

WATER FOR PEOPLE
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2008 AND 2007

**WATER FOR PEOPLE
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2008 AND 2007**

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	2
STATEMENTS OF ACTIVITIES	3
STATEMENTS OF FUNCTIONAL EXPENSES	5
STATEMENTS OF CASH FLOWS	7
NOTES TO FINANCIAL STATEMENTS	8

LarsonAllen[®]

CPAs, Consultants & Advisors
www.larsonallen.com

INDEPENDENT AUDITORS' REPORT

Board of Directors
Water For People
Denver, Colorado

We have audited the accompanying statements of financial position of Water For People (the Organization) as of December 31, 2008 and 2007, and the related statements of activities, functional expenses, and cash flows 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 of Water For People as of and for the years ended December 31, 2008 and 2007, and the changes in its net assets and its cash flows in conformity with accounting principles generally accepted in the United States of America.

As described in Note 9, the Organization implemented a new accounting standard for endowments.

Larson Allen LLP
LarsonAllen LLP

Minneapolis, Minnesota
April 13, 2009

**WATER FOR PEOPLE
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2008 AND 2007**

	2008	2007
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,414,296	\$ 1,918,656
Contributions Receivable	215,250	224,583
Grants Receivable	74,100	7,039
Prepaid Expenses and Other Assets	199,122	48,546
Total Current Assets	1,902,768	2,198,824
PREPAID PENSION ASSET	-	49,809
INVESTMENTS	2,127,478	2,617,003
PROPERTY AND EQUIPMENT, NET	78,217	67,868
Total Assets	\$ 4,108,463	\$ 4,933,504
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 282,821	\$ 198,163
Due to American Water Works Association	6,576	8,772
Deferred Revenue	600	129,600
Total Current Liabilities	289,997	336,535
PENSION LIABILITY	182,748	-
NET ASSETS		
Unrestricted:		
Undesignated	1,130,957	1,185,314
Board Designated	1,872,405	-
Temporarily Restricted	319,893	874,594
Permanently Restricted	312,463	2,537,061
Total Net Assets	3,635,718	4,596,969
Total Liabilities and Net Assets	\$ 4,108,463	\$ 4,933,504

See accompanying Notes to Financial Statements.

**WATER FOR PEOPLE
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2008 AND 2007**

	2008			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUE				
Contributions, Grants and Sponsorships	\$ 3,618,375	\$ 2,138,332	\$ 105,000	\$ 5,861,707
In-Kind Contribution	648,002	-	-	648,002
Special Events, Net of Direct Cost of \$222,163 and \$201,177, Respectively	343,869	6,151	-	350,020
Interest Income	106,379	245	-	106,624
Unrealized Gain	(567,855)	-	-	(567,855)
Realized Gains	-	-	-	-
Other Income	91,597	-	-	91,597
Subtotal	<u>4,240,367</u>	<u>2,144,728</u>	<u>105,000</u>	<u>6,490,095</u>
NET ASSETS RELEASED FROM RESTRICTIONS	<u>2,699,429</u>	<u>(2,699,429)</u>	<u>-</u>	<u>-</u>
Total Revenue	6,939,796	(554,701)	105,000	6,490,095
EXPENSE				
Program Services:				
Developing Countries	6,513,051	-	-	6,513,051
Supporting Services:				
Management and General	500,715	-	-	500,715
Fundraising	437,580	-	-	437,580
Total Support Services	<u>938,295</u>	<u>-</u>	<u>-</u>	<u>938,295</u>
Total Expense	<u>7,451,346</u>	<u>-</u>	<u>-</u>	<u>7,451,346</u>
CHANGE IN NET ASSETS, BEFORE OTHER ITEMS	(511,550)	(554,701)	105,000	(961,251)
CHANGE IN PENSION LIABILITY				
Adoption of FAS 158	-	-	-	-
RECLASSIFICATION OF NET ASSETS				
From the Adoption of FSP 117-1	2,329,598	-	(2,329,598)	-
Total Other Items	<u>2,329,598</u>	<u>-</u>	<u>(2,329,598)</u>	<u>-</u>
CHANGE IN NET ASSETS	1,818,048	(554,701)	(2,224,598)	(961,251)
Net Assets - Beginning of Year	<u>1,185,314</u>	<u>874,594</u>	<u>2,537,061</u>	<u>4,596,969</u>
NET ASSETS - END OF YEAR	<u>\$ 3,003,362</u>	<u>\$ 319,893</u>	<u>\$ 312,463</u>	<u>\$ 3,635,718</u>

See accompanying Notes to Financial Statements.

2007

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 2,742,571	\$ 1,247,998	\$ 5,000	\$ 3,995,569
798,959	-	-	798,959
383,276	28,329	-	411,605
62,174	53,446	3,541	119,161
-	-	75,329	75,329
-	-	3,138	3,138
64,054	100,000	-	164,054
<u>4,051,034</u>	<u>1,429,773</u>	<u>87,008</u>	<u>5,567,815</u>
<u>1,442,041</u>	<u>(1,442,041)</u>	<u>-</u>	<u>-</u>
5,493,075	(12,268)	87,008	5,567,815
4,433,734	-	-	4,433,734
434,657	-	-	434,657
<u>347,677</u>	<u>-</u>	<u>-</u>	<u>347,677</u>
<u>782,334</u>	<u>-</u>	<u>-</u>	<u>782,334</u>
<u>5,216,068</u>	<u>-</u>	<u>-</u>	<u>5,216,068</u>
277,007	(12,268)	87,008	351,747
1,767	-	-	1,767
-	-	-	-
<u>1,767</u>	<u>-</u>	<u>-</u>	<u>1,767</u>
278,774	(12,268)	87,008	353,514
<u>906,540</u>	<u>886,862</u>	<u>2,450,053</u>	<u>4,243,455</u>
<u>\$ 1,185,314</u>	<u>\$ 874,594</u>	<u>\$ 2,537,061</u>	<u>\$ 4,596,969</u>

**WATER FOR PEOPLE
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2008**

	Supporting Services			Total Expenses
	Program Services	Management and General	Fundraising	
	Developing Countries		Total	
EXPENSES				
Salaries and benefits	\$ 1,429,006	\$ 301,911	\$ 263,845	\$ 1,994,762
Country Contributions	4,143,063	-	-	4,143,063
Professional Fees and Contract Services	358,006	75,637	66,101	499,744
Travel and Meetings	134,887	28,498	24,905	188,290
Printing and Publications	147,766	31,218	27,285	206,269
Depreciation	25,503	5,388	4,709	35,600
Telephone	18,767	3,965	3,465	26,196
Insurance	10,677	2,256	1,971	14,904
Supplies	19,834	4,190	3,662	27,686
Postage	39,618	8,371	7,315	55,304
Other	185,924	39,281	34,323	259,528
Total Expenses	\$ 6,513,051	\$ 500,715	\$ 437,580	\$ 7,451,346

See accompanying Notes to Financial Statements.

**WATER FOR PEOPLE
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2007**

	Program Services		Supporting Services		Total Expenses
	Developing Countries	Management and General	Fundraising	Total	
EXPENSES					
Salaries and Benefits	\$ 1,051,216	\$ 267,121	\$ 139,567	\$ 406,688	\$ 1,457,904
Country Contributions	2,766,710	-	-	-	2,766,710
Professional Fees and Contract Services	93,738	36,312	76,104	112,416	206,154
Travel and Meetings	77,429	19,462	55,297	74,759	152,188
Printing and Publications	92,602	23,276	30,069	53,345	145,947
Depreciation	28,814	7,231	3,811	11,042	39,856
Telephone	8,901	2,237	1,179	3,416	12,317
Insurance	6,030	1,516	799	2,315	8,345
Supplies	11,029	2,772	1,461	4,233	15,262
Postage	45,211	11,364	5,990	17,354	62,565
Other	252,054	63,366	33,400	96,766	348,820
Total Expenses	\$ 4,433,734	\$ 434,657	\$ 347,677	\$ 782,334	\$ 5,216,068

See accompanying Notes to Financial Statements.

**WATER FOR PEOPLE
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2007**

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (961,251)	\$ 353,514
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Contributed Noncash Assets	(45,300)	(29,179)
Depreciation	35,600	39,856
Gain on Sale of Property and Equipment	-	(346)
Realized Gains on Investments	-	(3,138)
Unrealized (Gain) Loss on Investments	567,855	(75,329)
Changes in Assets and Liabilities:		
Receivables	(57,728)	305,797
Prepaid Expenses and Other Assets	(150,576)	(13,929)
Prepaid Pension Asset	232,557	(49,809)
Accounts Payable and Accrued Expenses	84,658	18,136
Due to American Water Works Association	(2,196)	(145,099)
Deferred Revenue	(129,000)	125,255
Net Cash Provided (Used) by Operating Activities	(425,381)	525,729
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from Sale of Property and Equipment	-	2,410
Purchase of Property and Equipment	(19,539)	(26,556)
Proceeds from Sale of Investments	-	136,141
Purchase of Investments	(59,440)	(118,286)
Net Cash Used by Investing Activities	(78,979)	(6,291)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(504,360)	519,438
Cash and Cash Equivalents - Beginning of Year	1,918,656	1,399,218
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,414,296	\$ 1,918,656
SUPPLEMENTAL DISCLOSURES		
Noncash Investing Transactions:		
Donated Securities	\$ (18,890)	\$ (27,379)
Donated Property and Equipment	(26,410)	(1,800)
Total Contributed Noncash Assets	\$ (45,300)	\$ (29,179)

See accompanying Notes to Financial Statements.

WATER FOR PEOPLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

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.

The Organization has elected to defer application of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*. The Organization follows Financial Accounting Standard No. 5, *Accounting for Contingencies*, for evaluating uncertain tax positions.

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.

Fair Value Measurements

On January 1, 2008, the Organization adopted Statement of Financial Accounting Standard No. 157, *Fair Value Measurements* (SFAS 157). As permitted, adoption of SFAS 157 has been delayed for certain nonfinancial assets and nonfinancial liabilities to January 1, 2009. SFAS 157 applies to reported balances that are required or permitted to be measured at fair value under an existing accounting pronouncement.

SFAS No. 157 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements.

**WATER FOR PEOPLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

The Organization accounts for its investments at fair value. In accordance with SFAS No. 157, the Organization has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

The Organization also was able to adopt Statement of Financial Accounting Standard No. 159, *The Fair Value Option for Financial Assets and Liabilities* (SFAS 159), on January 1, 2008. SFAS 159 allows entities the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on an instrument-by-instrument basis. The Organization has not elected to measure any existing financial instruments at fair value at January 1, 2008, as permitted under SFAS 159. However, the Organization may elect to measure newly acquired financial instruments at fair value in the future.

Investments

Investments consist of primarily equity and government securities and are recorded at fair market value based on quoted market prices.

In general, investments are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect the investment balances and the amounts reported in the balance sheets. Subsequent to December 31, 2008, there has been a substantial decline in the fair market value of investments due to changes in market conditions and other factors.

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.

Collections

Contributions of significant art are capitalized at their fair value at the date of the donation.

Contributions Receivable

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. All contributions receivable at December 31, 2008 and 2007 are due within one year.

WATER FOR PEOPLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

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.

Grant Revenue

Grants are recorded as revenue when earned. Revenue is earned when eligible expenditures, as defined in each grant or contract, are made. Funds received but not yet earned are shown as deferred revenue.

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.

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 2008 and 2007, the Organization had funds invested with financial institutions in excess of the Federal Deposit Insurance Corporation (FDIC) limits. The Organization's funds exceeded FDIC limits by approximately \$500,000 and \$460,000 at December 31, 2008 and 2007, respectively. Management believes the risk of loss in these situations is minimal.

**WATER FOR PEOPLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

NOTE 4 CONTRIBUTIONS RECEIVABLE

Contributions receivable represent unconditional promises to give and are stated at their net realizable value. As of December 31, 2008 and 2007, there are \$215,250 and \$224,583, 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, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Mutual Funds	<u>\$ 2,127,478</u>	<u>\$ 2,617,003</u>

The following table presents the Organization's fair value hierarchy for those assets measured at fair value on a recurring basis as of December 31, 2008:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Investments	<u>\$ 2,127,478</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,127,478</u>

NOTE 6 PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Furniture and Equipment	\$ 132,688	\$ 110,250
Collections	7,000	-
Computer Equipment and Software	160,706	144,195
Total	<u>300,394</u>	<u>254,445</u>
Accumulated Depreciation	<u>(222,177)</u>	<u>(186,577)</u>
Total	<u>\$ 78,217</u>	<u>\$ 67,868</u>

NOTE 7 LINE OF CREDIT

The Organization has a \$250,000 line of credit with a bank that expires on May 1, 2009. This line of credit was entered into by the Organization during 2008. Borrowing under the line bears interest at the bank's prime interest rate plus .5% (3.75% as of December 31, 2008). As of December 31, 2008, there was no outstanding draws on the line of credit.

**WATER FOR PEOPLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

NOTE 8 NET ASSETS

Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Bolivia	\$ 74,100	\$ 36,358
Livingstonia	24,595	-
Guatemala	1,000	11,606
Honduras	41,700	23,706
Malawi	-	33,826
India	-	1,564
Africa	-	28,324
Ecuador	-	500
Vietnam	-	9,252
Dominican Republic	-	1,000
Nicaragua	-	500
Rwanda	168,608	3,000
Tsunami	-	21,541
Country Project ¹	-	214,269
Ware Fellowship	-	384,016
New Initiatives	-	60,367
Other	9,890	44,765
	<u>\$ 319,893</u>	<u>\$ 874,594</u>

¹ 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, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
E&C Johnson Endowment	\$ -	\$ 2,313,328
Richard V. Ford Endowment	105,000	-
JH Ware Scholarship Fund	100,000	113,643
Endowment Fund	107,463	110,090
Total	<u>\$ 312,463</u>	<u>\$ 2,537,061</u>

**WATER FOR PEOPLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

NOTE 9 ENDOWMENTS

The Organization's endowment consists of four funds established for a variety of purposes. Its endowment includes both donor restricted endowment funds and a fund designated by the board of directors to function as an endowment. Net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of the Organization has interpreted the State's Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with the UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the organization
7. The investment policies of the organization.

**WATER FOR PEOPLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

NOTE 9 ENDOWMENT (CONTINUED)

Endowment net asset composition by type and changes in endowment net assets for the years ended December 31, 2008 and 2007 is follows:

	Unrestricted Undesignated	Unrestricted Board Designated	Permanently Restricted	Total
Endowment Fund Net Assets by Type of Fund as of December 31, 2007:				
Donor-Restricted Endowment Funds	\$ -	\$ -	\$ 2,537,061	\$ 2,537,061
Board Restricted Endowment Funds	-	-	-	-
Total Endowment Funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,537,061</u>	<u>\$ 2,537,061</u>
Endowment Fund Net Assets by Type of Fund as of December 31, 2008:				
Donor-Restricted Endowment Funds	\$ -	\$ -	\$ 312,463	\$ 312,463
Board Restricted Endowment Funds	-	1,872,405	-	1,872,405
Total Endowment Funds	<u>\$ -</u>	<u>\$ 1,872,405</u>	<u>\$ 312,463</u>	<u>\$ 2,184,868</u>

The endowment net assets and activity for 2008 and 2007 consisted of the following:

	Unrestricted Undesignated	Unrestricted Board Designated	Permanently Restricted	Total
Endowment Net Assets, December 31, 2006	\$ -	\$ -	\$ 2,450,053	\$ 2,450,053
Earnings:				
Interest and Dividends	-	-	3,541	3,541
Realized and Unrealized Gains and Losses	-	-	78,467	78,467
Total Investment Returns	-	-	82,008	82,008
Contributions	-	-	5,000	5,000
Appropriations for Expenditure	-	-	-	-
Endowment Net Assets, December 31, 2007	-	-	2,537,061	2,537,061
Net Asset Reclassification - Change in Law	16,270	2,313,328	(2,329,598)	-
Endowment Net Assets After Reclassification	16,270	2,313,328	207,463	2,537,061
Earnings:				
Interest and Dividends	3,672	73,236	-	76,908
Realized and Unrealized Gains and Losses	(53,696)	(514,159)	-	(567,855)
Total Investment Returns	(50,024)	(440,923)	-	(490,947)
Contributions	-	-	105,000	105,000
Appropriations for Expenditure	-	-	-	-
Endowment Fund Balance as December 31, 2008	<u>\$ (33,754)</u>	<u>\$ 1,872,405</u>	<u>\$ 312,463</u>	<u>\$ 2,151,114</u>

**WATER FOR PEOPLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

NOTE 9 ENDOWMENT (CONTINUED)

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Organization to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$50,024 and \$-0- as of December 31, 2008 and 2007, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred during 2008.

Investment Objectives and Strategies

The Organization has adopted an investment policy to provide guidelines for investing endowment assets. Under this policy, the endowment assets are invested in a manner that is intended to maximize the benefit intended by the donor, produce current income to support the programs of the Organization and donor objectives, and achieve growth of both principal and income on a long-term basis sufficient to preserve or increase the purchasing power of the assets, and protect the assets against inflation. To achieve these objectives, the Organization follows its investment policy with target allocations of approximately 60% in equities or equity funds and 40% in fixed income instruments or funds.

Spending Policy

The Organization has an endowment spending policy that 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. In establishing this policy, the Organization considered the long-term expected return on its endowment. Approved distributions that are not used for a calendar year will accumulate and be available for distribution in subsequent years not to exceed three years. At no time will the distributions reduce the value of the endowment below donor contributions.

NOTE 10 IN-KIND CONTRIBUTIONS

Contributions of noncash assets (materials and equipment) are recorded at their fair values in the period received. Contributions of services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and which would typically need to be purchased if not provided by donation, are recorded at their estimated fair values in the period received.

**WATER FOR PEOPLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

NOTE 10 IN-KIND CONTRIBUTIONS (CONTINUED)

The Organization received contributed services and rent from the American Water Works Association (the "Association") for the years ended December 31, 2008 and 2007. The Organization also received donated legal services for the years ended December 31, 2008 and 2007. These in-kind contributions benefited program and supporting services as summarized in the accompanying statements of functional expenses. Beginning in 2007, Water For People began the World Water Corp initiative which utilizes volunteer time and services to further project activities in its program countries. An estimate of the value of volunteer time and expenses has been included as in-kind contributions. The total in-kind contributions consist of the following for the years ended December 31, 2008 and 2007:

	2008	2007
Donated Services ²	\$ 215,048	\$ 168,616
Rent	91,087	82,982
Legal Services	-	26,777
Donated Goods	70,747	49,161
World Water Corp	271,120	471,423
Total	\$ 648,002	\$ 798,959

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

NOTE 11 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 29 other directors on the Organization's Board of Directors.

The Association provided the Organization with in-kind contributions totaling \$287,860 and \$251,598 for the years ended December 31, 2008 and 2007, respectively. In addition, the Association provided the Organization with cash contributions totaling \$114,505 and \$113,489 for the years ended December 31, 2008 and 2007, respectively.

A rental agreement with the Association is effective as of January 1, 2009. This rental agreement is effective through December 31, 2013. The Organization will have two separate options to renew this lease for a period of five years each. Minimum annual rental payments for 2009 are \$112,400.

At December 31, 2008 and 2007, the Organization was owed \$10,322 and \$56 from the Association, respectively. The amount of \$10,322 at December 31, 2008 is reflected on the statement of financial position as a contribution receivable of \$16,898 and a payable to the Association of \$6,576.

**WATER FOR PEOPLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

NOTE 11 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 serves along with 29 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. Expenditures made by the Organization, at no charge to WFPC, totaled \$11,581 and \$0- for the years ended December 31, 2008 and 2007, respectively. In addition, WFPC provided the Organization with cash contributions in support of projects totaling \$225,756 and \$227,022 for the years ended December 31, 2008 and 2007, respectively.

NOTE 12 COMMITMENTS

Operating Lease

The Organization rents equipment and office facilities under non-cancelable operating leases that will expire between 2010 and 2013. Rent expense for the leases totaled \$5,061 and \$3,796 at December 31, 2008 and 2007, respectively.

Minimum annual rental payments under these leases are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2009	\$ 117,429
2010	120,945
2011	120,653
2012	122,904
2013	126,420
Total	<u>\$ 608,351</u>

Software Contract

In 2007, the Organization signed a contract for fundraising software which will expire at the end of 2010. In 2008, contract expense totaled \$17,513.

Minimum annual payments under this contract are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2009	\$ 17,513
2010	17,513
Total	<u>\$ 35,026</u>

**WATER FOR PEOPLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

NOTE 13 EMPLOYEE BENEFIT PLAN

Water For People, American Water Works Association (the Association) and Awwa Research Foundation (the Foundation) participate in a common defined benefit pension plan (the Plan) to provide pension benefits to substantially all employees. The Plan was amended as January 1, 2007 approving Water For People as a participating employer in the Plan and participation in the Plan by Water For People employees. Water For People employees and accumulated benefits were transferred from the Association on January 1, 2007. Benefits under the Plan are based upon the participant's length of service and level of compensation. Water For People's policy is to make periodic contributions in conformity with minimum funding requirements.

Effective December 31, 2007, the participating employers froze the defined benefit pension plan for all participants. There was a curtailment on February 28, 2007 due to this amendment. The effect of the curtailment was to reduce the remaining prior service cost and unrecognized gain/(loss) and is reflected in the disclosures.

A pension liability at December 31, 2008 of \$182,748 and a pension asset at December 31, 2007 of \$49,809 are recognized in the Statement of Financial Position.

The measurement dates used for the Plan disclosures are as of December 31, 2008 and 2007.

The changes in the projected benefit obligation are as follows:

	<u>2008</u>	<u>2007</u>
Change in Projected Benefit Obligation		
Projected Benefit Obligation at Beginning of Year	\$ 648,573	\$ -
Liability Transferred in Connection with Transfer of Employees*	-	732,726
Service Cost	-	14,394
Interest Cost	35,813	39,437
Settlements/Curtailments	-	(130,418)
Benefits Paid	(20,283)	(860)
Actuarial Gain	<u>(58,908)</u>	<u>(6,706)</u>
Projected Benefit Obligation at End of Year	<u>\$ 605,195</u>	<u>\$ 648,573</u>

* "Transfer of Employees" represents former Association employees who became Water For People employees during 2007 and whose prior benefit obligation and prior investment values transferred to Water For People.

**WATER FOR PEOPLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

NOTE 13 EMPLOYEE BENEFIT PLAN (CONTINUED)

	<u>2008</u>	<u>2007</u>
Change in Plan Assets		
Fair Value of Plan Assets at Beginning of Year	\$ 698,382	\$ -
Employer Contributions	9,500	124,021
Benefits Paid	(20,283)	(860)
Assets Transferred in Connection with Transfer of Employees*	-	533,448
Actual Return on Plan Assets	<u>(265,152)</u>	<u>41,772</u>
Fair Value of Plan Assets at End of Year	<u>\$ 422,447</u>	<u>\$ 698,382</u>
Funded Status of the Plan		
Benefit Obligation	\$ 605,195	\$ 648,573
Fair Value of Plan Assets	<u>422,447</u>	<u>698,382</u>
Excess of Fair Value Over Benefit Obligation of Plan Assets	<u>\$ (182,748)</u>	<u>\$ 49,809</u>
Components of Net Periodic Benefit Costs		
Service Cost	\$ -	\$ 14,394
Interest Cost	35,813	39,437
Expected Return on Plan Assets	(43,882)	(47,807)
Amortization of Unrecognized Actuarial Net Loss	<u>-</u>	<u>6,722</u>
Net Periodic Pension Cost	<u>\$ (8,069)</u>	<u>\$ 12,747</u>

Weighted average assumptions used to determine net periodic benefit cost are as follows:

	<u>2008</u>	<u>2007</u>
Actuarial Assumptions		
Assumptions Used to Determine Benefit Obligations at December 31:		
Assumed Discount Rate	6.14%	6.40%
Assumptions Used to Determine Benefit Obligations for Years Ended December 31:		
Assumed Discount Rate	6.40%	6.00%
Expected Long-Term Return on Plan Assets	7.50%	7.50%

**WATER FOR PEOPLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

NOTE 13 EMPLOYEE BENEFIT PLAN (CONTINUED)

Basis Used to Determine Expected Long-Term Rate of Return

The determination of the long-term rate of return on assets was developed based on the mix of assets in the portfolio. Based on an overall strategic mix of 60% of plan assets invested in equities with an expected long-term rate of return of 8.25%, and 40% of plan assets invested in fixed income investments with an expected long-term rate of return of 5.5%, the overall long-term rate of return is estimated to approximate 7.5% with expected fluctuations within categories during the year.

Investment Policies and Strategies, Including Target Allocations

The investment policy for the plan is to have approximately 60% of the plan's assets in equity funds and approximately 40% in fixed income investments. The percentage allocation to each asset class may vary as much as plus or minus 10% from the original target depending upon market conditions. The percentage of the fair value of total plan assets held as of December 31, 2008 and 2007 (the measurement dates) by asset category are as follows:

Asset Category	2008	2007
Equity	55 %	63 %
Debt	35	29
Other	10	8
	100 %	100 %

Water For People attempts to mitigate investment risk by rebalancing between debt and equity classes as the contributions and monthly benefit payments are made. Although changes in interest rates may affect the fair value of a portion of the investment portfolio and cause unrealized gains and losses, such gains and losses would not be realized unless the investments are sold.

Expected Water For People contributions in fiscal year 2009 are \$26,000. Estimated future benefit payments are as follows:

December 31, 2009	\$ 25,086
December 31, 2010	28,175
December 31, 2011	30,934
December 31, 2012	33,304
December 31, 2013	35,487
Years Ended December 31, 2014 through 2018	206,056