

Clean Water Action

Financial Report
September 30, 2005

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 as of September 30, 2005 and 2004 and the related statements of activities and changes in net assets (deficit) 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 at September 30, 2005 and 2004 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, 2006

Clean Water Action

Statement of Financial Position

	September 30, 2005	September 30, 2004
Assets		
Cash and cash equivalents	\$ 320,308	\$ 855,943
Contributions receivable	43,932	175,282
Due from affiliates (Note 3)	307,723	246,955
Prepaid expenses	78,270	68,058
Deposits	84,081	81,808
Property and equipment (Note 2)	359,773	495,151
Total assets	<u>\$ 1,194,087</u>	<u>\$ 1,923,197</u>
Liabilities and Net Assets (Deficit)		
Liabilities		
Accounts payable and accrued expenses	\$ 450,102	\$ 356,586
Line of credit (Note 5)	150,000	-
Accrued payroll and related expenses (Note 3)	572,847	954,034
Accrued vacation (Note 3)	287,494	283,039
Total liabilities	1,460,443	1,593,659
Net Assets (Deficit) - Unrestricted	<u>(266,356)</u>	<u>329,538</u>
Total liabilities and net assets (deficit)	<u>\$ 1,194,087</u>	<u>\$ 1,923,197</u>

Clean Water Action

Statement of Activities and Changes in Net Assets (Deficit)

	Year Ended	
	September 30, 2005	September 30, 2004
Revenue		
Individual contributions	\$ 10,946,750	\$ 10,572,524
Institutional giving and corporate contributions	632,576	486,254
Interest income - Unrestricted	8,359	10,714
Miscellaneous income	893	205
Total revenue	11,588,578	11,069,697
Expenses		
Program	8,593,352	7,682,578
General and administrative	1,728,670	1,492,711
Fund-raising	1,862,450	1,731,811
Total expenses	12,184,472	10,907,100
Increase (Decrease) in Net Assets	(595,894)	162,597
Net Assets - Beginning of year	329,538	166,941
Net Assets (Deficit) - End of year	\$ (266,356)	\$ 329,538

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Statement of Cash Flows

	Year Ended	
	September 30, 2005	September 30, 2004
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$ (595,894)	\$ 162,597
Adjustments to reconcile increase (decrease) in net assets to net cash from operating activities:		
Depreciation	168,327	139,378
Gain on sale of property and equipment	(11,525)	(817)
Changes in operating assets and liabilities which provided (used) cash:		
(Increase) decrease in contributions receivable	131,350	(13,060)
(Increase) decrease in prepaid expenses	(10,212)	29,043
Decrease in deposits	(2,273)	(3,883)
Increase in accounts payable and accrued expenses	93,516	113,383
Increase (decrease) in accrued payroll and related expenses	(381,187)	329,586
Increase in accrued vacation	4,455	65,434
Net cash (used in) provided by operating activities	(603,443)	821,661
Cash Flows from Investing Activities		
Purchase of property and equipment	(34,823)	(383,337)
Proceeds from disposition of property and equipment	13,399	6,791
Payments to affiliates - Net	(60,768)	(134,230)
Net cash used in investing activities	(82,192)	(510,776)
Cash Flows from Financing Activities - Proceeds from line of credit	150,000	-
Net (Decrease) Increase in Cash and Cash Equivalents	(535,635)	310,885
Cash and Cash Equivalents - Beginning of year	855,943	545,058
Cash and Cash Equivalents - End of year	<u>\$ 320,308</u>	<u>\$ 855,943</u>
Supplemental Disclosure of Cash Flow Information - Cash paid for interest	<u>\$ 16,130</u>	<u>\$ 11,243</u>

Note 1 - Nature of Activities and Summary of 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, 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 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.

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, 2005 and 2004. 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.

Reclassification - Certain reclassifications were made to amounts in the 2004 financial statements to conform to the classifications used in 2005.

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 (deficit) during the reporting period. Actual results could differ from those estimates.

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Notes to Financial Statements September 30, 2005 and 2004

Note 1 - Nature of Activities and Summary of Significant Accounting Policies (Continued)

Functional Allocation of Expenses - The 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 (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 taxes under provisions of Internal Revenue Code Section 501(c)(4).

Note 2 - Property and Equipment

The cost of property and equipment is summarized as follows:

	<u>2005</u>	<u>2004</u>
Automobiles	\$ 554,977	\$ 634,456
Furniture and fixtures	369,110	353,661
Leasehold improvements	<u>55,039</u>	<u>55,039</u>
Total cost	979,126	1,043,156
Accumulated depreciation	<u>(619,353)</u>	<u>(548,005)</u>
Net carrying amount	<u>\$ 359,773</u>	<u>\$ 495,151</u>

Depreciation expense was \$168,327 for 2005 and \$139,378 for 2004.

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 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 8 percent per annum.

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Notes to Financial Statements September 30, 2005 and 2004

Note 3 - Due to/from Affiliates (Continued)

Activities between the Organization and the respective affiliates for the years ended September 30, 2005 and 2004 are as follows:

	<u>2005</u>	<u>2004</u>
CWF:		
Amounts due from CWF	\$ 236,900	\$ 162,793
Allocated accrued payroll and payroll related expenses	147,600	251,000
Interest income charged to CWF	7,940	9,150
Allocated expenses:		
Payroll and payroll related expenses	1,624,500	-
Health insurance	128,000	89,000
Rent and occupancy related	257,000	359,000
Total expenses paid on behalf of CWF	4,016,000	3,781,000
Total expense reimbursements by CWF	3,950,000	3,740,000
CCI:		
Amounts due from CCI	70,823	84,162
Allocated accrued payroll and payroll related expenses	20,100	71,300
Interest income charged to CCI	155	1,500
Allocated expenses:		
Payroll and payroll related expenses	571,000	-
Health insurance	3,500	7,000
Rent and occupancy related	20,000	52,000
Total expenses paid on behalf of CCI	1,066,000	1,329,000
Total expense reimbursements by CCI	1,079,000	1,245,000

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

<u>Years Ending September 30</u>	<u>Amount</u>
2006	\$ 710,633
2007	434,299
2008	283,880
2009	178,768
Total	<u>\$ 1,607,580</u>

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Notes to Financial Statements September 30, 2005 and 2004

Note 4 - Lease Commitments (Continued)

Total rent expense for real and personal property under cancelable and noncancelable leases for the years ended September 30, 2005 and 2004 totaled approximately \$904,000 and \$723,000, respectively.

Note 5 - Line of Credit

During the fiscal year ended September 30, 2005, the Organization entered into a line of credit agreement. The line of credit bears interest at 6.75 percent per annum and is collateralized by all of the assets of the Organization. The Organization may borrow up to \$200,000 on the line of credit. \$150,000 was outstanding on the line of credit at September 30, 2005.

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 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, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Costs allocated to program expenses	\$ 7,576,676	\$ 6,869,946
Costs allocated to general and administrative expenses	864,174	735,047
Cost allocated to fund-raising expenses	<u>1,688,040</u>	<u>1,514,971</u>
Total	<u>\$ 10,128,890</u>	<u>\$ 9,119,964</u>

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 \$40,000 per employee covered under the plan year. The estimated and recorded liability for claims incurred but not recorded is recorded in accrued payroll and other expenses. For the years ended September 30, 2005 and 2004, the following information applies to the Organization's plan.

	<u>2005</u>	<u>2004</u>
Health insurance expense	\$ 662,500	\$ 578,000
Amount paid by employees	218,000	201,000
Estimated and recorded liability for claims incurred, and incurred but not reported	47,000	65,000

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 years ended September 30, 2005 and 2004.