

THE WATER PROJECT, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2012

TABLE OF CONTENTS

Independent auditors' report	1
Statements of financial position	3
Statements of activities and changes in net assets	4
Statements of cash flows	5
Statements of functional expenses	6
Notes to financial statements	7



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 financial statements of The Water Project, Inc., (a nonprofit organization), which comprise the statement of financial position as of December 31, 2012 and 2011, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Board of Directors
The Water Project, Inc.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Prior year summarized comparative information has been derived from The Water Project Inc.'s 2011 financial statements and, in our report dated July 23, 2012; we expressed an unqualified opinion on those financial statements.

Manchester, New Hampshire
May 29, 2013

Hession & Park, P.C.

THE WATER PROJECT, INC.

STATEMENTS OF FINANCIAL POSITION

As of December 31, 2012 and 2011

ASSETS

	<u>2012</u>	<u>2011</u>
Current assets		
Cash and cash equivalents	\$ 345,612	\$ 324,453
Contributions receivable	39,078	66,255
Inventory	4,036	4,670
Deposit	740	740
	<hr/>	<hr/>
Total current assets	389,466	396,118
Property and equipment		
Furniture and equipment	6,893	4,300
Software	6,425	-
	<hr/>	<hr/>
	13,318	4,300
Less accumulated depreciation	<u>(2,236)</u>	<u>(1,177)</u>
	<hr/>	<hr/>
Property and equipment, net	11,082	3,123
	<hr/>	<hr/>
Total assets	<u>\$ 400,548</u>	<u>\$ 399,241</u>

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable	\$ 8,903	\$ 8,159
Accrued expenses	4,604	3,911
	<hr/>	<hr/>
Total current liabilities	13,507	12,070
Net assets		
Unrestricted	372,651	365,469
Temporarily restricted	14,390	21,702
	<hr/>	<hr/>
Total net assets	387,041	387,171
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 400,548</u>	<u>\$ 399,241</u>

See notes to financial statements.

THE WATER PROJECT, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Years Ended December 31, 2012 and 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2012</u>	<u>2011</u>
Support and revenues				
Contributions	\$ 1,666,434	\$ 14,390	\$ 1,680,824	\$ 1,451,681
Product sales	6,493	-	6,493	10,948
Interest income	404	-	404	274
Net assets released from restrictions	<u>21,702</u>	<u>(21,702)</u>	<u>-</u>	<u>-</u>
Total support and revenues	<u>1,695,033</u>	<u>(7,312)</u>	<u>1,687,721</u>	<u>1,462,903</u>
Expenses				
Program	1,422,269	-	1,422,269	1,126,638
Fundraising and development	119,719	-	119,719	75,588
Management and general	<u>145,863</u>	<u>-</u>	<u>145,863</u>	<u>136,239</u>
Total expenses	<u>1,687,851</u>	<u>-</u>	<u>1,687,851</u>	<u>1,338,465</u>
Increase (decrease) in net assets	7,182	(7,312)	(130)	124,438
Net assets, beginning of year	<u>365,469</u>	<u>21,702</u>	<u>387,171</u>	<u>262,733</u>
Net assets, end of year	<u>\$ 372,651</u>	<u>\$ 14,390</u>	<u>\$ 387,041</u>	<u>\$ 387,171</u>

See notes to financial statements.

THE WATER PROJECT, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Increase (decrease) in net assets	\$ (130)	\$ 124,438
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	1,059	1,177
(Increase) decrease in contributions receivable	27,177	(26,552)
(Increase) decrease in inventory	634	(3,317)
(Increase) in deposit	-	(740)
Increase in accounts payable	744	8,159
Increase in accrued expenses	693	3,911
	<u>30,177</u>	<u>107,076</u>
Net cash provided by operating activities		
	<u>30,177</u>	<u>107,076</u>
Cash flows (used in) investing activities		
Purchase of property and equipment	<u>(9,018)</u>	<u>-</u>
	<u>(9,018)</u>	<u>-</u>
Net increase in cash and cash equivalents	21,159	107,076
Cash and cash equivalents, beginning of year	<u>324,453</u>	<u>217,377</u>
Cash and cash equivalents, end of year	<u>\$ 345,612</u>	<u>\$ 324,453</u>

See notes to financial statements.

THE WATER PROJECT, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended December 31, 2012 and 2011

	<u>Program</u>	Fundraising and <u>Development</u>	Management and <u>General</u>	<u>2012</u>	<u>2011</u>
Salaries and wages	\$ 81,267	\$ 62,281	\$ 59,091	\$ 202,639	\$ 182,031
Employee benefits	15,295	11,721	11,121	38,137	21,151
Payroll taxes	6,964	5,337	5,063	17,364	14,789
Total salaries and related expenses	103,526	79,339	75,275	258,140	217,971
Program grants	1,239,011	-	-	1,239,011	950,082
Contract services	53,544	11,973	-	65,517	54,598
Bank fees	-	-	25,399	25,399	22,756
Website services	14,435	4,812	4,812	24,059	16,256
Legal and professional	-	-	18,326	18,326	17,978
Facilities and equipment	7,086	5,430	5,152	17,668	11,166
Printing	-	5,607	5,607	11,214	7,376
Postage and shipping	-	2,926	2,926	5,852	5,846
Travel	3,438	1,200	-	4,638	2,577
Licenses and permits	-	3,975	-	3,975	2,892
Telephone and internet	1,229	1,229	1,267	3,725	4,734
Other	-	2,159	366	2,525	13,608
Supplies	-	-	2,305	2,305	1,460
Cost of product sales	-	-	2,097	2,097	6,003
Public relations and development	-	1,069	-	1,069	500
Insurance	-	-	1,005	1,005	1,472
Subscriptions and publications	-	-	267	267	13
Total expenses before depreciation	1,422,269	119,719	144,804	1,686,792	1,337,288
Depreciation	-	-	1,059	1,059	1,177
Total expenses	<u>\$ 1,422,269</u>	<u>\$ 119,719</u>	<u>\$ 145,863</u>	<u>\$ 1,687,851</u>	<u>\$ 1,338,465</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 a statement of financial position, statement of activities and statement 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, 2011 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, 2012 and 2011, 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 amounts to recover the cost of these assets over their estimated useful lives as follows:

Furniture and equipment	3 - 7 years
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Expenditures for maintenance and repairs are charged to expense as incurred and purchases in excess of \$500 are capitalized as additions to property and equipment.

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. Temporarily restricted contributions that are received and expended within the same fiscal year are reported as unrestricted resources. 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. is a not-for-profit organization that is exempt from income taxes under Section 501 (c)(3) of the Internal Revenue Code and comparable state law as a charitable organization, whereby only unrelated business income, as defined by Section 509 (a)(1) of the Code is subject to federal income taxes. The Water Project, Inc. currently has no unrelated business income. Accordingly, no provision for income taxes has been recorded.

The income tax filings for the tax years before 2009 are no longer subject to examination by federal and state taxing authorities.

Reclassification

Certain 2011 amounts have been reclassified to conform to 2012 classification. These reclassifications had no effect on the increase in net assets for 2011.

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 May 29, 2013, 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, 2012.

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>2012</u>	<u>2011</u>
100 option income	<u>\$14,390</u>	<u>\$ 21,702</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, 2012 amounted to \$12,080.

Future minimum lease payments are as follows:

<u>Year</u>	<u>Amount</u>
2013	\$ 4,560

Note 7. CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject the 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.