

THE WATER PROJECT, INC.
REPORT ON FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

THE WATER PROJECT, INC.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
The Water Project, Inc.
Charlotte, North Carolina

We have audited the accompanying statement of financial position of The Water Project, Inc. as of December 31, 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Water Project, Inc. as of December 31, 2010 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Elliott Davis, PLLC

Charlotte, North Carolina
July 18, 2011

THE WATER PROJECT, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2010

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 217,377
Contributions receivable	39,703
Inventory	1,353
	<hr/> 258,433

PROPERTY AND EQUIPMENT, net

4,300

Total assets

\$ 262,733

NET ASSETS

Unrestricted	\$ 248,691
Temporarily restricted	14,042
	<hr/> 14,042

Total net assets

\$ 262,733

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

THE WATER PROJECT, INC.
STATEMENT OF ACTIVITIES
For the year ended December 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUES			
Contributions	\$ 927,921	\$ 85,649	\$ 1,013,570
Product sales	9,954	-	9,954
Gifts in kind	9,150	-	9,150
Interest income	292	-	292
	<u>947,317</u>	<u>85,649</u>	<u>1,032,966</u>
Total support and revenues			
Net assets released from restrictions	251,531	(251,531)	-
	<u>1,198,848</u>	<u>(165,882)</u>	<u>1,032,966</u>
EXPENSES			
Cost of product sales	3,497	-	3,497
Program grants	825,743	-	825,743
Legal and professional	13,482	-	13,482
Salaries	84,091	-	84,091
Contract services	22,317	-	22,317
Website services	7,733	-	7,733
Travel	2,124	-	2,124
Postage and shipping	4,589	-	4,589
Printing	5,271	-	5,271
Facilities and equipment	4,453	-	4,453
Telephone and internet	3,208	-	3,208
Insurance	1,597	-	1,597
Licenses and permits	1,810	-	1,810
Supplies	514	-	514
Subscriptions and publications	140	-	140
Public relations and development	733	-	733
Bank fees	9,752	-	9,752
Other	14,134	-	14,134
	<u>1,005,188</u>	<u>-</u>	<u>1,005,188</u>
Total expenses			
INCREASE (DECREASE) IN NET ASSETS	193,660	(165,882)	27,778
NET ASSETS, BEGINNING OF YEAR	<u>55,031</u>	<u>179,924</u>	<u>234,955</u>
NET ASSETS, END OF YEAR	<u>\$ 248,691</u>	<u>\$ 14,042</u>	<u>\$ 262,733</u>

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

THE WATER PROJECT, INC.
STATEMENT OF CASH FLOWS
For the year ended December 31, 2010

OPERATING ACTIVITIES	
Increase in net assets	\$ 27,778
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Gifts in kind - property and equipment	(4,300)
Changes in operating assets and liabilities:	
Contributions receivable	8,175
Inventory	(1,353)
Net cash provided by operating activities	<u>30,300</u>
INCREASE IN CASH AND CASH EQUIVALENTS	30,300
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>187,077</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 217,377</u></u>

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

THE WATER PROJECT, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES

Nature of operations

The Water Project, Inc. (the "Organization") is a North Carolina not-for-profit corporation, which was incorporated on December 5, 2007. The Organization is an independent organization based in Charlotte, North Carolina, that aims to bring relief to communities throughout the world who suffer needlessly from a lack of access to clean water. Specifically, the Organization distributes contributed funds directly to national and international organizations that assist underdeveloped communities in gaining access to clean drinking water. The Organization's major sources of support and revenue are contributions from the general public.

Basis of accounting

The financial statements of the Organization have been prepared on the accrual basis.

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 disclosures 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.

Cash and cash equivalents

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents include \$173,278 of money market funds at December 31, 2010.

Contributions receivable

Contributions receivable are recorded at the written pledged amount less an estimate made for doubtful accounts. The Organization provides an allowance for doubtful collections when deemed necessary, which is based upon a review of prior collection history, type of contribution, and nature of fund-raising activity. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts. The Organization has not recorded an allowance for doubtful accounts at December 31, 2010.

Net assets

The Organization is required to report information regarding its financial position according to three classes of net assets; unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Unrestricted net assets are composed of all resources not included in the below categories. Donor restricted contributions that are received and expended in the same year are classified as unrestricted.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES, Continued

Temporarily restricted net assets carry restrictions that expire upon the passage of a prescribed period or upon the occurrence of a stated event as specified by the donor. When a donor restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets are released from restriction.

Permanently restricted net assets are contributed to be maintained permanently by the Organization. Generally, the donors of such assets permit the Organization to use all or part of the income earned on the assets. The Organization had no permanently restricted assets at December 31, 2010.

Property and equipment

Property and equipment at December 31, 2010 consists of office furniture and is depreciated over the estimated useful lives of the equipment, generally 3 to 5 years. Depreciation expense for the year ended December 31, 2010 was not material. The Organization expenses repairs and maintenance costs as incurred.

Income taxes

The Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and therefore has made no provision for income taxes in the accompanying financial statements.

Contributions and unearned contributions

Contributions are recognized as revenue when received as unrestricted, temporarily or permanently restricted, depending on the existence and nature of donor restrictions. Pledges are recognized as revenue upon receipt of evidence of an unconditional promise to give. Conditional promises to give are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. Contributed assets are recorded at their estimated fair value when the Organization obtains possession of donated goods or evidence of an unconditional promise to give. Contributed services for voluntary donations of services are recognized in the financial statements when these services (1) create or enhance nonfinancial assets or (2) require specialized skills provided by individuals possessing those skills and are services that would be typically purchased if not provided by donation.

Subsequent events

These financial statements have been updated for subsequent events occurring before July 18, 2011, which is the date these financial statements were available to be issued.

NOTE 2 - CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject the Organization to concentrations of credit risk consist primarily of cash and cash equivalents. The Organization maintains cash and cash equivalent accounts at various financial institutions. From time to time, the Organization's accounts at such institutions may exceed the Federal Deposit Insurance Corporation (FDIC) insurance limit. The Organization has not experienced losses in such accounts and management does not believe it is exposed to significant credit risk on its cash and cash equivalents.

At December 31, 2010, approximately \$18,000, or 46 percent, of contributions receivable was due from three donors.

NOTE 3 - CONTRIBUTED GOODS

During 2010, the Organization received donations by an unrelated third party of inventory and property and equipment totaling \$4,850 and \$4,300, respectively, and recorded gifts in kind for contributed product of \$9,150. During 2010, the Organization sold \$3,497 of the contributed inventory, which was recorded as cost of product sales. At December 31, 2010, \$1,353 of the contributed products remains in inventory.

NOTE 4 - FUNCTIONAL EXPENSES

The Organization aims to bring relief to communities throughout the world who suffer needlessly from a lack of access to clean water through partnerships with qualified and deserving not-for-profits. Expenses related to providing these services for the year ended December 31, 2010 are summarized as follows:

Program	\$ 901,317
Management and general	55,803
Development and public relations	<u>48,068</u>
	<u>\$ 1,005,188</u>

NOTE 5 - SUBSEQUENT EVENTS

In July 2011, the Organization relocated its headquarters from Charlotte, North Carolina to Concord, New Hampshire. The relocation had no impact on the Organization's current operations.