

THE WATER PROJECT, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2011

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HESSION & PARE, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Water Project, Inc.
Concord, New Hampshire

We have audited the accompanying statement of financial position of The Water Project, Inc. as of December 31, 2011, and the related statement of activities and changes in net assets, and cash flows for the year 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. The financial statements of The Water Project, Inc. as of December 31, 2010 were audited by other auditors. Those auditors expressed an unqualified opinion on those financial statements in their report dated July 18, 2011.

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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Water Project, Inc. as of December 31, 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.

HESSION & PARE, P.C.

Manchester, New Hampshire
July 23, 2012

THE WATER PROJECT, INC.

STATEMENTS OF FINANCIAL POSITION

As of December 31, 2011 and 2010

ASSETS

| | <u>2011</u> | <u>2010</u> |
|-------------------------------|-------------------|-------------------|
| Current assets | | |
| Cash and cash equivalents | \$ 324,453 | \$ 217,377 |
| Contributions receivable | 66,255 | 39,703 |
| Inventory | 4,670 | 1,353 |
| Deposit | 740 | - |
| | <hr/> | <hr/> |
| Total current assets | 396,118 | 258,433 |
| Property and equipment | | |
| Furniture and equipment | 4,300 | 4,300 |
| Less accumulated depreciation | 1,177 | - |
| | <hr/> | <hr/> |
| Property and equipment, net | 3,123 | 4,300 |
| | <hr/> | <hr/> |
| Total assets | <u>\$ 399,241</u> | <u>\$ 262,733</u> |

LIABILITIES AND NET ASSETS

| | | |
|----------------------------------|-------------------|-------------------|
| Current liabilities | | |
| Accounts payable | \$ 8,159 | \$ - |
| Accrued expenses | 3,911 | - |
| | <hr/> | <hr/> |
| Total current liabilities | 12,070 | - |
| Net assets | | |
| Unrestricted | 365,469 | 248,691 |
| Temporarily restricted | 21,702 | 14,042 |
| | <hr/> | <hr/> |
| Total net assets | 387,171 | 262,733 |
| | <hr/> | <hr/> |
| Total liabilities and net assets | <u>\$ 399,241</u> | <u>\$ 262,733</u> |

See notes to financial statements.

THE WATER PROJECT, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Years Ended December 31, 2011 and 2010

| | <u>Unrestricted</u> | Temporarily <u>Restricted</u> | <u>2011</u> | <u>2010</u> |
|---------------------------------------|--------------------------|----------------------------------|---------------------------------|--------------------------|
| Support and revenues | | | | |
| Contributions | \$ 1,331,905 | \$ 119,776 | \$ 1,451,681 | \$ 1,013,570 |
| Product sales | 10,948 | - | 10,948 | 9,954 |
| Gifts in-kind | - | - | - | 9,150 |
| Interest income | 274 | - | 274 | 292 |
| Net assets released from restrictions | <u>112,116</u> | <u>(112,116)</u> | <u>-</u> | <u>-</u> |
| Total support and revenues | <u>1,455,243</u> | <u>7,660</u> | <u>1,462,903</u> | <u>1,032,966</u> |
| Expenses | | | | |
| Program | 1,126,638 | - | 1,126,638 | 901,317 |
| Development and public relations | 75,588 | - | 75,588 | 48,068 |
| Management and general | <u>136,239</u> | <u>-</u> | <u>136,239</u> | <u>55,803</u> |
| Total expenses | <u>1,338,465</u> | <u>-</u> | <u>1,338,465</u> | <u>1,005,188</u> |
| Increase in net assets | 116,778 | 7,660 | 124,438 | 27,778 |
| Net assets, beginning of year | <u>248,691</u> | <u>14,042</u> | <u>262,733</u> | <u>234,955</u> |
| Net assets, end of year | <u><u>\$ 365,469</u></u> | <u><u>\$ 21,702</u></u> | <u><u>\$ 387,171</u></u> | <u><u>\$ 262,733</u></u> |

See notes to financial statements.

THE WATER PROJECT, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|--|-------------------|-------------------|
| Cash flows from operating activities | | |
| Increase in net assets | \$ 124,438 | \$ 27,778 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation | 1,177 | - |
| Gifts in-kind - property and equipment | - | (4,300) |
| (Increase) decrease in contributions receivable | (26,552) | 8,175 |
| (Increase) in inventory | (3,317) | - |
| (Increase) in deposit | (740) | - |
| Increase in accounts payable | 8,159 | - |
| Increase in accrued expenses | 3,911 | (1,353) |
| | <u>107,076</u> | <u>30,300</u> |
| Net cash provided by operating activities | | |
| | <u>107,076</u> | 30,300 |
| Net increase in cash and cash equivalents | | |
| | <u>217,377</u> | <u>187,077</u> |
| Cash and cash equivalents, beginning of year | | |
| | <u>\$ 324,453</u> | <u>\$ 217,377</u> |
| Cash and cash equivalents, end of year | | |

See notes to financial statements.

THE WATER PROJECT, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

| | <u>Program</u> | Development and Public <u>Relations</u> | Management and General | <u>2011</u> | <u>2010</u> |
|-------------------------------------|---------------------|---|---------------------------|---------------------|---------------------|
| Salaries and wages | \$ 86,951 | \$ 32,431 | \$ 62,649 | \$ 182,031 | \$ 78,182 |
| Employee benefits | 10,263 | 3,925 | 6,963 | 21,151 | - |
| Payroll taxes | 7,064 | 2,635 | 5,090 | 14,789 | 5,909 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Total salaries and related expenses | 104,278 | 38,991 | 74,702 | 217,971 | 84,091 |
| Program grants | 950,082 | - | - | 950,082 | 825,743 |
| Contract services | 54,598 | - | - | 54,598 | 22,317 |
| Bank fees | - | 21,981 | 775 | 22,756 | 9,752 |
| Legal and professional | - | - | 17,978 | 17,978 | 13,482 |
| Website services | 8,128 | 4,064 | 4,064 | 16,256 | 7,733 |
| Other | 505 | - | 13,103 | 13,608 | 14,134 |
| Facilities and equipment | 4,908 | 1,831 | 4,427 | 11,166 | 4,453 |
| Printing | - | 3,688 | 3,688 | 7,376 | 5,271 |
| Cost of product sales | - | - | 6,003 | 6,003 | 3,497 |
| Postage and shipping | - | 2,923 | 2,923 | 5,846 | 4,589 |
| Telephone and internet | 1,562 | 1,610 | 1,562 | 4,734 | 3,208 |
| Licenses and permits | - | - | 2,892 | 2,892 | 1,810 |
| Travel | 2,577 | - | - | 2,577 | 2,124 |
| Insurance | - | - | 1,472 | 1,472 | 1,597 |
| Supplies | - | - | 1,460 | 1,460 | 514 |
| Public relations and development | - | 500 | - | 500 | 733 |
| Subscriptions and publications | - | - | 13 | 13 | 140 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Total expenses before depreciation | 1,126,638 | 75,588 | 135,062 | 1,337,288 | 1,005,188 |
| Depreciation | - | - | 1,177 | 1,177 | - |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Total expenses | <u>\$ 1,126,638</u> | <u>\$ 75,588</u> | <u>\$ 136,239</u> | <u>\$ 1,338,465</u> | <u>\$ 1,005,188</u> |

See accountants' report on supplementary information.

THE WATER PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. NATURE OF OPERATIONS

The Water Project, Inc. (the “Organization”) is a not-for-profit corporation, which was incorporated on December 5, 2007. The Organization is an independent organization based in Concord, New Hampshire, that aims to bring relief to communities throughout the world who suffer needlessly from a lack of access to clean water. Specifically, the Organization distributes contributed funds directly to national and international organizations that assist in underdeveloped communities in gaining access to clean drinking water. The Organization’s major sources of support and revenue are contributions from the general public.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The accompanying financial statements have been prepared on the accrual basis and in accordance with the Not-for-Profit Entities Topic of the FASB Accounting Standards Codification (ASC) 958-205 and subsections.

This Topic establishes standards for general-purpose external financial statements of not-for-profit organizations, including statements of financial position, statements of activities and a statements of cash flows. This Topic further requires classification of net assets and its revenues, expenses, gains and losses into three categories, based on the existence or absence of externally imposed restrictions: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Organization does not have any permanently restricted net assets. The categories are defined as follows:

Unrestricted – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

Temporarily Restricted – Net assets whose use is limited by law or donor-imposed stipulations that will either expire with the passage of time or be fulfilled or removed by actions of the Organization.

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.

THE WATER PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Comparative totals

The financial statements include certain prior-year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2010 from which the summarized information was derived.

Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments and money market accounts purchased with remaining maturities of three months or less.

Contributions receivable

Contributions receivable are recorded at the written pledged amount less an estimate made for doubtful accounts. The Organization provides an allowance for doubtful collections when deemed necessary, which is based upon a review of prior collection history, type of contribution, and nature of fundraising activity. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts. At December 31, 2011 and 2010, the Organization has not recorded an allowance for doubtful accounts.

Inventory

Inventory of saleable supplies are stated at the lower of cost or market determined by the first-in, first-out method.

Property and equipment

Property and equipment are recorded at cost or, in the case of donated assets, at fair market value. Depreciation is provided on the straight-line method by charging to expense in estimated amounts to recover the cost of these assets over their estimated useful lives as follows:

| | |
|-------------------------|-------------|
| Furniture and equipment | 3 - 7 years |
|-------------------------|-------------|

Expenditures for repairs and maintenance are charged to operations when incurred.

THE WATER PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions and unearned contributions

Contributions are recognized as revenue when received as unrestricted, temporarily or permanently restricted, depending on the existence and nature of donor restrictions. Pledges are recognized as revenue upon receipt of evidence of an unconditional promise to give. Conditional promises to give are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. Contributed assets are recorded at their estimated fair value when the Organization obtains possession of donated goods or evidence of an unconditional promise to give. Contributed services for voluntary donations of services are recognized in the financial statements when these services (1) create or enhance nonfinancial assets or (2) require specialized skills provided by individuals possessing those skills and are services that would be typically purchased if not provided by donation.

Income taxes

The Water Project, Inc. applied for and has been granted recognition of exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Section 501(c)(3) of the Code provides for the exemption of organizations that are organized and operated exclusively for religious, charitable, scientific, literary or educational purposes, no part of the net earnings of which inures to the benefit of any private shareholders or individuals. However, the Organization is subject to federal income tax on any unrelated business taxable income, and they did not have any at December 31, 2011 and 2010. The income tax filings for the tax years before 2008 are no longer subject to examination by the federal and state taxing authorities.

Reclassification

Certain 2010 amounts have been reclassified to conform to 2011 classification. These reclassifications had no effect on the decrease in net assets for 2010.

THE WATER PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

Subsequent events

The Organization has evaluated subsequent events through July 23, 2012, the date which the financial statements were available to be issued, and have not evaluated subsequent events after that date. No subsequent events were identified that would require disclosure in the financial statements for the year ended December 31, 2011.

Note 3. FAIR VALUE MEASUREMENTS

Generally accepted accounting principles establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels:

Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority.

Level 2 inputs consist of quoted prices for similar assets in active markets, quoted prices for identical or similar assets in inactive markets, or observable inputs other than quoted market prices.

Level 3 inputs consist of inputs that are unobservable and significant to the fair value measurement and have the lowest priority.

The Organization uses appropriate valuation techniques based on available inputs to measure the fair value of its unconditional promises to give. An asset'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 must maximize the use of observable inputs and minimize the use of unobservable inputs.

Note 4. CONTRIBUTIONS RECEIVABLE

Contributions receivable are reported at its fair value, which is estimated as the present value of expected future cash inflows on a non-recurring basis. There was no discount rate considered where all outstanding contributions receivable are due within one year. As discussed in Note 3, the valuation technique used by the Organization is a level 3 measure because there are no observable market transactions.

THE WATER PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

Note 5. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes as of December 31:

| | <u>2011</u> | <u>2010</u> |
|-------------------|------------------|------------------|
| 100 option income | <u>\$ 21,702</u> | <u>\$ 14,042</u> |

Note 6. LEASE COMMITMENT

During 2011, the Organization entered into an agreement to lease office space in Concord, New Hampshire under a noncancelable agreement that expires in April 2013 with the option to renew on a month to month basis. Total rent expense for the year ended December 31, 2011 amounted to \$4,479.

Future minimum lease payments are as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------|------------------|
| 2012 | \$ 12,080 |
| 2013 | <u>4,560</u> |
| Total | <u>\$ 16,640</u> |

Note 7. CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject Organization to concentrations of credit risk consisted primarily of cash and cash equivalents. The Organization maintains cash and cash equivalent accounts at various financial institutions. From time to time, Organization's accounts at such institutions may exceed the Federal Deposit Insurance Corporation (FDIC) insurance limit. The Organization has not experienced losses in such accounts and management does not believe it is exposed to significant credit risk on its cash and cash equivalents.