

WATER.ORG, INC.

(FORMERLY WATERPARTNERS INTERNATIONAL, INC.)

**FINANCIAL STATEMENTS FOR THE
YEARS ENDED SEPTEMBER 30, 2009 AND 2008,
AND INDEPENDENT AUDITORS' REPORT**



INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Water.Org, Inc.
Kansas City, Missouri

We have audited the accompanying statements of financial position of Water.org, Inc. (formerly, WaterPartners International, Inc.) (the "Organization") as of September 30, 2009 and 2008, and the related statements of activities and changes in net assets, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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.org, Inc. as of September 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Pickett, Chaney & McMullen LLP

Overland Park, Kansas
February 5, 2010

WATER.ORG, INC.
(Formerly WATERPARTNERS INTERNATIONAL, INC.)

Statements of Financial Position
September 30, 2009 and 2008

	2009	2008
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 3,637,713	\$ 2,669,516
ACCOUNTS RECEIVABLE	413,674	172,710
PREPAID EXPENSES	39,548	27,059
INVESTMENTS	75,724	73,002
WATERCREDIT LOANS RECEIVABLE, net	256,286	248,552
PROPERTY AND EQUIPMENT, net	<u>217,103</u>	<u>60,983</u>
Total assets	<u>\$ 4,640,048</u>	<u>\$ 3,251,822</u>
LIABILITIES AND NET ASSETS		
ACCOUNTS PAYABLE	\$ 263,753	\$ 35,503
ACCRUED EXPENSES	70,737	29,403
REFUNDABLE ADVANCES	393,363	51,372
GRANTS PAYABLE	80,139	75,628
NOTES PAYABLE	<u>39,667</u>	<u> </u>
Total liabilities	847,659	191,906
COMMITMENTS AND CONTINGENCIES		
NET ASSETS:		
Unrestricted:		
Undesignated	862,206	218,830
Board Designated	<u>62,744</u>	<u>62,744</u>
Total unrestricted	924,950	281,574
Temporarily restricted	<u>2,867,439</u>	<u>2,778,342</u>
Total net assets	<u>3,792,389</u>	<u>3,059,916</u>
Total liabilities and net assets	<u>\$ 4,640,048</u>	<u>\$ 3,251,822</u>

See notes to financial statements.

WATER.ORG, INC.
(Formerly WATERPARTNERS INTERNATIONAL, INC.)
Statement of Activities and Changes in Net Assets
Year Ended September 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE, GAINS AND OTHER SUPPORT:			
Contributions and grants:			
Foundations	\$ 196,070	\$ 4,128,720	\$ 4,324,790
Corporations and other organizations	172,203	262,307	434,510
Individuals	877,172	52,486	929,658
Federated/workplace campaigns	17,562		17,562
In-kind contributions	75,256		75,256
Special event revenue	61,923		61,923
Government grants and contracts	64,931		64,931
Investment income and other	48,734		48,734
Net assets released from restrictions	<u>4,354,416</u>	<u>(4,354,416)</u>	
Total revenue, gains and other support	5,868,267	89,097	5,957,364
EXPENSES:			
Program services:			
Sustainable water projects:			
Grant program	2,740,529		2,740,529
WaterCredit	666,691		666,691
Partner development	56,898		56,898
Outreach	<u>715,769</u>		<u>715,769</u>
Total program	4,179,887		4,179,887
Supportive services:			
Administration	568,955		568,955
Fundraising	464,805		464,805
Direct benefit to donors	<u>11,244</u>		<u>11,244</u>
Total supportive services	<u>1,045,004</u>		<u>1,045,004</u>
Total expenses	5,224,891		5,224,891
CHANGE IN NET ASSETS	643,376	89,097	732,473
NET ASSETS, BEGINNING OF YEAR	<u>281,574</u>	<u>2,778,342</u>	<u>3,059,916</u>
NET ASSETS, END OF YEAR	<u>\$ 924,950</u>	<u>\$ 2,867,439</u>	<u>\$ 3,792,389</u>

See notes to financial statements.

WATER.ORG, INC.
(Formerly WATERPARTNERS INTERNATIONAL, INC.)

Statement of Activities and Changes in Net Assets
Year Ended September 30, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE, GAINS AND OTHER SUPPORT:			
Contributions and grants:			
Foundations	\$ 301,988	\$ 4,060,619	\$ 4,362,607
Corporations and other organizations	79,680	33,475	113,155
Individuals	531,796	135,494	667,290
Federated/workplace campaigns	14,142		14,142
Special event revenue	108,122		108,122
Government grants and contracts	185,017		185,017
Investment income and other	3,949		3,949
Net assets released from restrictions	<u>2,352,761</u>	<u>(2,352,761)</u>	
Total revenue, gains and other support	3,577,455	1,876,827	5,454,282
EXPENSES:			
Program services:			
Sustainable water projects:			
Grant program	1,350,863		1,350,863
WaterCredit	589,811		589,811
Partner development	107,146		107,146
Outreach	<u>409,978</u>		<u>409,978</u>
Total program	2,457,798		2,457,798
Supportive services:			
Administration	469,527		469,527
Fundraising	528,643		528,643
Direct benefit to donors	<u>13,030</u>		<u>13,030</u>
Total supportive services	<u>1,011,200</u>		<u>1,011,200</u>
Total expenses	3,468,998		3,468,998
CHANGE IN NET ASSETS	108,457	1,876,827	1,985,284
NET ASSETS, BEGINNING OF YEAR	<u>173,117</u>	<u>901,515</u>	<u>1,074,632</u>
NET ASSETS, END OF YEAR	<u>\$ 281,574</u>	<u>\$ 2,778,342</u>	<u>\$ 3,059,916</u>

See notes to financial statements.

WATER.ORG, INC. (Formerly WATERPARTNERS INTERNATIONAL, INC.)

Statement of Functional Expenses

Year Ended September 30, 2009

	Program Services					Supporting Services		
	Sustainable Water Projects					Administration	Fundraising	Total
	Grant Program	WaterCredit	Partner Development	Outreach	Total			
Salaries and wages	\$ 314,254	\$ 143,773	\$ 29,278	\$ 245,648	\$ 732,953	\$ 296,884	\$ 154,857	\$ 1,184,694
Payroll taxes	15,629	9,623	2,124	17,339	44,715	24,494	10,186	79,395
Employee benefits	44,532	10,291	2,761	18,569	76,153	20,358	12,817	109,328
Staff training	6,042	406	85	4,198	10,731	6,194	1,756	18,681
Contractors	105,352	3,683	794	37,942	147,771	57,659	113,537	318,967
Occupancy related	18,726	9,297	2,004	16,030	46,057	20,296	10,030	76,383
Office supplies	4,023	1,105	230	2,975	8,333	3,441	2,442	14,216
Postage and shipping	2,146	417		4,503	7,066	1,545	3,330	11,941
Printing and reproduction	3,081	93	20	15,175	18,369	242	11,039	29,650
Telephone and related communications	11,147	2,117	591	13,824	27,679	10,732	3,154	41,565
Office equipment, rental and maintenance	19,057	1,696	365	8,324	29,442	8,699	20,107	58,248
Travel	99,093	19,336	11,132	112,230	241,791	26,076	28,046	295,913
Grants to other organizations	1,796,436	432,924			2,229,360			2,229,360
Program fees and supplies	220,301				220,301			220,301
Special event supplies and insurance							6,362	6,362
Advertising and marketing				10,587	10,587			10,587
Directors and officer insurance	4,303	471	101	809	5,684	1,001	497	7,182
Bank and credit card fees	1,655	266	57	456	2,434	565	7,691	10,690
Accounting and legal fees	29,721	22,519	3,331	26,548	82,119	53,860	16,300	152,279
Other professional fees	8,225	11,337	1,817	163,242	184,621	13,059	47,085	244,765
Dues and subscriptions	4,053	1,691	364	2,904	9,012	4,601	2,183	15,796
Provision for credit losses		(16,724)			(16,724)		2,525	(14,199)
Foreign exchange (gain) loss	10,142	4,125			14,267			14,267
Other operating expenses	6,623	1,944	486	3,643	12,696	5,858	4,216	22,770
Depreciation	15,988	6,301	1,358	10,823	34,470	13,391	6,645	54,506
TOTAL FUNCTIONAL EXPENSES	\$ 2,740,529	\$ 666,691	\$ 56,898	\$ 715,769	\$ 4,179,887	\$ 568,955	\$ 464,805	\$ 5,213,647
Direct benefits to donors								11,244
TOTAL EXPENSES								\$ 5,224,891

See notes to financial statements.

WATER.ORG, INC. (Formerly WATERPARTNERS INTERNATIONAL, INC.)

Statement of Functional Expenses

Year Ended September 30, 2008

	Program Services					Supporting Services		
	Sustainable Water Projects					Administration	Fundraising	Total
	Grant Program	WaterCredit	Partner Development	Outreach	Total			
Salaries and wages	\$ 218,333	\$ 100,741	\$ 44,846	\$ 136,759	\$ 500,679	\$ 288,349	\$ 235,111	\$ 1,024,139
Payroll taxes	9,243	5,910	3,165	9,785	28,103	21,498	17,980	67,581
Employee benefits	26,764	6,022	3,160	11,002	46,948	24,149	16,119	87,216
Staff training	5,393	1,188	561	1,998	9,140	4,977	5,552	19,669
Contractors	6,175	1,498	706	16,000	24,379	5,504	25,529	55,412
Occupancy related	18,579	7,113	2,516	8,314	36,522	16,258	21,261	74,041
Office supplies	1,321	257	436	998	3,012	1,664	2,637	7,313
Postage and shipping	1,098	669	312	4,929	7,008	2,710	23,518	33,236
Printing and reproduction	1,192	8	19	22,914	24,133	266	7,362	31,761
Telephone and related communications	17,624	1,087	1,717	15,324	35,752	10,299	5,527	51,578
Office equipment rental and maintenance	16,076	552	435	2,707	19,770	7,473	14,592	41,835
Travel	115,020	6,243	23,531	15,718	160,512	15,196	56,500	232,208
Grants to other organizations	826,103	315,852	2,099		1,144,054			1,144,054
Program fees and supplies	4,416				4,416			4,416
Special event supplies and insurance							4,358	4,358
Advertising and marketing				7,127	7,127		8,633	15,760
Directors and officer insurance		350			350	2,887		3,237
Bank and credit card fees	1,750	775	266	469	3,260	9,545	808	13,613
Accounting and legal fees	1,138	2,310			3,448	18,386		21,834
Other professional fees	38,756	42,554	20,020	148,093	249,423	24,534	66,407	340,364
Dues and subscriptions	2,854	1,618	1,934	3,072	9,478	3,944	3,935	17,357
Provision for credit losses		92,170			92,170		250	92,420
Foreign exchange (gain) loss	32,865	(88)			32,777			32,777
Other operating expenses	2,319	70	49	219	2,657	2,289	4,729	9,675
Depreciation	3,844	2,912	1,374	4,550	12,680	9,599	7,835	30,114
TOTAL FUNCTIONAL EXPENSES	\$ 1,350,863	\$ 589,811	\$ 107,146	\$ 409,978	\$ 2,457,798	\$ 469,527	\$ 528,643	3,455,968
Direct benefits to donors								13,030
TOTAL EXPENSES								\$ 3,468,998

See notes to financial statements.

WATER.ORG, INC.
(Formerly WATERPARTNERS INTERNATIONAL, INC.)

Statements of Cash Flows
Years Ended September 30, 2009 and 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 732,473	\$ 1,985,284
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	54,506	30,114
Realized and unrealized investment gain (loss)	(2,863)	18,186
Contribution of investment securities	(73,323)	(13,675)
Contribution of office furniture	(16,469)	
Loss on disposal of property and equipment	12,283	1,057
WaterCredit bad debt expense, net of recoveries	(14,836)	92,170
WaterCredit foreign exchange (gain) loss	2,995	23,888
Changes in operating assets and liabilities:		
Accounts receivable	(240,964)	396,698
Prepaid expenses	(12,489)	37,812
Accounts payable	228,250	(23,336)
Accrued expenses	41,334	(3,840)
Refundable advances	341,991	51,372
Grants payable	4,511	(65,859)
	1,057,399	2,529,871
Net cash provided by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(138,417)	(9,605)
Proceeds from sale of property and equipment	920	
Proceeds from sale of investments	73,464	13,238
Issuance of WaterCredit loans	(24,286)	(243,992)
Repayment of WaterCredit loans	14,373	13,450
	(73,946)	(226,909)
Net cash used in investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes payable	(15,256)	
	(15,256)	
Net cash used in financing activities		
NET INCREASE IN CASH	968,197	2,302,962
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,669,516	366,554
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 3,637,713	\$ 2,669,516
SUPPLEMENTAL CASH FLOW INFORMATION -		
Cash paid for interest and income taxes	\$ -	\$ -
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Notes payable issued for property and equipment	\$ 54,923	\$ -
Property received in settlement on WaterCredit loan	\$ 14,020	\$ -

See notes to financial statements.

WATER.ORG, INC.
(Formerly WATERPARTNERS INTERNATIONAL, INC.)

Notes to Financial Statements
Years Ended September 30, 2009 and 2008

1. NATURE OF ACTIVITIES AND PROGRAM DESCRIPTIONS

In June 2009, the Board of Directors of WaterPartners International, Inc. approved an amendment to the organization's by-laws to change the name of the organization to WATER.ORG, Inc.

Nature of Activities – WATER.ORG is a non-profit corporation whose primary purpose is to provide technical and financial support for implementing water supply and sanitation projects in developing countries, and to raise awareness of the drinking water and sanitation crisis in developing countries. WATER.ORG maintains its headquarters in Kansas City, Missouri. In 2006, WATER.ORG established local branch offices in Kenya and India. In 2009 and 2008, WATER.ORG has supported projects in Bangladesh, Ethiopia, Honduras, India and Kenya.

Grant Program – WATER.ORG identifies and evaluates partner organizations in developing countries which implement sustainable water supply and sanitation projects, and then WATER.ORG provides technical and financial support to these partner organizations. Grant community recipients must agree to contribute in-kind labor to construct the water system, which provides the community with the first-hand knowledge required to maintain the system over the long-term.

WaterCredit Initiative™ – WaterCredit was launched in 2005 and seeks to establish a revolving loan fund to provide credit to poor communities to build water and sanitation projects. WaterCredit makes loans available to communities and individuals to construct water systems and sanitation facilities. Repayments are reinvested in new projects.

Partner Development – This program provides the support and oversight structure for identifying and evaluating partner organizations. Potential partner organizations undergo a rigorous screening process to ensure that the donor funds provided to communities provide the necessary tools to implement long-term, sustainable projects. Partner Organizations are typically Non-Governmental Organizations (“NGO”) located in the project country.

Outreach – WATER.ORG seeks to raise awareness of the water supply crisis through presentations to schools and community groups, the WATER.ORG website (www.water.org), and media coverage.

Administration and Fundraising – Provides oversight of programs, business management, record keeping, budgeting, financing and other administrative and fundraising activities for the Organization.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Presentation – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, “*Financial Statements of Not-For-Profit Organizations*.” Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to the three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and Cash Equivalents – For the purposes of the Statement of Cash Flows, the Organization considers cash in operating bank accounts, highly liquid money market investments and certificates of deposit with original maturities less than 90 days as cash equivalents. As of September 30, 2009 and 2008, money market accounts of \$467,000 and \$2,006,000, respectively, are included in cash and cash equivalents. As a result of temporary changes in federally insured limits, substantially all cash deposits were insured at September 30, 2009.

WaterCredit Loans Receivable – WaterCredit loans receivable are stated at their outstanding principal amount, plus accrued interest, net of allowance for uncollectible notes. The Organization provides an allowance for uncollectible notes, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Outstanding notes accrue interest based on the terms of the respective note agreements. Delinquent notes are written off based on individual credit evaluation and specific circumstances of the borrower. Provisions for credit losses are charged against income in amounts sufficient to maintain the allowance at a level considered adequate to cover the losses of principal and interest in the existing portfolio.

Grants Receivable – Grants receivable are recorded at net realizable value. An allowance for uncollectible balances is recorded based on specific identification of accounts.

Investments – Investments are stated at fair value. Unrealized gains and losses are included in the change in net assets in the accompanying Statements of Activities

Property and Equipment – Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Major renewals and improvements are capitalized, and maintenance and repairs that do not improve or extend the life of the respective assets are charged against net assets in the current period. Depreciation is computed using primarily the straight-line method over the useful lives of the assets ranging from 3 to 5 years.

Contributions – Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Promises to Give – Unconditional promises to give are recorded as revenues or gains in the period received and as assets, decrease of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. As of September 30, 2009, WATER.ORG had received conditional promises to give totaling approximately \$3,582,000 (Note 14). WATER.ORG must meet certain progress milestones related to establishing the WaterCredit Initiative™ in order to meet the conditions of these pledges.

Donated Assets – Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair values at the date of donation.

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated assets to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Grant Revenues – The Organization receives a significant amount of revenue in the form of grants. The Organization recognizes grant funds received or receivable as revenue to the extent that related

expenses have been incurred. Grant funds received in excess of related program expenses are recorded as refundable advances.

Contributed Services – Contributed services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. During the years ended September 30, 2009 and 2008, the Organization recognized donated services of \$59,000 and \$63,000, respectively. The contributed services recognized consisted primarily of legal services. Many individuals volunteered their time and performed a variety of tasks that assisted the Organization.

Expense Allocation – The costs of providing various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes – No provision for income taxes has been recorded, as the Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170 (b)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

Derivative Instruments – WATER.ORG occasionally uses forward exchange contracts as fair value hedges to eliminate the changes in the fair value of firm commitments denominated in foreign currencies. WATER.ORG's risk management strategy is to offset changes in the fair value of firm commitments due to changes in the U.S. dollar/foreign currency forward exchange rates. In 2009, WATER.ORG had a firm commitment to fund a project in Indian rupees. WATER.ORG used forward exchange contracts as a fair value hedge to eliminate the risk of changes in the fair value of the firm commitment resulting from changes in the US Dollar/Indian rupee forward exchange rate. As of September 30, 2009, there were no open contacts. For the year ended September 30, 2009, WATER.org recognized a gain of approximately \$8,900.

Use of 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 affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Standards – Statement of Financial Accounting Standards No. 165, *Subsequent Events*, provides guidance on management's assessment of subsequent events and clarifies that management must evaluate, as of each reporting period, events or transactions that occur after the Statement of Financial Position date through the date that the financial statements are issued, or are available to be issued. Management has evaluated events and transactions for subsequent events disclosures occurring after September 30, 2009, through February 5, 2010, the date the financial statements are available to be issued.

3. INVESTMENTS

SFAS No. 157, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The hierarchy consists of three broad levels, described as follows:

Level 1 – Inputs consist of unadjusted quoted prices for identical assets in active markets that the Organization has the ability to access.

Level 2 – Inputs consist of 1) quoted prices for similar assets in active markets, 2) quoted prices for identical or similar assets in inactive markets, 3) inputs other than quoted prices that are observable, and 4) inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset has a specified (contractual) term, the level 2 input must be observable for substantially the full term.

Level 3 – Inputs consist of unobservable inputs where there is little or no market activity, and the reporting entity makes estimates and assumptions related to the pricing of the asset including assumptions regarding risk.

The assets 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 used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value.

Mutual funds – Valued at the net asset value (NAV) of shares held at year end based on published quoted prices.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Investments are reported at fair value as follows:

	<u>Fair Value</u>	<u>Fair Value Measurements Using:</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
December 31, 2008:				
Mutual funds	<u>\$ 75,724</u>	<u>\$ 75,724</u>	<u>\$ -</u>	<u>\$ -</u>

Investments consisted entirely of mutual funds in 2009 and 2008.

The following table summarizes the investment income as included in the Statements of Activities and Changes in Net Assets for the years ended September 30:

	2009	2008
Interest and dividends	\$ 46,012	\$ 22,922
Change in market value	<u>1,144</u>	<u>(20,049)</u>
	<u>\$ 47,156</u>	<u>\$ 2,873</u>

4. ACCOUNTS RECEIVABLE

Accounts receivable consists of the following at September 30:

	2009	2008
Contributions and grants receivable	\$ 404,845	\$ 21,732
Amounts due on government contracts	8,829	147,817
Other		3,161
	<u>\$ 413,674</u>	<u>\$ 172,710</u>

All amounts are considered collectible within the next year.

5. WATERCREDIT LOANS RECEIVABLE

WaterCredit loans receivable consist of the following at September 30:

	2009	2008
WaterCredit loans receivable	\$ 340,634	\$ 510,667
Less: Allowance for credit losses	(87,000)	(232,369)
Foreign exchange translation adjustment	2,652	(29,746)
	<u>\$ 256,286</u>	<u>\$ 248,552</u>

The first WaterCredit loans were made to two partner organizations in Kenya in the amount of approximately \$260,000 in 2006. In 2007, a second loan in the amount of \$35,000 was funded. The loans were repayable over a three year period, and earned interest at 5%. The loans were denominated in Kenyan Schillings, and the foreign exchange translation adjustment result from translating the loans receivable into US Dollars at the September 30 exchange rate. As of September 30, 2009, the loans made to the Kenya partner organizations have been fully reserved or written off as uncollectable.

In 2008, an additional loan in the amount of \$242,000 was funded. This loan was made to a micro finance organization in India. The loan is due in December 2010, and is repayable in a single payment of principal and accrued interest at maturity. The loan bears interest at 5%. WATER.ORG has agreed to provide a risk guarantee to the borrower to cover delinquent loans in the amount of \$10,000. As of September 30, 2009, accrued interest has been recognized on this loan of approximately \$24,000.

6. PROPERTY AND EQUIPMENT

	2009	2008
Office equipment	\$ 162,248	\$ 42,913
Computer software	119,565	67,206
	281,813	110,119
Less accumulated depreciation	<u>(64,710)</u>	<u>(49,136)</u>
	<u>\$ 217,103</u>	<u>\$ 60,983</u>

Depreciation expense for the year ended September 30, 2009 and 2008, was \$54,506 and \$30,114, respectively.

7. GRANTS PAYABLE

Grants authorized but unpaid at year end are reported as liabilities in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. Grants payable at September 30, 2009, which were originally expected to be paid over more than one year, are discounted at a rate of 7.75%. The following is a summary of grants authorized and payable at September 30, 2009.

Expected payments in 2010	\$ 80,139
Less: Discount on long term grants	<u> </u>
Grants payable, net	<u>\$ 80,139</u>

The Organization has entered into contracts and agreements with Partner Organizations to implement water projects. Funding for the related projects is generally conditioned upon meeting certain milestones and submission of support for related expenditures. The conditional grants will be considered unconditional when the contingency requirements have been met. As of September 30, 2009, the Organization has entered into agreements with partners to fund approximately 19 projects, the majority of which are expected to be funded within the next 25 months.

Grant programs	\$ 834,436
WaterCredit loans	<u>1,539,584</u>
	<u>\$ 2,374,020</u>

8. NOTES PAYABLE

Non-interest note payable; due in monthly installments of \$1,526 through December 2012; secured by computer software	<u>\$ 39,667</u>
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The scheduled maturities of notes payable are as follows:

<u>Years ending September 30:</u>	
2010	\$ 18,307
2011	18,307
2012	<u>3,053</u>
	<u>\$ 39,667</u>

9. COMMITMENTS AND CONTINGENCIES

The Organization established a revolving Line of Credit for working capital purposes at a local bank. Under the terms of the agreement, WATER.ORG may borrow a maximum of \$500,000. The agreement is renewable on an annual basis, and the current agreement expires October 24, 2010. The interest rate is variable based on the current BBA LIBOR Daily Floating Rate plus 3%. To date, WATER.ORG has not drawn any funds on this credit facility.

The Organization leases office space under non-cancelable operating lease agreements. The current lease for the administrative offices in Kansas City expires July 2015, and includes 1 year of free rent.

Future minimum lease payments under these operating leases as of September 30, 2009, are as follows:

<u>Years ended September 30:</u>	
2010	\$ 3,017
2011	78,905
2012	77,792
2013	79,750
2014	81,327
Thereafter	<u>83,340</u>
	<u>\$ 404,131</u>

10. BOARD DESIGNATED NET ASSETS

The Board of Directors has established the WaterPartners Endowment Fund, the purpose of which is to help the Organization improve financial stability. These funds are unrestricted. Ordinary distributions of up to 5% annually may be made from the fund at the discretion of the Executive Director. Additional distributions require a two-thirds vote from the Board of Directors. No amounts were expended from the fund in 2009 or 2008.

11. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2009	2008
Grant program - India	\$ 1,133,395	\$ 4,591
Grant program - Bangladesh	24,105	37,648
Grant program - Ethiopia	13,291	35,487
Grant program - Honduras	61,404	10,262
Grant program - Ghana	250	
Grant program - Kenya	8,975	
Grant program - Africa	954,934	1,350,000
WaterCredit - India		759,960
WaterCredit - Africa	102,751	
WaterCredit - unspecified		1,758
New WaterCredit/Grant programs	165,965	144,782
International programs and monitoring and evaluation		132,018
Staff salary and benefits	380,000	101,776
Travel		51,766
Strategic planning and accounting		6,634
IT outsourcing, hardware and software	22,369	17,230
Rent and other operating costs		<u>124,430</u>
	<u>\$ 2,867,439</u>	<u>\$ 2,778,342</u>

Net assets of \$4,354,416 and \$2,352,761 were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by the donors, as follows:

	2009	2008
Grant program - India	\$ 836,366	\$ 536,570
Grant program - Bangladesh	112,864	108,419
Grant program - Ethiopia	278,309	161,094
Grant program - Honduras	41,425	15,875
Grant program - Kenya	146,130	125
Grant program - Haiti	5,483	
Grant program - Ghana	143,805	
Grant program - Africa	394,085	
WaterCredit - India	415,017	570,346
WaterCredit - Kenya	958,369	
WaterCredit - Africa	33,384	
WaterCredit - Bangladesh	49,230	
WaterCredit - unspecified	49,372	20,601
New WaterCredit/Grant programs	47,885	33,218
International programs and monitoring and evaluation	145,822	131,560
Staff salary and benefits	202,475	301,978
Travel	43,155	28,234
Public relations consulting		192,093
Strategic planning and accounting	5,590	29,807
Fundraising feasibility study		79,137
IT outsourcing, hardware and software	164,270	63,386
Rent and other operating costs	<u>281,380</u>	<u>80,318</u>
	<u>\$ 4,354,416</u>	<u>\$ 2,352,761</u>

12. BENEFIT PLANS

Effective January 1, 2007, the Organization established a 401(k) retirement plan under which eligible employees may choose to defer a percent of their salary on a pre-tax basis, subject to certain IRC limits. The plan covers employees who meet the eligibility requirements as stated in the plan document. Employees may contribute any amount of their respective wages as long as they do not exceed the IRC limitation. The Organization matches employee contributions dollar for dollar, up to 4% of the employee's compensation. For the years ended September 30, 2009 and 2008, WATER.ORG contributions totaled approximately \$45,000 and \$21,000, respectively.

13. FEDERAL AWARDS

The Organization has received financial assistance from the U.S. Agency for International Development through a pass-through grantor, in the form of contracts, grants and awards to fund its activities. These activities are subject to special audit. Such audits could result in claims against the Organization for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this date. Management does not believe that the Organization has any liability for reimbursement as a result of any noncompliance. As of September 30, 2009, no such audits have been conducted.

14. MAJOR CONCENTRATIONS

The Organization has received significant conditional and unconditional contributions from several Foundations. These contributions have been critical to the Organization's ability to expand its operational capacity and to launch the WaterCredit Initiative™. Conditional and unconditional

contributions of approximately \$4,606,000 were received in 2008, primarily related to expanding the WaterCredit Initiative™ in India. As of September 30, 2009, \$3,582,000 is considered conditional, and as such the contribution revenue has not been recognized in the financial statements. WATER.ORG must meet certain milestones as defined in the related grant agreements in order to recognize these grants as revenue. These conditions are expected to be met over the next 3 years, as follows:

<u>Year Ending</u> <u>September 30,</u>	
2010	\$ 2,582,000
2011	500,000
2012	<u>500,000</u>
	<u>\$ 3,582,000</u>
