

WATER FOR PEOPLE
Audited Financial Statements
December 31, 2005 and 2004

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 statements of financial position of Water for People (the "Organization") as of December 31, 2005 and 2004, and the related statements of activities, cash flows and functional expenses 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 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 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, changes in its net assets and cash flows of Water for People as of and for the years ended December 31, 2005 and 2004, in conformity with accounting principles generally accepted in the United States of America.

Langan Associates, P.C.

Arlington, Virginia, U.S.A.
February 24, 2006

WATER FOR PEOPLE
Statements of Financial Position

	December 31,	
	2005	2004
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 736,529	\$ 742,459
Contributions receivable	177,693	2,385,439
Prepaid expenses and other assets	16,050	12,895
Total current assets	930,272	3,140,793
Investments	3,191,480	602,574
Property and equipment, net	58,598	14,965
Total assets	\$ 4,180,350	\$ 3,758,332
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 119,215	\$ 98,079
Due to American Water Works Association	94,757	50,798
Contributions payable	10,256	77,000
Deferred revenue	41,000	-
Total current liabilities	265,228	225,877
Net assets:		
Unrestricted	856,497	413,133
Temporarily restricted	851,161	911,858
Permanently restricted	2,207,464	2,207,464
Total net assets	3,915,122	3,532,455
Total liabilities and net assets	\$ 4,180,350	\$ 3,758,332

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

WATER FOR PEOPLE
Statements of Activities

	For the Year Ended December 31,				
	2005		2004		
	Unrestricted	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Revenue:					
Contributions, grants and sponsorships	\$ 1,791,553	\$ 867,147		\$ 1,248,881	\$ 2,100,000
In-kind contribution	312,571		195,075		-
Special events, net of direct cost of \$99,312 and \$32,940, respectively	383,322		24,665		24,665
Interest income	9,614	745	6,364	2,530	8,894
Unrealized gain (loss)	418	1,646	424	(629)	(205)
Realized gains	25,306	53,954	3,092		3,092
Net assets released from restrictions	984,189	(984,189)	640,121	(640,121)	-
Total revenue	3,506,973	(60,697)	2,118,622	450,865	2,100,000
Expenses:					
Program Services:					
Developing countries	2,448,783		1,650,672		1,650,672
Supporting Services:					
Management and general	283,738		141,147		141,147
Fundraising	331,088		217,184		217,184
	<u>614,826</u>		<u>358,331</u>		<u>358,331</u>
Total expenses	3,063,609		2,009,003		2,009,003
Changes in net assets	443,364	(60,697)	109,619	450,865	2,100,000
Net assets, beginning of year	413,133		303,514	460,993	107,464
Net assets, end of year	\$ 856,497	\$ 851,161	\$ 413,133	\$ 911,858	\$ 2,207,464
			\$ 3,915,122	\$ 2,207,464	\$ 3,532,455

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

WATER FOR PEOPLE
Statements of Cash Flows

	For the Year Ended December 31,	
	2005	2004
Cash flows from operating activities:		
Change in net assets	\$ 382,667	\$ 2,660,484
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	21,823	17,482
Realized gains on investments	(79,260)	(3,092)
Unrealized (gain) loss on investments	(2,064)	205
Donated investments	(12,808)	(7,410)
Contribution of permanently restricted net assets	-	(2,100,000)
Changes in assets and liabilities:		
Receivables	2,207,746	(2,217,574)
Prepaid expenses and other assets	(3,155)	(12,895)
Accounts payable and accrued expenses	21,136	51,689
Due to American Water Works Association	43,959	12,975
Contributions payable	(66,744)	77,000
Deferred revenue	41,000	-
Net cash provided by (used in) operating activities	2,554,300	(1,521,136)
Cash flows from investing activities:		
Purchase of property and equipment	(65,456)	(9,723)
Purchases and sales of investments, net	(2,494,774)	(451,700)
Net cash used in investing activities	(2,560,230)	(461,423)
Cash flows from financing activities:		
Contribution of permanently restricted net assets	-	2,100,000
Net (decrease) increase in cash and cash equivalents	(5,930)	117,441
Cash and cash equivalents, beginning of year	742,459	625,018
Cash and cash equivalents, end of year	\$ 736,529	\$ 742,459

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

WATER FOR PEOPLE
Statement of Functional Expenses
For the Year Ended December 31, 2005

	<u>Program Services</u>	<u>Supporting Services</u>		<u>Total Expenses</u>
	<u>Developing Countries</u>	<u>Management and General</u>	<u>Fundraising</u>	
Salaries and benefits	\$ 651,941	\$ 139,558	\$ 141,251	\$ 280,809
Country contributions	1,165,522			-
Professional fees and contract services	146,953	24,710	60,111	84,821
Travel and meetings	133,697	19,326	37,619	56,945
Printing and publications	49,702	36,064	16,709	52,773
Depreciation	15,270	3,281	3,272	6,553
Telephone	10,774	2,296	2,647	4,943
Insurance	6,035	1,252	1,252	2,504
Supplies	15,837	3,141	5,639	8,780
Postage	18,619	3,908	4,366	8,274
Other	15,633	3,317	11,336	14,653
In-kind	218,800	46,885	46,886	93,771
Total expenses	\$ 2,448,783	\$ 283,738	\$ 331,088	\$ 614,826
				\$ 3,063,609

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

	Program Services		Supporting Services		Total Expenses
	Developing Countries	Management and General	Fundraising	Total	
Salaries and benefits	\$ 490,631	\$ 78,974	\$ 103,585	\$ 182,559	\$ 673,190
Country contributions	674,068				674,068
Professional fees and contract services	172,030	4,219	5,535	9,754	181,784
Travel and meetings	80,198	12,909	36,129	49,038	129,236
Printing and publications	27,324	11,809	11,523	23,332	50,656
Depreciation	12,767	2,020	2,695	4,715	17,482
Telephone	5,278	850	1,114	1,964	7,242
Insurance	6,082	979	1,284	2,263	8,345
Supplies	16,785	2,702	3,544	6,246	23,031
Postage	11,580	1,864	15,726	17,590	29,170
Other	11,756	1,936	6,032	7,968	19,724
In-kind	142,173	22,885	30,017	52,902	195,075
Total expenses	\$ 1,650,672	\$ 141,147	\$ 217,184	\$ 358,331	\$ 2,009,003

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

WATER FOR PEOPLE
Notes to the Financial Statements - Continued

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, 2005 and 2004, money market funds totaling \$13,926 and \$200,072, 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. Sponsorships received for future events have been recorded as deferred revenue in the accompanying statements of financial position because of the possibility of event cancellation which would result in refunding the sponsors.

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.

WATER FOR PEOPLE
Notes to the Financial Statements - Continued

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 2005, 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.

Note D - Contributions Receivable

Contributions receivable represent unconditional promises to give and are stated at their net realizable value. As of December 30, 2005 and 2004, there are \$177,693 and \$2,385,439, 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, 2005 and 2004:

	2005	2004
Government securities	\$ 3,191,480	\$ 570,410
Certificates of deposit	-	29,948
Equity	-	2,216
	\$ 3,191,480	\$ 602,574

Note F - Property and Equipment

Property and equipment consist of the following at December 31, 2005 and 2004:

	2005	2004
Furniture and equipment	\$ 96,418	\$ 58,598
Computer equipment and software	88,101	60,465
	184,519	119,063
Accumulated depreciation	(125,921)	(104,098)
	\$ 58,598	\$ 14,965

WATER FOR PEOPLE
Notes to the Financial Statements - Continued

Note G - Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Bolivia	\$ 8,877	\$ 17,706
Guatemala	1,127	18,266
Honduras	581	21,916
Malawi	11,479	82,572
India	83,914	62,028
Africa	10,048	46,559
Ecuador	33,000	-
Vietnam	9,252	-
Tsunami	130,166	7,150
Country project ¹	119,205	76,628
Ware Fellowship	299,299	271,675
New initiatives	116,283	300,000
Other	27,930	7,358
	<u>\$ 851,161</u>	<u>\$ 911,858</u>

¹ Project to be selected by donor at a later date.

Note H - In-kind Contributions

The Organization received contributed services and rent from the American Water Works Association (the "Association") for the years ended December 31, 2005 and 2004. The Organization also received donated legal services for the year ended December 31, 2005. 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, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Donated services ²	\$ 142,654	\$ 123,815
Rent	81,458	71,260
Legal services	88,459	-
	<u>\$ 312,571</u>	<u>\$ 195,075</u>

² Includes receptionist, pension audit and actuarial costs, business insurance, internet service, etc.

WATER FOR PEOPLE
Notes to the Financial Statements - Continued

Note I - 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 \$224,112 and \$195,075 for the years ended December 31, 2005 and 2004, respectively, as detailed in Note H. In addition, the Association provided the Organization with cash contributions totaling \$119,737 and \$115,344 for the years ended December 31, 2005 and 2004, respectively.

At December 31, 2005 and 2004, the Organization was indebted to the Association for \$94,757 and \$50,798, 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 \$9,956 and \$7,671 for the years ended December 31, 2005 and 2004, respectively. In addition, WFPC provided the Organization with cash contributions in support of projects totaling \$46,940 and \$57,825 for the years ended December 31, 2005 and 2004, respectively.