

**WATER FOR PEOPLE**  
**Audited Financial Statements**  
**December 31, 2004 and 2003**

# WATER FOR PEOPLE

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## Independent Auditor's Report

To the Board of Directors  
Water for People  
Denver, Colorado, U.S.A.

We have audited the accompanying statement of financial position of Water for People (the "Organization") as of December 31, 2004, and the related statements of activities, cash flows and functional expenses 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 audit. The financial statements of the Organization as of December 31, 2003, were audited by other auditors whose report dated January 30, 2004, expressed an unqualified opinion on these statements.

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, changes in its net assets and cash flows of Water for People as of and for the year ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

*Langan Associates, P.C.*

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**WATER FOR PEOPLE**  
**Statements of Financial Position**

	December 31,	
	2004	2003
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 814,205	\$ 625,018
Contributions receivable	2,313,693	167,865
Prepaid expenses and other assets	12,895	-
Total current assets	3,140,793	792,883
<b>Investments</b>	602,574	140,577
<b>Property and equipment, net</b>	14,965	22,724
Total assets	\$ 3,758,332	\$ 956,184
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	\$ 98,079	\$ 46,390
Due to American Water Works Association	50,798	37,823
Contributions payable	77,000	-
Total current liabilities	225,877	84,213
<b>Net assets:</b>		
Unrestricted	413,133	303,514
Temporarily restricted	911,858	460,993
Permanently restricted	2,207,464	107,464
Total net assets	3,532,455	871,971
Total liabilities and net assets	\$ 3,758,332	\$ 956,184

The accompanying notes are an integral part of these financial statements.

**WATER FOR PEOPLE**  
**Statements of Activities**

For the Year Ended December 31,

	2004			2003				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue:</b>								
Contributions, grants and sponsorships	\$ 1,248,881	\$ 1,089,085	\$ 2,100,000	\$ 4,437,966	\$ 974,600	\$ 702,808	\$ 5,500	\$ 1,682,908
In-kind contribution	195,075			195,075	159,158			159,158
Special events, net of direct cost of \$32,940 and \$3,804, respectively	24,665			24,665	19,039			19,039
Interest income	6,384	2,530		8,894	17,843			17,843
Unrealized gain (loss)	424	(629)		(205)	(1,336)			(1,336)
Realized gains	3,092			3,092				
Net assets released from restrictions	640,121	(640,121)		-	591,696	(591,696)		-
<b>Total revenue</b>	<b>2,118,622</b>	<b>450,865</b>	<b>2,100,000</b>	<b>4,669,487</b>	<b>1,761,000</b>	<b>111,112</b>	<b>5,500</b>	<b>1,877,612</b>
<b>Expenses:</b>								
Program Services:								
Developing countries	1,650,672			1,650,672	1,397,180			1,397,180
Supporting Services:								
Management and general	141,147			141,147	105,111			105,111
Fundraising	217,184			217,184	238,947			238,947
	358,331			358,331	344,058			344,058
<b>Total expenses</b>	<b>2,009,003</b>			<b>2,009,003</b>	<b>1,741,238</b>			<b>1,741,238</b>
<b>Changes in net assets</b>	<b>109,619</b>	<b>450,865</b>	<b>2,100,000</b>	<b>2,660,484</b>	<b>19,762</b>	<b>111,112</b>	<b>5,500</b>	<b>136,374</b>
<b>Net assets, beginning of year</b>	<b>303,514</b>	<b>460,993</b>	<b>107,464</b>	<b>871,971</b>	<b>283,752</b>	<b>349,881</b>	<b>101,964</b>	<b>735,597</b>
<b>Net assets, end of year</b>	<b>\$ 413,133</b>	<b>\$ 911,858</b>	<b>\$ 2,207,464</b>	<b>\$ 3,532,455</b>	<b>\$ 303,514</b>	<b>\$ 460,993</b>	<b>\$ 107,464</b>	<b>\$ 871,971</b>

The accompanying notes are an integral part of these financial statements.

**WATER FOR PEOPLE**  
**Statements of Cash Flows**

	For the Year Ended December 31,	
	2004	2003
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 2,660,484	\$ 136,374
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	17,482	20,223
Realized gains on investments	(3,092)	-
Unrealized loss on investments	205	1,336
Donated investments	(7,410)	-
Contribution of permanently restricted net assets	(2,100,000)	(5,500)
Changes in assets and liabilities:		
Receivables	(2,145,828)	(157,765)
Prepaid expenses and other assets	(12,895)	-
Accounts payable and accrued expenses	51,689	(24,229)
Due to American Water Works Association	12,975	(8,566)
Contributions payable	77,000	-
Net cash used in operating activities	(1,449,390)	(38,127)
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(9,723)	(5,639)
Purchases and sales of investments, net	(451,700)	(1,452)
Net cash used in investing activities	(461,423)	(7,091)
<b>Cash flows from financing activities:</b>		
Contribution of permanently restricted net assets	2,100,000	5,500
<b>Net increase (decrease) in cash and cash equivalents</b>	189,187	(39,718)
<b>Cash and cash equivalents, beginning of year</b>	625,018	664,736
<b>Cash and cash equivalents, end of year</b>	\$ 814,205	\$ 625,018

The accompanying notes are an integral part of these financial statements.

**WATER FOR PEOPLE**  
**Statement of Functional Expenses**  
**For the Year Ended December 31, 2004**

	Supporting Services			Total Expenses
	Program Services	Management and General	Fundraising	
	Developing Countries	General	Fundraising	Total
Salaries and benefits	\$ 490,631	\$ 78,974	\$ 103,585	\$ 673,190
Country contributions	674,068			674,068
Professional fees and contract services	172,030	4,219	5,535	181,784
Travel and meetings	80,198	12,909	36,129	129,236
Printing and publications	27,324	11,809	11,523	50,656
Depreciation	12,767	2,020	2,695	17,482
Telephone	5,278	850	1,114	7,242
Insurance	6,082	979	1,284	8,345
Supplies	16,785	2,702	3,544	23,031
Postage	11,580	1,864	15,726	29,170
Other	11,756	1,936	6,032	19,724
In-kind	142,173	22,885	30,017	195,075
	<u>\$ 1,650,672</u>	<u>\$ 141,147</u>	<u>\$ 217,184</u>	<u>\$ 358,331</u>
Total expenses				<u>\$ 2,009,003</u>

The accompanying notes are an integral part of these financial statements.

**WATER FOR PEOPLE**  
**Statement of Functional Expenses**  
**For the Year Ended December 31, 2003**

	Program Services		Supporting Services		Total Expenses
	Developing Countries	Management and General	Fundraising	Total	
Salaries and benefits	\$ 483,185	\$ 65,836	\$ 107,382	\$ 173,218	\$ 656,403
Country contributions	521,968			-	521,968
Professional fees and contract services	149,778	1,146	9,108	10,254	160,032
Travel and meetings	68,461	7,664	12,280	19,944	88,405
Printing and publications	16,702	554	40,017	40,571	57,273
Depreciation	13,144	2,023	5,056	7,079	20,223
Telephone	4,970	741	1,862	2,603	7,573
Insurance	6,899	810	2,025	2,835	9,734
Supplies	14,315	2,428	6,650	9,078	23,393
Postage	6,540	3,400	6,426	9,826	16,366
Other	7,765	4,593	8,352	12,945	20,710
In-kind	103,453	15,916	39,789	55,705	159,158
<b>Total expenses</b>	<b>\$ 1,397,180</b>	<b>\$ 105,111</b>	<b>\$ 238,947</b>	<b>\$ 344,058</b>	<b>\$ 1,741,238</b>

The accompanying notes are an integral part of these financial statements.

**WATER FOR PEOPLE**  
**Notes to the Financial Statements**

**Note A - Organization**

The purpose of Water for People (the "Organization") is to receive, administer and expend funds to assist developing countries throughout the world; to organize and implement drinking water and sanitation projects that improve the health and welfare of local, regional and national populations; and to provide related technical information, training and assistance services that will advance the foregoing purposes of the Organization.

**Note B - Summary of Significant Accounting Policies**

***Basis of Accounting***

The Organization prepares its financial statements on the accrual basis of accounting. Consequently, revenue is recognized when earned and expenses when obligations are incurred.

***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 effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

***Income Tax Status***

The Organization is exempt from the payment of Federal income taxes on its related activities under 501(c)(3) of the Internal Revenue Code and has been designated by the Internal Revenue Service as a "publicly supported" organization under Section 509(a) of the Code.

***Cash and Cash Equivalents***

For financial statement purposes, the Organization considers cash and cash equivalents to include cash in banks and liquid investments with an original maturity of three months or less. At December 31, 2004 and 2003, money market funds totaling \$200,072 and \$188,604, respectively, are included as cash equivalents in the accompanying statements of financial position.

***Investments***

Investments are recorded at fair market value.

***Property and Equipment***

Acquisitions of property and equipment with a cost greater than \$500 are capitalized and depreciated on the straight-line basis over the estimated useful life of the related assets (three to five years).

**WATER FOR PEOPLE**  
**Notes to the Financial Statements - Continued**

**Note B - Summary of Significant Accounting Policies - Continued**

***Contributions Payable***

Unconditional country contribution obligations are recognized once the memorandum of agreement has been signed and returned by the recipient.

***Net Assets***

The Organization reports its net assets as unrestricted, temporarily restricted or permanently restricted based on the donor's intent. The purposes of each class of net assets are as follows:

Unrestricted - Represents net assets available for general operations.

Temporarily Restricted - Includes amounts with specific donor imposed purpose and/or time restrictions.

Permanently Restricted - Includes amounts received from donors which must be held in perpetuity.

***Revenue Recognition***

The Organization records revenue received as unrestricted, temporarily restricted or permanently restricted revenue depending on the existence and/or nature of any donor restrictions. Temporarily restricted net assets become unrestricted when the time restrictions expire or the funds are used for their restricted purpose and are reported in the accompanying statements of activities as net assets released from restrictions.

***Allocation of Expenses***

The Organization's expenses have been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

***Reclassifications***

Certain reclassifications of prior year balances have been made to conform to the current year presentation.

**Note C - Concentration of Credit Risk**

Financial instruments, which subject the Organization to a concentration of credit risk, consist of demand deposits placed with financial institutions. At certain times during 2004, the Organization had funds invested with financial institutions in excess of the Federal Deposit Insurance Corporation (FDIC) limits. Management believes the risk of loss in these situations is minimal.

**WATER FOR PEOPLE**  
**Notes to the Financial Statements - Continued**

**Note D - Contributions Receivable**

Contributions receivable represent unconditional promises to give and are stated at their net realizable value. As of December 30, 2004 and 2003, there are \$2,313,693 and \$167,865, respectively, in unconditional promises to give that are expected to be collected in less than one year.

**Note E - Investments**

The investments of the Organization consist of the following at December 31, 2004 and 2003:

	2004	2003
Government securities	\$ 570,410	\$ 80,000
Certificates of deposit	29,948	60,577
Equity	2,216	-
	\$ 602,574	\$ 140,577

**Note F - Property and Equipment**

Property and equipment consist of the following at December 31, 2004 and 2003:

	2004	2003
Furniture and equipment	\$ 58,598	\$ 58,598
Computer equipment and software	60,465	50,742
	119,063	109,340
Accumulated depreciation	(104,098)	(86,616)
	\$ 14,965	\$ 22,724

**WATER FOR PEOPLE**  
**Notes to the Financial Statements**

**Note G - Temporarily Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes at December 31, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Bolivia	\$ 17,706	\$ 7,309
Guatemala	18,266	51,813
Honduras	21,916	13,232
Malawi	82,572	535
India	62,028	10,678
Africa	46,559	-
Country project <sup>1</sup>	76,628	69,964
Ware Fellowship	271,675	304,863
New initiatives	300,000	-
Other	14,508	2,599
	<u>\$ 911,858</u>	<u>\$ 460,993</u>

<sup>1</sup> Project to be selected by donor at a later date.

**Note H - Permanently Restricted Net Assets**

Permanently restricted net assets are restricted to investment in perpetuity with the income to be used for program support at the direction of the Organization's Board of Directors.

**Note I - In-kind Contributions**

The Organization received contributed services and rent from the American Water Works Association (the "Association") for the years ended December 31, 2004 and 2003. These in-kind contributions benefited program and supporting services as summarized in the accompanying statements of functional expenses. The in-kind contributions consist of the following for the years ended December 31, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Donated services <sup>2</sup>	\$ 123,815	\$ 90,003
Rent	71,260	69,155
	<u>\$ 195,075</u>	<u>\$ 159,158</u>

<sup>2</sup> - Includes receptionist, pension audit and actuarial costs, business insurance, internet service, etc.

**WATER FOR PEOPLE**  
**Notes to the Financial Statements - Continued**

**Note J - Related Parties**

***American Water Works Association***

The Organization is affiliated with the American Water Works Association (the "Association"). Two members of the Association's Board of Directors serve along with 22 other Directors on the Organization's Board of Directors. The Association provides the Organization with employees and other incidental services. The Organization reimburses the Association for the actual salaries and benefits related to these employees. These costs are identified as salary and benefits in the accompanying statements of functional expenses.

The Association provided the Organization with in-kind contributions totaling \$195,075 and \$159,158 for the years ended December 31, 2004 and 2003, respectively, as detailed in Note I. In addition, the Association provided the Organization with cash contributions totaling \$115,344 and \$107,187 for the years ended December 31, 2004 and 2003, respectively.

At December 31, 2004 and 2003, the Organization was indebted to the Association for \$50,798 and \$37,823, respectively.

**Water for People - Canada**

The Organization is affiliated with Water for People - Canada (the "WFPC"). Three of the nine members on the WFPC Board of Directors also serve along with 21 other Directors on the Organization's Board of Directors. The Organization provides support in the form of administrative services and facilities for the benefit of WFPC at no charge. Expenditures made by the Organization at no charge to WFPC totaled \$7,671 and \$6,773 for the years ended December 31, 2004 and 2003, respectively. In addition, WFPC provided the Organization with cash contributions in support of programs totaling \$57,825 and \$44,083 for the years ended December 31, 2004 and 2003, respectively.