

Clean Water Action

Financial Report
September 30, 2006

Clean Water Action

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Plante & Moran, PLLC
27400 Northwestern Highway
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

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, 2006 and 2005 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, 2006 and 2005 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 24, 2007

Clean Water Action

Statement of Financial Position

	September 30, 2006	September 30, 2005
Assets		
Cash and cash equivalents	\$ 595,823	\$ 320,308
Contributions receivable	168,847	43,932
Due from affiliates (Note 3)	349,596	307,723
Prepaid expenses	46,810	78,270
Deposits	65,157	84,081
Property and equipment (Note 2)	282,472	359,773
Total assets	<u>\$ 1,508,705</u>	<u>\$ 1,194,087</u>
Liabilities and Net Assets (Deficit)		
Liabilities		
Accounts payable and accrued expenses	\$ 377,993	\$ 450,102
Line of credit (Note 5)	-	150,000
Accrued payroll and related expenses	534,962	572,847
Accrued vacation	282,191	287,494
Total liabilities	1,195,146	1,460,443
Net Assets (Deficit)		
Unrestricted	137,849	(266,356)
Temporarily restricted	175,710	-
Total net assets (deficit)	<u>313,559</u>	<u>(266,356)</u>
Total liabilities and net assets (deficit)	<u>\$ 1,508,705</u>	<u>\$ 1,194,087</u>

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Statement of Activities and Changes in Net Assets (Deficit)

	Year Ended	
	September 30, 2006	September 30, 2005
Changes in Unrestricted Net Assets		
Revenue:		
Individual contributions	\$ 9,422,349	\$ 10,946,750
Institutional giving and corporate contributions	802,098	632,576
Interest income	9,621	8,359
Miscellaneous income	238	893
Total revenue	10,234,306	11,588,578
Net assets released from restrictions	4,290	-
Total revenue and net assets released from restrictions	10,238,596	11,588,578
Expenses:		
Program	6,802,614	8,593,352
General and administrative	1,477,396	1,728,670
Fund-raising	1,554,381	1,862,450
Total expenses	9,834,391	12,184,472
Increase (Decrease) in Unrestricted Net Assets	404,205	(595,894)
Changes in Temporarily Restricted Net Assets		
Contributions	180,000	-
Net assets released from restrictions	(4,290)	-
Increase in Temporarily Restricted Net Assets	175,710	-
Increase (Decrease) in Net Assets	579,915	(595,894)
Net Assets (Deficit)- Beginning of year	(266,356)	329,538
Net Assets (Deficit)- End of year	\$ 313,559	\$ (266,356)

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Statement of Cash Flows

	Year Ended	
	September 30, 2006	September 30, 2005
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$ 579,915	\$ (595,894)
Adjustments to reconcile increase (decrease) in net assets to net cash from operating activities:		
Depreciation	145,224	168,327
Gain on sale of property and equipment	3,457	(11,525)
Changes in operating assets and liabilities which provided (used) cash:		
Contributions receivable	(124,915)	131,350
Prepaid expenses	31,460	(10,212)
Deposits	18,924	(2,273)
Accounts payable and accrued expenses	(72,109)	93,516
Accrued payroll and related expenses	(37,885)	(381,187)
Accrued vacation	(5,303)	4,455
Net cash provided by (used in) operating activities	538,768	(603,443)
Cash Flows from Investing Activities		
Purchase of property and equipment	(87,646)	(34,823)
Proceeds from disposition of property and equipment	16,266	13,399
Payments to affiliate - Net	(41,873)	(60,768)
Net cash used in investing activities	(113,253)	(82,192)
Cash Flows from Financing Activities - Proceeds from line of credit	(150,000)	150,000
Net Increase (Decrease) in Cash and Cash Equivalents	275,515	(535,635)
Cash and Cash Equivalents - Beginning of year	320,308	855,943
Cash and Cash Equivalents - End of year	\$ 595,823	\$ 320,308
Supplemental Disclosure Cash Flow Information - Cash paid for interest	\$ 33,614	\$ 16,130

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Notes to Financial Statements September 30, 2006 and 2005

Note I - 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, 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 23 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, 2006 and 2005. All receivables are considered by the Organization to be due 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 accepted 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.

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Notes to Financial Statements September 30, 2006 and 2005

Note 1 - Nature of Activities and 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 tax 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>2006</u>	<u>2005</u>
Automobiles	\$ 450,878	\$ 554,977
Furniture and fixtures	445,822	369,110
Leasehold improvements	<u>55,039</u>	<u>55,039</u>
Total cost	951,739	979,126
Accumulated depreciation	<u>(669,267)</u>	<u>(619,353)</u>
Net carrying amount	<u>\$ 282,472</u>	<u>\$ 359,773</u>

Depreciation expense was \$145,224 for 2006 and \$168,327 for 2005.

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, 2006 and 2005

Note 3 - Due to/from Affiliates (Continued)

Activities between the Organization and the respective affiliates for the years ended September 30, 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
CWF:		
Amount due from CWF including interest	\$ 150,338	\$ 236,900
Allocated accrued payroll and payroll-related expenses	162,500	147,600
Allocated expenses:		
Payroll and payroll-related expenses	2,494,000	1,624,500
Health insurance	190,000	128,000
Rent and occupancy related	280,000	257,000
Total expenses paid on behalf of CWF	4,022,000	4,016,000
Total expense reimbursements by CWF	4,103,000	3,950,000
CCI:		
Amount due from CCI including interest	199,258	70,823
Allocated accrued payroll and payroll-related expenses	30,475	20,100
Allocated expenses:		
Payroll and payroll-related expenses	343,000	571,000
Health insurance	16,300	3,500
Rent and occupancy related	31,750	20,000
Total expenses paid on behalf of CCI	1,329,000	1,066,000
Total expense reimbursements by CCI	1,210,000	1,079,000

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 2010. Future minimum lease payments under all cancelable and noncancelable lease obligations are as follows:

<u>Years Ending September 30</u>	<u>Amount</u>
2007	\$ 621,340
2008	376,055
2009	243,165
2010	28,829
Total	<u>\$ 1,269,389</u>

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Notes to Financial Statements September 30, 2006 and 2005

Note 4 - Lease Commitments (Continued)

Total rent expense for real and personal property under cancelable and noncancelable leases for the years ended September 30, 2006 and 2005 totaled approximately \$875,000 and \$904,000, respectively.

Note 5 - Line of Credit

During the fiscal year ended September 30, 2005, the Organization entered into a line-of-credit agreement with a financial institution. 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. At September 30, 2006 and 2005, \$0 and \$150,000, respectively, was outstanding on the line of credit.

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, 2006 and 2005:

	2006	2005
Program expenses	\$ 6,450,335	\$ 7,576,676
General and administrative expenses	766,390	864,174
Fund-raising expenses	1,445,702	1,688,040
Total	<u>\$ 8,662,427</u>	<u>\$ 10,128,890</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 \$50,000 and \$40,000 per employee covered under the plan year for the years ended September 30, 2006 and 2005, respectively. 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, 2006 and 2005, the following information applies to the Organization's plan:

	2006	2005
Health insurance expense	\$ 728,500	\$ 662,500
Amount paid by employees	195,000	218,000
Estimated and recorded liability for claims incurred and incurred but not reported	54,800	47,000

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, 2006 and 2005.