

**WATER FOR PEOPLE**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2006 AND 2005**

**WATER FOR PEOPLE  
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# LarsonAllen<sup>SM</sup>

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Water For People  
Denver, Colorado

We have audited the accompanying statement of financial position of Water For People (the Organization) as of December 31, 2006, and the related statement of activities, functional expenses, 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 audit. The financial statements of the Organization as of and for the year ended December 31, 2005 were audited by Langan Associates, P.C. (whose practice became part of Larson, Allen, Weishair & Co. LLP effective May 1, 2006), whose report dated February 24, 2006, expressed an unqualified opinion on those financial 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 2006 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, 2006, in conformity with accounting principles generally accepted in the United States of America.

*Larson, Allen, Weishair & Co., LLP*

**LARSON, ALLEN, WEISHAIR & CO., LLP**

Arlington, VA  
April 3, 2007



**WATER FOR PEOPLE  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2006 AND 2005**

	2006	2005
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 1,399,218	\$ 736,529
Contributions Receivable	523,327	177,693
Grants Receivable	15,846	-
Prepaid Expenses and Other Assets	32,863	16,050
Total Current Assets	1,971,254	930,272
<b>INVESTMENTS</b>	2,529,012	3,191,480
<b>PROPERTY AND EQUIPMENT, NET</b>	81,432	58,598
Total Assets	\$ 4,581,698	\$ 4,180,350
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Expenses	\$ 180,027	\$ 119,215
Due to American Water Works Association	153,871	94,757
Contributions Payable	-	10,256
Deferred Revenue	4,345	41,000
Total Current Liabilities	338,243	265,228
<b>NET ASSETS</b>		
Unrestricted	906,540	856,497
Temporarily Restricted	886,862	851,161
Permanently Restricted	2,450,053	2,207,464
Total Net Assets	4,243,455	3,915,122
Total Liabilities and Net Assets	\$ 4,581,698	\$ 4,180,350

See accompanying Notes to Financial Statements.

**WATER FOR PEOPLE  
STATEMENTS OF ACTIVITIES  
YEARS ENDED DECEMBER 31, 2006 AND 2005**

	2006			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>REVENUE</b>				
Contributions, Grants and Sponsorships	\$ 2,036,788	\$ 1,161,718	\$ -	\$ 3,198,506
In-kind Contribution	405,621	-	-	405,621
Special Events, Net of Direct Cost of \$164,764 and \$99,312, Respectively	341,579	-	-	341,579
Interest Income	42,772	76,175	21,665	140,612
Unrealized Gain (Loss)	-	-	220,924	220,924
Realized Gains	7,003	-	-	7,003
Other Income	79,198	-	-	79,198
Subtotal	<u>2,912,961</u>	<u>1,237,893</u>	<u>242,589</u>	<u>4,393,443</u>
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>	<u>1,202,192</u>	<u>(1,202,192)</u>	<u>-</u>	<u>-</u>
Total Revenue	4,115,153	35,701	242,589	4,393,443
<b>EXPENSE</b>				
Program Services:				
Developing Countries	3,338,207	-	-	3,338,207
Supporting Services:				
Management and General	353,037	-	-	353,037
Fundraising	373,866	-	-	373,866
Total Support Services	<u>726,903</u>	<u>-</u>	<u>-</u>	<u>726,903</u>
Total Expenses	<u>4,065,110</u>	<u>-</u>	<u>-</u>	<u>4,065,110</u>
<b>CHANGE IN NET ASSETS</b>	50,043	35,701	242,589	328,333
Net Assets - Beginning of Year	<u>856,497</u>	<u>851,161</u>	<u>2,207,464</u>	<u>3,915,122</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 906,540</u>	<u>\$ 886,862</u>	<u>\$ 2,450,053</u>	<u>\$ 4,243,455</u>

See accompanying Notes to Financial Statements.

2005

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 1,791,553	\$ 867,147	\$ -	\$ 2,658,700
312,571	-	-	312,571
294,365	-	-	294,365
9,614	745	-	10,359
418	1,646	-	2,064
25,306	53,954	-	79,260
88,957	-	-	88,957
<u>2,522,784</u>	<u>923,492</u>	<u>-</u>	<u>3,446,276</u>
984,189	(984,189)	-	-
3,506,973	(60,697)	-	3,446,276
2,448,783	-	-	2,448,783
283,738	-	-	283,738
331,088	-	-	331,088
<u>614,826</u>	<u>-</u>	<u>-</u>	<u>614,826</u>
3,063,609	-	-	3,063,609
443,364	(60,697)	-	382,667
413,133	911,858	2,207,464	3,532,455
<u>\$ 856,497</u>	<u>\$ 851,161</u>	<u>\$ 2,207,464</u>	<u>\$ 3,915,122</u>

**WATER FOR PEOPLE  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2006**

	Supporting Services			Total Expenses
	Program Services	Management and General	Fundraising	
	Developing Countries	Total	Total	
<b>EXPENSES</b>				
Salaries and benefits	\$ 906,695	\$ 213,527	\$ 185,341	\$ 1,305,563
Country Contributions	1,756,274	-	-	1,756,274
Professional Fees and Contract Services	374,010	80,467	97,783	552,260
Travel and Meetings	89,890	9,995	42,458	142,343
Printing and Publications	60,397	14,018	18,009	92,423
Depreciation	17,889	4,152	3,588	25,628
Telephone	9,202	2,136	1,846	13,183
Insurance	5,825	1,352	1,168	8,345
Supplies	49,591	11,510	9,947	71,047
Postage	36,852	8,553	7,392	52,797
Other	31,582	7,330	6,334	45,246
<b>Total Expenses</b>	<b>\$ 3,338,207</b>	<b>\$ 353,037</b>	<b>\$ 373,866</b>	<b>\$ 4,065,110</b>

See accompanying Notes to Financial Statements.

**WATER FOR PEOPLE  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2005**

	Program Services		Supporting Services		Total Expenses
	Developing Countries	Management and General	Fundraising	Total	
<b>EXPENSES</b>					
Salaries and Benefits	\$ 651,941	\$ 139,558	\$ 141,251	\$ 280,809	\$ 932,750
Country Contributions	1,165,522	-	-	-	1,165,522
Professional Fees and Contract Services	365,753	71,595	106,997	178,592	544,345
Travel and Meetings	133,697	19,326	37,619	56,945	190,642
Printing and Publications	49,702	36,064	16,709	52,773	102,475
Depreciation	15,270	3,281	3,272	6,553	21,823
Telephone	10,774	2,296	2,647	4,943	15,717
Insurance	6,035	1,252	1,252	2,504	8,539
Supplies	15,837	3,141	5,639	8,780	24,617
Postage	18,619	3,908	4,366	8,274	26,893
Other	15,633	3,317	11,336	14,653	30,286
<b>Total Expenses</b>	<b>\$ 2,448,783</b>	<b>\$ 283,738</b>	<b>\$ 331,088</b>	<b>\$ 614,826</b>	<b>\$ 3,063,609</b>

See accompanying Notes to Financial Statements.



**WATER FOR PEOPLE  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2006 AND 2005**

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 328,333	\$ 382,667
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Contributed Noncash Assets	(45,778)	(12,808)
Depreciation	25,604	21,823
Realized Gains on Investments	(7,003)	(79,260)
Unrealized Gain on Investments	(220,924)	(2,064)
Changes in Assets and Liabilities:		
Receivables	(361,480)	2,207,746
Prepaid Expenses and Other Assets	(16,813)	(3,155)
Accounts Payable and Accrued Expenses	60,812	21,136
Due to American Water Works Association	59,114	43,959
Contributions Payable	(10,256)	(66,744)
Deferred Revenue	(36,655)	41,000
Net Cash Provided (Used) by Operating Activities	(225,046)	2,554,300
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of Property and Equipment	(18,478)	(65,456)
Proceeds from Sale of Investments	14,619,327	21,078,743
Purchase of Investments	(13,713,114)	(23,573,517)
Net Cash Provided (Used) by Investing Activities	887,735	(2,560,230)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	662,689	(5,930)
Cash and Cash Equivalents - Beginning of Year	736,529	742,459
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 1,399,218	\$ 736,529
<b>SUPPLEMENTAL DISCLOSURES</b>		
Noncash Investing Transactions:		
Donated Securities	\$ (15,818)	\$ (12,808)
Donated Property and Equipment	(29,960)	-
Total Contributed Noncash Assets	\$ (45,778)	\$ (12,808)

See accompanying Notes to Financial Statements.

**WATER FOR PEOPLE  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005**

**NOTE 1 ORGANIZATION**

The purpose of Water For People (the "Organization") is to help people in developing countries improve their quality of life by supporting the development of locally sustainable drinking water resources, sanitation facilities and health and hygiene education programs.

**NOTE 2 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.

**Investments**

Investments are recorded at fair market value.

**Property and Equipment**

Acquisitions of property and equipment with a cost greater than \$1,000 are capitalized and depreciated on the straight-line basis over the estimated useful life of the related assets (three to five years). Property and equipment is valued at cost if purchased or fair value if contributed.

**Contributions Payable**

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

**WATER FOR PEOPLE**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006 AND 2005**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 3 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 2006 and 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.

**WATER FOR PEOPLE  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005**

**NOTE 4 CONTRIBUTIONS RECEIVABLE**

Contributions receivable represent unconditional promises to give and are stated at their net realizable value. As of December 30, 2006 and 2005, there are \$523,327 and \$177,693, respectively, in unconditional promises to give that are expected to be collected in less than one year.

**NOTE 5 INVESTMENTS**

The investments of the Organization consist of the following at December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Government Securities	\$ -	\$ 3,191,480
Mutual Funds	<u>2,529,012</u>	<u>-</u>
Total	<u>\$ 2,529,012</u>	<u>\$ 3,191,480</u>

**NOTE 6 PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Furniture and Equipment	\$ 97,148	\$ 96,418
Computer Equipment and Software	<u>135,699</u>	<u>88,101</u>
Total	232,847	184,519
Accumulated Depreciation	<u>(151,415)</u>	<u>(125,921)</u>
Total	<u>\$ 81,432</u>	<u>\$ 58,598</u>

**WATER FOR PEOPLE  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005**

**NOTE 7 NET ASSETS**

**Temporarily Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes at December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Bolivia	\$ 15,358	\$ 8,877
Guatemala	2,978	1,127
Honduras	10,819	581
Malawi	64,155	11,479
India	42,657	83,914
Africa	22,489	10,048
Ecuador	-	33,000
Vietnam	9,252	9,252
Tsunami	21,541	130,166
Country Project <sup>1</sup>	201,968	119,205
Ware Fellowship	353,480	299,299
New Initiatives	57,010	116,283
Other	85,157	27,930
	<u>\$ 886,862</u>	<u>\$ 851,161</u>
Total	<u>\$ 886,862</u>	<u>\$ 851,161</u>

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

**Permanently Restricted Net Assets**

Net assets were permanently restricted for the following purposes at December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
E&C Johnson Endowment	\$ 2,242,589	\$ 2,000,000
JH Ware Scholarship Fund	100,000	100,000
Endowment Fund	107,464	107,464
	<u>\$ 2,450,053</u>	<u>\$ 2,207,464</u>

The E&C Johnson Endowment requires that the market appreciation stay invested permanently restricted and the interest and dividends be temporarily restricted for new initiatives. For the JH Ware Scholarship Fund and the General Endowment Fund, the policy provides for distributing approximately 5% of market value, or the interest earned less administrative fees, whichever is less to the general fund of Water For People.

**WATER FOR PEOPLE  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005**

**NOTE 8 IN-KIND CONTRIBUTIONS**

The Organization received contributed services and rent from the American Water Works Association (the "Association") for the years ended December 31, 2006 and 2005. The Organization also received donated legal services for the years ended December 31, 2006 and 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, 2006 and 2005:

	2006	2005
Donated Services <sup>2</sup>	\$ 181,785	\$ 142,654
Rent	79,790	81,458
Legal Services	61,823	88,459
Donated Goods	82,223	-
Total	\$ 405,621	\$ 312,571

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

**NOTE 9 RELATED PARTIES**

***American Water Works Association***

The Organization is affiliated with the American Water Works Association (the "Association"). One member of the Association's board of directors serves along with 28 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 \$261,575 and \$224,112 for the years ended December 31, 2006 and 2005, respectively, as detailed in Note 8. In addition, the Association provided the Organization with cash contributions totaling \$169,900 and \$119,737 for the years ended December 31, 2006 and 2005, respectively.

At December 31, 2006 and 2005, the Organization was indebted to the Association for \$153,871 and \$94,757, respectively.

**WATER FOR PEOPLE  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005**

**NOTE 9 RELATED PARTIES (CONTINUED)**

***Water For People - Canada***

The Organization is affiliated with Water For People - Canada (the "WFPC). One 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 \$22,029 and \$9,956 for the years ended December 31, 2006 and 2005, respectively. In addition, WFPC provided the Organization with cash contributions in support of projects totaling \$80,502 and \$46,940 for the years ended December 31, 2006 and 2005, respectively.

**NOTE 10 SUBSEQUENT EVENT**

On January 20, 2007, Water For People adopted the American Water Works Association Pension System (Pension Plan) as a participating employer and adopted and became a co-sponsor of the American Water Works Association and AWWA Research Foundation Defined Contribution Retirement Plan in order to permit eligible employees of Water For People to participate in the Plans effective January 1, 2007.

On January 20, 2007, an amendment to the Pension Plan was approved, effective December 31, 2007, to (a) freeze the Pension Plan, (b) discontinue the accrual of Accrued Benefits (as such term is defined in the Pension Plan), (c) cease the addition of new Participants under the Pension Plan (as such term is defined in the Pension Plan), and (d) provide for other certain changes.

An amendment to the Defined Contribution Retirement Plan was also approved effective January 1, 2008, to provide an additional discretionary contribution in such amount as determined from time-to-time by each organization for its participants.