

# **Clean Water Action**

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**Financial Report**  
**September 30, 2008**

# Clean Water Action

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## Contents

<b>Report Letter</b>	1
<b>Financial Statements</b>	
Statement of Financial Position	2
Statement of Activities and Changes in Net Assets (Deficit)	3
Statement of Cash Flows	4
Notes to Financial Statements	5-10



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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, 2008 and 2007 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, 2008 and 2007 and the changes in its net assets (deficit) and its cash flows for the years 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*

April 13, 2009

# Clean Water Action

## Statement of Financial Position

	September 30, 2008	September 30, 2007
<b>Assets</b>		
Cash and cash equivalents	\$ 546,130	\$ 521,251
Contributions receivable	261,860	52,704
Due from affiliates (Note 3)	-	263,478
Prepaid expenses and other	61,678	40,684
Deposits	75,750	69,657
Property and equipment - Net (Note 2)	205,546	165,770
Total assets	<u>\$ 1,150,964</u>	<u>\$ 1,113,544</u>
<b>Liabilities and Net Assets (Deficit)</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 449,431	\$ 323,366
Due to affiliate (Note 3)	72,966	-
Bank line of credit (Note 5)	192,000	-
Notes payable	38,494	-
Accrued payroll and related expenses	728,613	589,203
Accrued severance payable	33,632	-
Accrued vacation	358,132	318,679
Total liabilities	1,873,268	1,231,248
<b>Net Assets (Deficit)</b>		
Unrestricted	(1,010,103)	(119,521)
Temporarily restricted	287,799	1,817
Total net assets (deficit)	<u>(722,304)</u>	<u>(117,704)</u>
Total liabilities and net assets (deficit)	<u>\$ 1,150,964</u>	<u>\$ 1,113,544</u>

# Clean Water Action

## Statement of Activities and Changes in Net Assets (Deficit)

	Year Ended	
	September 30, 2008	September 30, 2007
<b>Changes in Unrestricted Net Assets (Deficit)</b>		
Revenue:		
Individual contributions	\$ 10,553,011	\$ 9,395,531
Institutional giving and corporate contributions	288,387	296,543
Interest income	3,997	4,126
Total revenue	10,845,395	9,696,200
Net assets released from restrictions	284,018	191,293
Total revenue and net assets released from restrictions	11,129,413	9,887,493
Expenses:		
Program	8,467,808	7,109,613
General and administrative	1,805,101	1,373,967
Fund-raising	1,747,086	1,661,283
Total expenses	12,019,995	10,144,863
<b>Decrease in Unrestricted Net Assets</b>	(890,582)	(257,370)
<b>Changes in Temporarily Restricted Net Assets</b>		
Contributions	570,000	17,400
Net assets released from restrictions	(284,018)	(191,293)
<b>Increase (Decrease) in Temporarily Restricted Net Assets</b>	285,982	(173,893)
<b>Decrease in Net Assets</b>	(604,600)	(431,263)
<b>Net Assets (Deficit) - Beginning of year</b>	(117,704)	313,559
<b>Net Deficit - End of year</b>	<b>\$ (722,304)</b>	<b>\$ (117,704)</b>

# Clean Water Action

## Statement of Cash Flows

	Year Ended	
	September 30, 2008	September 30, 2007
<b>Cash Flows from Operating Activities</b>		
Decrease in net assets	\$ (604,600)	\$ (431,263)
Adjustments to reconcile decrease in net assets to net cash from operating activities:		
Depreciation	116,015	135,381
(Gain) loss on sale of property and equipment	(5,160)	6,365
Changes in operating assets and liabilities which provided (used) cash:		
Contributions receivable	(209,156)	116,143
Prepaid expenses	(20,994)	6,126
Deposits	(6,093)	(4,500)
Accounts payable and accrued expenses	126,065	(54,627)
Accrued payroll and related expenses	307,571	54,241
Accrued vacation	39,453	36,488
Net cash used in operating activities	(256,899)	(135,646)
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	(149,643)	(29,984)
Proceeds from disposition of property and equipment	(988)	4,940
Payments to affiliate - Net	201,915	86,118
Net cash provided by investing activities	51,284	61,074
<b>Cash Flows from Financing Activities</b>		
Proceeds from line of credit	192,000	-
Proceeds from notes payable	40,945	-
Payments on notes payable	(2,451)	-
Net cash provided by financing activities	230,494	-
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	24,879	(74,572)
<b>Cash and Cash Equivalents - Beginning of year</b>	521,251	595,823
<b>Cash and Cash Equivalents - End of year</b>	<u>\$ 546,130</u>	<u>\$ 521,251</u>
<b>Supplemental Disclosure of Cash Flow Information - Cash paid for interest</b>	<u>\$ 47,430</u>	<u>\$ 14,501</u>

# Clean Water Action

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## Notes to Financial Statements September 30, 2008 and 2007

### 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 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, 2008 and 2007. 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 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.

# Clean Water Action

## Notes to Financial Statements September 30, 2008 and 2007

### 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 a bank. Accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Organization evaluates the financial institutions with which it deposits funds; however, it is not practical to insure all cash deposits.

### Note 2 - Property and Equipment

The cost of property and equipment is summarized as follows:

	<u>2008</u>	<u>2007</u>
Automobiles	\$ 402,203	\$ 381,675
Furniture and fixtures	540,805	467,281
Leasehold improvements	<u>55,039</u>	<u>55,039</u>
Total cost	998,047	903,995
Accumulated depreciation	<u>(792,501)</u>	<u>(738,225)</u>
Net carrying amount	<u>\$ 205,546</u>	<u>\$ 165,770</u>

Depreciation expense was \$116,015 for 2008 and \$135,381 for 2007.

# Clean Water Action

## Notes to Financial Statements September 30, 2008 and 2007

### 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.

Activities between the Organization and the respective affiliates for the years ended September 30, 2008 and 2007 are as follows:

	2008	2007
CWF:		
Amount due (to) from CWF including interest	\$ (40,560)	\$ 194,110
Allocated accrued payroll and payroll-related expenses	294,000	260,700
Allocated expenses:		
Payroll and payroll-related expenses	3,310,000	2,872,000
Health insurance	243,000	197,000
Rent and occupancy related	276,000	285,000
Total expenses paid on behalf of CWF	4,720,000	4,309,000
Total expense reimbursements by CWF	5,054,000	4,270,000
CCI:		
Amount due from CCI including interest	102,123	69,368
Allocated accrued payroll and payroll-related expenses	28,100	14,765
Allocated expenses:		
Payroll and payroll-related expenses	218,000	309,000
Health insurance	12,000	13,700
Rent and occupancy related	25,200	25,650
Total expenses paid on behalf of CCI	1,033,000	1,013,200
Total expense reimbursements by CCI	1,010,000	1,133,500

# Clean Water Action

## Notes to Financial Statements September 30, 2008 and 2007

### 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 2013. Future minimum lease payments under all cancelable and noncancelable lease obligations are as follows:

<u>Years Ending September 30</u>	<u>Amount</u>
2009	\$ 620,739
2010	305,100
2011	283,693
2012	282,703
2013	<u>199,646</u>
Total	<u>\$ 1,691,881</u>

Total rent expense for real and personal property under cancelable and noncancelable leases for the years ended September 30, 2008 and 2007 totaled approximately \$859,000 and \$915,000, respectively.

### Note 5 - Line of Credit

The Organization has a line of credit agreement with a financial institution. The line of credit bears interest at prime, 4.50 percent at September 30, 2008 and 7.75 percent at September 30, 2007, and is collateralized by all of the assets of the Organization. The Organization may borrow up to \$300,000 on the line of credit. The outstanding balance on the debt was \$192,000 at September 30, 2008. There was no amount outstanding for the year ended September 30, 2007.

### 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, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Program expenses	\$ 7,047,437	\$ 6,085,922
General and administrative expenses	730,590	663,893
Fund-raising expenses	<u>1,517,349</u>	<u>1,338,665</u>
Total	<u>\$ 9,295,376</u>	<u>\$ 8,088,480</u>

# Clean Water Action

## Notes to Financial Statements September 30, 2008 and 2007

### 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 employee covered under the plan year for the years ended September 30, 2008 and 2007. 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, 2008 and 2007, the following information applies to the Organization's plan:

	2008	2007
Health insurance expense	\$ 731,000	\$ 630,600
Amount paid by employees	237,000	201,000
Estimated and recorded liability for claims incurred and incurred but not reported	40,000	88,600

### 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, 2008 and 2007.

### 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 fiscal years 2008 and 2007. 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.

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

- The Organization has made substantial efforts to reduce and eliminate expenses since fall 2008 which resulted in budgeted savings of \$620,000 in expenses including: closing operations in North Dakota, South Dakota, and Wisconsin. In addition, net loss field operations were closed in Clinton Township, MI; Denver, CO; Allentown, PA; Manchester, NH; and Miami, FL. Pittsburgh, PA Field Canvass was changed to seasonal operations.
- The Organization has worked with contractors used for canvass management and

## **Note 9 - Management's Plans (Continued)**

- lessors to renegotiate fees and terms of agreements.
- Development of detailed analysis of field and phone canvass operations including management, tier structure, compensation, and better trend forecasting have been established.
  - Management is mindful of the economic conditions and has taken steps to help diversify fund-raising operations including creating opportunities for longer-term stability.
  - The board's finance committee will meet 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 national staff positions, closing of more offices, reduction in compensation or project closings totally.

Management believes that these actions will enable the Organization to continue its operations and meet all of its operating requirements.