid for interest	\$ 11,243	\$ 2,215

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Notes to Financial Statements September 30, 2004 and 2003

Note 1 - Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities - 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, prevention of health-threatening pollution, and 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 over 23 states nationwide.

Basis of Accounting - The accompanying financial statements have been prepared on the accrual basis of accounting.

A summary of significant accounting policies is as follows:

Cash Equivalents - The Organization considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Receivables - 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 September 30, 2004 and 2003. All receivables are considered by the Organization to be due within one year.

Property and Equipment - Property and equipment are recorded at cost if purchased and fair value if contributed. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets (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.

Income Tax - The Organization is exempt from federal income taxes under Section 501(c)(4) of the Internal Revenue Code.

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 and expenses during the reporting period. Actual results could differ from those estimates.

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Notes to Financial Statements September 30, 2004 and 2003

Note 2 - Property and Equipment

The cost of property and equipment at September 30, 2004 and 2003 is summarized as follows:

	2004	2003
Furniture and equipment	\$ 353,661	\$ 277,108
Leasehold improvements	55,039	29,275
Automobiles	634,455	394,108
Total	1,043,155	700,491
Less accumulated depreciation	548,004	443,325
Net carrying amount	<u>\$ 495,151</u>	<u>\$ 257,166</u>

Depreciation expense for the years ended September 30, 2004 and 2003 totaled \$139,378 and \$113,564, respectively.

Note 3 - Due to/from Affiliates

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 who 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 affiliate 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 8 percent per annum.

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Notes to Financial Statements September 30, 2004 and 2003

Note 3 - Due to/from Affiliates (Continued)

Activities between the Organization and the respective affiliates for the years ended September 30, 2004 and 2003 are as follows:

CWF	2004	2003
Expenses paid on behalf of CWF	\$ 3,781,000	\$ 2,857,000
Interest income charged to CWF	9,150	4,900
CWF's portion of accrued payroll	135,000	77,000
CWF's portion of accrued vacation	116,000	79,500

CCI	2004	2003
Expenses paid on behalf of CCI	\$ 1,329,000	\$ -
Interest income charged to CCI	1,500	-
CCI's portion of accrued payroll	47,000	-
CCI's portion of accrued vacation	24,300	-

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 February 2009. Future minimum lease payments under all cancelable and noncancelable lease obligations are as follows:

Years Ending September 30	Amount
2005	\$ 672,852
2006	473,699
2007	252,253
2008	116,332
2009	29,758
Total	<u>\$ 1,544,894</u>

Total rent expense for real and personal property under cancelable and noncancelable leases for the years ended September 30, 2004 and 2003 totaled approximately \$723,000 and \$710,000, respectively. For the years ended September 30, 2004 and 2003, a portion of these costs was allocated to affiliates in the amount of approximately \$359,000 and \$213,000, respectively.

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Notes to Financial Statements September 30, 2004 and 2003

Note 5 - Allocation of Joint Costs

The Organization incurs joint costs in its field and phone canvass programs for informational materials and activities that include fund-raising appeals. The Organization allocates these field and phone canvass costs between program, general and administrative, and fund-raising expenses based on program methodology and employees' total labor. The following is a schedule of total joint costs and allocation for the years ended September 30, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Costs allocated to program expenses	\$6,869,946	\$6,598,994
Costs allocated to general and administrative expenses	735,047	727,806
Costs allocated to fund-raising expenses	<u>1,514,971</u>	<u>1,527,512</u>
Total joint costs	<u>\$9,119,964</u>	<u>\$8,854,312</u>

Note 6 - 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 \$40,000 per employee covered under the plan per year. The estimated and recorded liability for claims incurred but not reported is recorded in accrued payroll and other expenses. For the years ended September 30, 2004 and 2003, the following information applies to the Organization's plan:

	<u>2004</u>	<u>2003</u>
Health insurance expense	\$ 578,000	\$ 476,000
Allocated expenses to Clean Water Fund	89,000	47,000
Allocated expenses to Citizens Campaign, Inc.	7,000	-
Amount paid by employees	201,000	209,000
Estimated and recorded liability for claims incurred but not reported	65,000	16,000

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Notes to Financial Statements September 30, 2004 and 2003

Note 7 - 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 years ended September 30, 2004 and 2003.