

WATERPARTNERS INTERNATIONAL, INC.

FINANCIAL STATEMENTS FOR THE
YEARS ENDED SEPTEMBER 30, 2008 AND 2007,
AND INDEPENDENT AUDITORS' REPORT



INDEPENDENT AUDITORS' REPORT

To the Board of Directors of WaterPartners International, Inc.
Kansas City, Missouri

We have audited the accompanying statements of financial position of WaterPartners International, Inc. (the "Organization") as of September 30, 2008 and 2007, 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 WaterPartners International, Inc. as of September 30, 2008 and 2007, 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 20, 2009

WATERPARTNERS INTERNATIONAL, INC.

Statements of Financial Position

September 30, 2008 and 2007

	2008	2007
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 2,669,516	\$ 366,554
ACCOUNTS RECEIVABLE	172,710	569,408
PREPAID EXPENSES	27,059	64,871
INVESTMENTS	73,002	90,751
WATERCREDIT LOANS RECEIVABLE, net	248,552	134,068
PROPERTY AND EQUIPMENT, net	<u>60,983</u>	<u>82,549</u>
Total assets	<u>\$ 3,251,822</u>	<u>\$ 1,308,201</u>
LIABILITIES AND NET ASSETS		
ACCOUNTS PAYABLE	\$ 35,503	\$ 58,839
ACCRUED EXPENSES	29,403	33,243
REFUNDABLE ADVANCES	51,372	
GRANTS PAYABLE	<u>75,628</u>	<u>141,487</u>
Total liabilities	191,906	233,569
COMMITMENTS AND CONTINGENCIES		
NET ASSETS:		
Unrestricted:		
Undesignated	218,830	110,373
Board Designated	<u>62,744</u>	<u>62,744</u>
Total unrestricted	281,574	173,117
Temporarily restricted	<u>2,778,342</u>	<u>901,515</u>
Total net assets	<u>3,059,916</u>	<u>1,074,632</u>
Total liabilities and net assets	<u>\$ 3,251,822</u>	<u>\$ 1,308,201</u>

See notes to financial statements.

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	2,352,761	(2,352,761)	
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	409,978		409,978
Total program	2,457,798		2,457,798
Supportive services:			
Administration	469,527		469,527
Fundraising	528,643		528,643
Direct benefit to donors	13,030		13,030
Total supportive services	1,011,200		1,011,200
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	173,117	901,515	1,074,632
NET ASSETS, END OF YEAR	\$ 281,574	\$ 2,778,342	\$ 3,059,916

See notes to financial statements.

WATERPARTNERS INTERNATIONAL, INC.

Statement of Activities and Changes in Net Assets

Year Ended September 30, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE, GAINS AND OTHER SUPPORT:			
Contributions and grants:			
Foundations	\$ 21,913	\$ 2,065,536	\$ 2,087,449
Corporations and other organizations	24,046	24,652	48,698
Individuals	307,578	32,830	340,408
Federated/workplace campaigns	14,330		14,330
Special event revenue	85,441		85,441
Government grants and contracts	9,533		9,533
Investment income and other	49,803		49,803
Net assets released from restrictions	2,698,408	(2,698,408)	
Total revenue, gains and other support	3,211,052	(575,390)	2,635,662
EXPENSES AND LOSSES:			
Program services:			
Sustainable water projects:			
Grant program	1,158,350		1,158,350
WaterCredit	909,778		909,778
Partner development	50,197		50,197
Outreach	385,605		385,605
Total program	2,503,930		2,503,930
Supportive services:			
Administration	487,061		487,061
Fundraising	476,668		476,668
Direct benefit to donors	15,618		15,618
Total supportive services	979,347		979,347
Total expenses	3,483,277		3,483,277
CHANGE IN NET ASSETS	(272,225)	(575,390)	(847,615)
NET ASSETS, BEGINNING OF YEAR	445,342	1,476,905	1,922,247
NET ASSETS, END OF YEAR	\$ 173,117	\$ 901,515	\$ 1,074,632

See notes to financial statements.

WATERPARTNERS INTERNATIONAL, INC.

Statement of Functional Expenses Year Ended September 30, 2008

	Program Services					Supporting Services			
	Sustainable Water Projects					Total	Administration	Fundraising	Total
	Grant	WaterCredit	Development	Partner	Outreach				
Salaries and wages	\$ 218,333	\$ 100,741	\$ 44,846	\$ 44,846	\$ 136,759	\$ 500,679	\$ 288,349	\$ 235,111	\$ 1,024,139
Payroll taxes	9,243	5,910	3,165	3,165	9,785	28,103	21,498	17,980	67,581
Employee benefits	26,764	6,022	3,160	3,160	11,002	46,948	24,149	16,119	87,216
Staff training	5,393	1,188	561	561	1,998	9,140	4,977	5,552	19,669
Contractors	6,175	1,498	706	706	16,000	24,379	5,504	25,529	55,412
Occupancy related	18,579	7,113	2,516	2,516	8,314	36,522	16,258	21,261	74,041
Office supplies	1,321	257	436	436	998	3,012	1,664	2,637	7,313
Postage and shipping	1,098	669	312	312	4,929	7,008	2,710	23,518	33,236
Printing and reproduction	1,192	8	19	19	22,914	24,133	266	7,362	31,781
Telephone and related communications	17,624	1,087	1,717	1,717	15,324	35,752	10,299	5,527	51,578
Office equipment rental and maintenance	16,076	552	435	435	2,707	19,770	7,473	14,592	41,835
Travel	115,020	6,243	23,531	23,531	15,718	160,512	15,196	56,500	232,208
Grants to other organizations	826,103	315,852	2,099	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		350			7,127	7,127	2,887	8,633	15,760
Directors and officer insurance						350			3,237
Bank and credit card fees	1,750	775	266	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	20,020	148,093	249,423	24,534	66,407	340,364
Dues and subscriptions	2,854	1,618	1,934	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	49	219	2,657	2,289	4,729	9,675
Depreciation	3,844	2,912	1,374	1,374	4,550	12,680	9,599	7,835	30,114
TOTAL FUNCTIONAL EXPENSES	\$ 1,350,863	\$ 589,811	\$ 107,146	\$ 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.

WATERPARTNERS INTERNATIONAL, INC.

Statement of Functional Expenses Year Ended September 30, 2007

	Program Services				Supporting Services			
	Grant	Sustainable Water Projects		Partner	Total	Administration	Fundraising	Total
	Program	WaterCredit	Development	Outreach	Total	Administration	Fundraising	Total
Salaries and wages	\$ 128,661	\$ 79,626	\$ 17,824	\$ 119,281	\$ 345,392	\$ 240,750	\$ 165,188	\$ 751,330
Payroll taxes	9,104	5,961	1,419	9,324	25,808	20,095	12,580	58,483
Employee benefits	10,187	5,799	1,260	8,979	26,225	19,119	12,340	57,684
Staff training	1,230	86	46	1,077	2,439	16,015	2,100	20,554
Contractors	37,799	93,469	1,376	9,698	142,342	18,239	37,304	197,885
Occupancy related	13,031	6,999	1,213	7,938	29,181	22,711	12,205	64,097
Office supplies	316	280	171	1,080	1,847	4,850	2,244	8,941
Postage and shipping	1,005	286	94	690	2,075	3,064	35,752	40,891
Printing and reproduction	352	163	36	11,544	12,095	1,922	86,200	100,217
Telephone and related communications	8,515	4,075	899	17,046	30,535	13,210	4,632	48,377
Office equipment rental and maintenance	15,996	4,349	402	1,597	22,344	10,370	5,633	38,347
Travel	55,420	31,443	23,456	22,452	132,771	17,672	20,581	171,024
Grants to other organizations	658,923	583,377			1,242,300			1,242,300
Special event supplies and insurance								
Advertising and marketing		369		130,280	130,649	100	950	7,138
Directors and officer insurance						3,578		3,578
Bank and credit card fees	1,126	60			1,186	8,122		9,308
Accounting and legal fees	45	5,045	6	150	5,246	16,850	600	22,696
Other professional fees	224,831	6,213	175	35,382	266,601	54,080	58,464	379,145
Dues and subscriptions	3,162	1,080	569	3,693	8,504	4,881	3,343	16,728
Provision for credit losses		89,863			89,863		500	90,363
Foreign exchange (gain) loss	(14,294)	(13,162)			(27,456)			(27,456)
Other operating expenses	565	2,926	922	2,311	6,724	6,985	5,862	19,571
Depreciation	2,376	1,471	329	3,083	7,259	4,448	3,052	14,759
TOTAL FUNCTIONAL EXPENSES	\$ 1,158,350	\$ 909,778	\$ 50,197	\$ 385,605	\$ 2,503,930	\$ 487,061	\$ 476,668	\$ 3,467,659
Direct benefits to donors								15,618
TOTAL EXPENSES								\$ 3,483,277

See notes to financial statements.

WATERPARTNERS INTERNATIONAL, INC.

Statements of Cash Flows

Years Ended September 30, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,985,284	\$ (847,615)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	30,114	14,759
Realized and unrealized investment gain (loss)	18,186	(10,738)
Contribution of investment securities	(13,675)	(11,029)
Loss on disposal of property and equipment	1,057	144
WaterCredit bad debt expense	92,170	89,864
WaterCredit foreign exchange (gain) loss	23,888	(20,789)
Changes in operating assets and liabilities:		
Accounts receivable	396,698	653,997
Prepaid expenses	37,812	(60,728)
Accounts payable	(23,336)	20,623
Accrued expenses	(3,840)	585
Refundable advances	51,372	
Grants payable	(65,859)	141,487
Net cash provided by (used in) operating activities	2,529,871	(29,440)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(9,605)	(76,785)
Proceeds from sale of property and equipment		440
Purchase of investments		(2,541)
Proceeds from sale of investments	13,238	11,522
Issuance of WaterCredit loans	(243,992)	(35,000)
Repayment of WaterCredit loans	13,450	14,700
Net cash used in investing activities	(226,909)	(87,664)
NET INCREASE (DECREASE) IN CASH	2,302,962	(117,104)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	366,554	483,658
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,669,516</u>	<u>\$ 366,554</u>
SUPPLEMENTAL CASH FLOW INFORMATION -		
Cash paid for interest and income taxes	<u>\$ -</u>	<u>\$ -</u>

See notes to financial statements.

WATERPARTNERS INTERNATIONAL, INC.

Notes to Financial Statements

Years Ended September 30, 2008 and 2007

1. NATURE OF ACTIVITIES AND PROGRAM DESCRIPTIONS

Nature of Activities – WaterPartners International, Inc. (the “Organization” or “WPI”) 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. WPI maintains its headquarters in Kansas City, Missouri. In 2006, WPI established local branch offices in Kenya and India. In 2008 and 2007, WPI has supported projects in Bangladesh, Ethiopia, Honduras, India and Kenya.

Grant Program – WPI identifies and evaluates partner organizations in developing countries which implement sustainable water supply and sanitation projects, and then WPI 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 – WPI seeks to raise awareness of the water supply crisis through presentations to schools and community groups, the WaterPartners’ 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, 2008 and 2007, money market accounts of \$2,006,000 and \$0, respectively, are included in cash and cash

equivalents. As of September 30, 2008, the Organization held cash deposits with banks in the amount of approximately \$2,355,000 in excess of federally insured limits.

WaterCredit Loans Receivable – WaterCredit loans receivable are stated at their outstanding principal amount, 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 in marketable equity securities with readily determinable fair values are stated at fair value. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities. As of September 30, 2008 and 2007, investments consisted of mutual funds.

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, 2008, WPI had received conditional promises to give totaling approximately \$6,191,000 (Note 12). WPI 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, 2008 and 2007, the Organization recognized donated services of \$63,000 and \$0, respectively. 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).

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 Pronouncements – In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation (FIN) No. 48 “Accounting for Uncertainty in Income Taxes, an Interpretation of the FASB Statement No. 109.” FIN 48 clarifies the application of Statement 109 by defining a recognition threshold of “more likely than not” that a tax position would be sustained upon examination before any part of the benefit of that position be recognized in an enterprise’s financial statements. It also provides guidance on the measurement of the tax position. FIN 48 is effective for fiscal years beginning after December 15, 2008. The adoption of FIN 48 is not expected to have a material effect on the financial position or results of operations of the Organization.

In September 2006, the FASB issued Statement of Financial Accounting Standard No. 157, “Fair Value Measurements” (“SFAS 157”). SFAS 157 establishes a framework for measuring fair value within accounting principles generally accepted in the United States of America, clarifies the definition of fair value within that framework, and expands disclosures about the use of fair value measurements. SFAS 157 does not require any new fair value measurements. However, the definition of fair value in SFAS 157 may affect the assumptions used by companies in determining fair value. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS 157 is not expected to have a material effect on the financial position or results of operations of the Organization.

3. ACCOUNTS RECEIVABLE

Accounts receivable consists of the following at September 30:

	2008	2007
Contributions and grants receivable	\$ 21,732	\$ 525,304
Amounts due on government contracts	147,817	37,422
Other	3,161	6,682
	<u>\$ 172,710</u>	<u>\$ 569,408</u>

All amounts are considered collectible within the next year.

4. WATERCREDIT LOANS RECEIVABLE

WaterCredit loans receivable consist of the following at September 30:

	2008	2007
WaterCredit loans receivable	\$ 510,667	\$ 280,125
Less: Allowance for credit losses	(232,369)	(140,199)
Less: Foreign exchange translation adjustment	<u>(29,746)</u>	<u>(5,858)</u>
	<u>\$ 248,552</u>	<u>\$ 134,068</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 are repayable over a three year period, and earn interest at 5%. The loans are denominated in Kenyan Schillings, and the foreign exchange translation adjustment results from translating the loans receivable into US Dollars at the September 30 exchange rate.

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%. WPI has agreed to provide a risk guarantee to the borrower to cover delinquent loans in the amount of \$10,000. Due to the uncertainty of collection, WPI has not recognized any accrued interest receivable as of September 30, 2008.

5. PROPERTY AND EQUIPMENT

	2008	2007
Office equipment	\$ 42,913	\$ 38,282
Computer software	<u>67,206</u>	<u>63,591</u>
	110,119	101,873
Less accumulated depreciation	<u>(49,136)</u>	<u>(19,324)</u>
	<u>\$ 60,983</u>	<u>\$ 82,549</u>

Depreciation expense for the year ended September 30, 2008 and 2007, was \$30,114 and \$14,759, respectively.

6. 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, 2008, which are 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, 2008.

Expected payments in 2009	\$ 80,139
Less: Discount on long term grants	<u>(4,511)</u>
Grants payable, net	<u>\$ 75,628</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,

2008, the Organization has entered into agreements with partners to fund approximately 6 projects, the majority of which are expected to be funded within the next 24 months.

Grant programs	\$ 1,265,706
WaterCredit loans	<u>263,123</u>
	<u>\$ 1,528,829</u>

7. 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, WPI may borrow a maximum of \$500,000. The agreement is renewable on an annual basis, and the current agreement expires October 24, 2009. The interest rate is variable based on the current Prime rate. To date, WPI 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 April 2009. Future minimum lease payments under these operating leases as of September 30, 2008, are as follows:

<u>Year Ending September 30,</u>	
2009	\$ 29,300
2010	2,550
2011	<u>2,450</u>
	<u>\$ 34,300</u>

8. 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 2008 or 2007.

9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2008	2007
Grant program - India	\$ 4,591	\$ 44,185
Grant program - Bangladesh	37,648	43,864
Grant program - Ethiopia	35,487	
Grant program - Honduras	10,262	12,444
Grant program - Africa	1,350,000	
WaterCredit - India	759,960	184,449
WaterCredit - unspecified	1,758	602
New WaterCredit/Grant programs	144,782	
International programs and monitoring and evaluation	132,018	80,665
Staff salary and benefits	101,776	85,636
Travel	51,766	
Public relations consulting		283,381
Strategic planning and accounting	6,634	
Fundraising feasibility study		123,695
IT outsourcing, hardware and software	17,230	29,028
Rent and other operating costs	<u>124,430</u>	<u>13,566</u>
	<u>\$ 2,778,342</u>	<u>\$ 901,515</u>

Net assets of \$2,352,761 and \$2,698,408 were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by the donors.

Purpose or time restrictions satisfied:

	2008	2007
Grant program - India	\$ 536,570	\$ 303,795
Grant program - Bangladesh	108,419	17,178
Grant program - Ethiopia	161,094	94,195
Grant program - Honduras	15,875	16,406
Grant program - Kenya	125	884,193
Grant program - other		21,616
WaterCredit - India	570,346	60,989
WaterCredit - Kenya		42,000
WaterCredit - unspecified	20,601	81,475
New WaterCredit/Grant programs	33,218	
International programs and monitoring and evaluation	131,560	243,037
Staff salary and benefits	301,978	332,137
Travel	28,234	20,086
Public relations consulting	192,093	201,646
Strategic planning and accounting	29,807	13,729
Fundraising feasibility study	79,137	187,504
IT outsourcing, hardware and software	63,386	134,336
Rent and other operating costs	80,318	26,795
Organizational capacity building		17,291
	<u>\$ 2,352,761</u>	<u>\$ 2,698,408</u>

10. 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. Prior to January 1, 2007, the Organization sponsored a Simple IRA plan for its eligible employees. WPI matched employee contributions dollar for dollar, up to 3% of the employee's compensation. For the year ended September 30, 2008 and 2007, WPI contributions totaled approximately \$21,000 and \$3,100, respectively.

11. 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, 2008, no such audits have been conducted.

12. MAJOR CONCENTRATIONS

The Organization has received significant conditional and unconditional contributions from several Foundations in 2006. 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, 2008, \$6,191,000 is considered conditional, and as such the contribution revenue has not been recognized in the financial statements. WPI 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:

Year Ending September 30	
2009	\$ 3,444,000
2010	2,043,000
2011	704,000
