

SAFE WATER NETWORK

FINANCIAL REPORT

December 31, 2011 and 2010

**W.F. Carothers & Co., LLC
1051 Old Academy Road
Fairfield, CT 06824**

SAFE WATER NETWORK

**AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2011 and 2010**

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W.F. Carothers & Co., LLC

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Safe Water Network
Westport, Connecticut

We have audited the accompanying statements of financial position of Safe Water Network (a not-for-profit organization) as of December 31, 2011 and 2010, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of Safe Water Network's management. Our responsibility is to express an opinion on the 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 audits 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 Safe Water Network as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

W.F. Carothers & Co., LLC

Fairfield, Connecticut
May 9, 2012

SAFE WATER NETWORK

**STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2011 AND 2010**

	2011	2010
ASSETS		
Cash and cash equivalents	\$ 5,412,174	\$ 4,758,957
Investments	108,200	92,560
Contributions receivable	1,275,000	703,721
Employee advance	-	44,120
Prepaid insurance	2,095	2,185
Office equipment, net of accumulated depreciation of \$7,692 and \$5,722	1,981	2,351
	<u>\$ 6,799,450</u>	<u>\$ 5,603,894</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	<u>\$ 28,506</u>	<u>\$ 57,826</u>
Net assets		
Unrestricted	4,505,944	5,040,998
Temporarily restricted	2,265,000	505,070
Permanently restricted	-	-
	<u>6,770,944</u>	<u>5,546,068</u>
	<u>\$ 6,799,450</u>	<u>\$ 5,603,894</u>

See Notes to Financial Statements

SAFE WATER NETWORK

STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011				2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE								
Contributions								
Foundations	\$ 208,512	\$ 2,482,767	\$ -	\$ 2,691,279	\$ 297,563	\$ 1,136,559	\$ -	\$ 1,434,122
Corporate	5,418	-	-	5,418	100,000	-	-	100,000
Individuals	823,310	-	-	823,310	5,350	-	-	5,350
Investment return	39,825	-	-	39,825	30,594	-	-	30,594
	<u>1,077,065</u>	<u>2,482,767</u>	<u>-</u>	<u>3,559,832</u>	<u>433,507</u>	<u>1,136,559</u>	<u>-</u>	<u>1,570,066</u>
EXPENSES								
Program services								
Africa	856,867	-	-	856,867	585,890	-	-	585,890
India	853,802	-	-	853,802	892,509	-	-	892,509
Program Development	458,746	-	-	458,746	350,566	-	-	350,566
	<u>2,169,415</u>	<u>-</u>	<u>-</u>	<u>2,169,415</u>	<u>1,828,965</u>	<u>-</u>	<u>-</u>	<u>1,828,965</u>
Supporting activities								
Management and general	80,693	-	-	80,693	50,237	-	-	50,237
Fundraising	84,848	-	-	84,848	25,119	-	-	25,119
	<u>2,334,956</u>	<u>-</u>	<u>-</u>	<u>2,334,956</u>	<u>1,904,321</u>	<u>-</u>	<u>-</u>	<u>1,904,321</u>
Excess of revenue over expenses	(1,257,891)	2,482,767	-	1,224,876	(1,470,814)	1,136,559	-	(334,255)
Net assets allocated due to satisfaction of restrictions	722,837	(722,837)	-	-	1,828,965	(1,828,965)	-	-
Increase (decrease) in net assets	(535,054)	1,759,930	-	1,224,876	358,151	(692,406)	-	(334,255)
NET ASSETS								
Beginning of year	<u>5,040,998</u>	<u>505,070</u>	<u>-</u>	<u>5,546,068</u>	<u>4,682,847</u>	<u>1,197,476</u>	<u>-</u>	<u>5,880,323</u>
End of year	<u>\$ 4,505,944</u>	<u>\$ 2,265,000</u>	<u>\$ -</u>	<u>\$ 6,770,944</u>	<u>\$ 5,040,998</u>	<u>\$ 505,070</u>	<u>\$ -</u>	<u>\$ 5,546,068</u>

See Notes to Financial Statements

SAFE WATER NETWORK

STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2011 AND 2010

	Program Services				Supporting Activities		Total
	Africa	India	Program Development	Total Program	Management and General	Fundraising	
2011							
Direct project costs	\$ 273,137	\$ 223,518	\$ -	\$ 496,655			\$ 496,655
Contract services:							
Management	-	-	-	-			-
Consulting	73,050	73,050	73,050	219,150			219,150
Salaries and wages	299,983	307,994	249,651	857,628	\$ 48,777	\$ 68,889	975,294
Employee benefits	7,051	7,051	7,051	21,153	6,044	3,022	30,219
Workers' comp and D&O insurance	1,950	1,949	1,950	5,849	1,671	836	8,356
Legal, accounting and administrative	3,462	3,461	3,461	10,384	2,967	1,483	14,834
Office	131,749	175,975	10,420	318,144	2,762	1,381	322,287
Occupancy	6,660	6,660	6,659	19,979	5,708	2,854	28,541
Travel	19,766	14,087	66,448	100,301	6,137	3,069	109,507
Depreciation	460	460	459	1,379	394	197	1,970
Computers/website	4,014	4,013	4,013	12,040	3,440	1,720	17,200
Communications	34,782	34,781	34,782	104,345	2,105	1,053	107,503
Miscellaneous	803	803	802	2,408	688	344	3,440
	<u>\$ 856,867</u>	<u>\$ 853,802</u>	<u>\$ 458,746</u>	<u>\$ 2,169,415</u>	<u>\$ 80,693</u>	<u>\$ 84,848</u>	<u>\$ 2,334,956</u>
2010							
Direct project costs	\$ 93,499	\$ 305,589	\$ -	\$ 399,088			\$ 399,088
Contract services:							
Management	-	-	-	-	\$ -	\$ -	-
Consulting	-	-	-	-	-	-	-
Salaries and wages	371,201	494,671	320,945	1,186,817	26,400	13,200	1,226,417
Employee benefits	2,548	2,547	2,547	7,642	2,183	1,092	10,917
Director and officer insurance	1,618	1,617	1,617	4,852	1,386	693	6,931
Legal, accounting and administrative	5,754	5,753	5,753	17,260	4,931	2,466	24,657
Office	58,669	33,203	2,113	93,985	1,811	906	96,702
Occupancy	5,298	5,298	5,297	15,893	4,541	2,271	22,705
Travel	43,497	40,026	8,489	92,012	5,723	2,861	100,596
Depreciation	564	564	564	1,692	484	242	2,418
Conferences	-	-	-	-	-	-	-
Communications	2,127	2,127	2,127	6,381	1,823	911	9,115
Miscellaneous	1,115	1,114	1,114	3,343	955	477	4,775
	<u>\$ 585,890</u>	<u>\$ 892,509</u>	<u>\$ 350,566</u>	<u>\$ 1,828,965</u>	<u>\$ 50,237</u>	<u>\$ 25,119</u>	<u>\$ 1,904,321</u>

See Notes to Financial Statements

SAFE WATER NETWORK

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 1,224,876	\$ (334,255)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	1,970	2,418
Unrealized investment gain	(15,640)	(6,920)
Changes in operating assets and liabilities:		
Contributions receivable	(571,279)	474,843
Employee advance	44,120	(44,120)
Prepaid insurance	90	-
Accounts payable and accrued expenses	(29,320)	(41,379)
Net cash provided by operating activities	<u>654,817</u>	<u>50,587</u>
INVESTING ACTIVITIES		
Purchase of office equipment	<u>(1,600)</u>	<u>-</u>
Net cash used in investing activities	<u>(1,600)</u>	<u>-</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	653,217	50,587
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>4,758,957</u>	<u>4,708,370</u>
End of year	<u>\$ 5,412,174</u>	<u>\$ 4,758,957</u>

See Notes to Financial Statements

SAFE WATER NETWORK

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization Activities and Tax-Exempt Status

Organization Activities and Support

Safe Water Network is organized as a not-for-profit corporation dedicated to advancing innovative approaches to delivering safe, reliable and affordable drinking water to the world's poor. Safe Water Network's priority is to take a long-term, integrated approach to demonstrate the potential for new water solutions by collaborating with private and public stakeholders, local organizations, public health experts and local and international providers of technology, services and funding. Safe Water Network is developing a diverse set of partnerships through which to create affordable and sustainable solutions that can be widely replicated over time.

Safe Water Network receives substantially all of its financial support from significant contributions from foundations and a few individuals. Safe Water Network is actively seeking to diversify its funding sources with support from more organizations and individuals.

Tax-Exempt Status

Safe Water Network was incorporated on December 1, 2005 in the District of Columbia and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC") and classified as a publicly supported charitable organization under IRC Section 509(a)(1); therefore, donations qualify for the maximum charitable contribution deduction under IRC Section 170(b)(1)(A)(vi). Safe Water Network is similarly exempt from income taxes in Connecticut and in the District of Columbia.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

Safe Water Network's financial statements are prepared in accordance with accounting principles generally accepted in the United States applicable to not-for-profit organizations.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

SAFE WATER NETWORK

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Safe Water Network considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. Safe Water Network maintains its cash in deposit accounts which, at times, may exceed federally insured limits. Safe Water Network has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Investments

Investments in marketable securities are carried at fair value, based on current market quotes, in accordance with generally accepted accounting principles applicable to not-for-profit organizations.

Contributions Receivable

Contributions are recognized when a donor makes an unconditional promise to give to Safe Water Network. Contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. For contributions which are not expected to be received within one year, the receivables are discounted to their present value using an appropriate discount rate at the date of the promise to give.

Safe Water Network reviews all contributions receivable to determine whether a valuation allowance should be established. The allowance is based on prior years' experience and management's analysis of specific promises made. As of December 31, 2011 and 2010, all contributions receivable were considered to be collectible.

Property and Equipment

Safe Water Network's policy is to capitalize all property and equipment over \$500. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset 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 contributions. Absent donor stipulations regarding how long those donated assets must be maintained, Safe Water Network reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. Safe Water Network reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method.

SAFE WATER NETWORK

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

Net Asset Classifications

Safe Water Network is required to report information on its financial position and activities according to three classes of net assets: permanently restricted net assets, temporarily restricted net assets and unrestricted net assets. Descriptions of the three types of net assets are as follows:

1. Permanently restricted – Net assets resulting from contributions of assets whose use by Safe Water Network is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of Safe Water Network. There are no permanently restricted net assets as of December 31, 2011 and 2010.
2. Temporarily restricted – Net assets resulting from contributions of assets whose use by Safe Water Network is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of Safe Water Network pursuant to those stipulations.
3. Unrestricted – Net assets that are neither permanently restricted nor temporarily restricted by donor-imposed restrictions.

Recognition and Classification of Revenue and Expenses

As required under generally accepted accounting principles applicable to not-for-profit organizations, all contributions are recognized as revenue in the statement of activities in the period received, including unconditional pledges receivable. Contributions received with donor stipulations as to their intended use are reported in the statements of activities as restricted revenues, consistent with the donor's intent.

Revenue from exchange transactions is recognized when earned and excluded from contributions. Bequests, if any, are considered unconditional promises and recognized at the time Safe Water Network's right to them is established by a court and to the extent the value of the proceeds is subject to reasonable estimation.

Non-cash (in-kind) gifts of securities, services, materials or long-lived assets are recorded at fair value at the time of the gift, except for donated services that do not meet the recognition criteria of generally accepted accounting principles applicable to not-for-profit organizations, including a substantial number of volunteer hours donated by individuals primarily for administrative activities.

As required by generally accepted accounting principles applicable to not-for-profit organizations, all recorded expenses are charged to unrestricted net assets, regardless of how funded. Temporarily restricted net assets are released and reclassified as unrestricted following compliance with, or expiration of, related restrictions.

Certain expenses are allocated functionally to program services and supporting activities on the basis of management estimates.

SAFE WATER NETWORK

NOTES TO FINANCIAL STATEMENTS

Note 3. Investments and Investment Return

As of December 31, 2011 and 2010, Safe Water Network's investments in marketable securities are as follows (at fair value):

	<u>2011</u>	<u>2010</u>
Common stock (cost of \$85,800)	\$ <u>108,200</u>	\$ <u>92,560</u>

Investment return consists of the following:

Interest and dividends	\$ 24,185	\$ 23,764
Unrealized gain	<u>15,640</u>	<u>6,920</u>
	<u>\$ 39,825</u>	<u>\$ 30,684</u>

Note 4. Contributions Receivable

During 2008, one foundation unconditionally promised to give \$2,500,000 in four equal payments, the first of which was received in 2008. The promises to be received one year or later after the promise have been discounted at 5%, which was the prime rate on the date of the promise. During 2011, the final payment was received on this promise.

As of December 31, 2011, there were unconditional promises due from four donors for \$1,000,000; \$150,000; \$100,000; and \$25,000; respectively. Because the promises are considered to be unconditional, the amounts were recognized as revenue during 2011. Of the \$1,275,000; \$775,000 is expected to be received in 2012 and \$500,000 early in 2013.

Note 5. Retirement Plan

Effective October 1, 2011, Safe Water Network adopted a SIMPLE IRA plan. This plan is limited to employees who have prior year compensation of at least \$5,000 and whose current year compensation is expected to exceed \$5,000. The contribution for 2011 was \$17,291.

SAFE WATER NETWORK

NOTES TO FINANCIAL STATEMENTS

Note 6. Related Party Transactions

A significant portion of the monetary contributions in 2011 and 2010 were received from individuals who were officers and/or directors of Safe Water Network; or received from foundations where an individual from that foundation served as a director of Safe Water Network.

Note 7. Risk Concentrations

Essentially all of Safe Water Network's 2011 and 2010 significant monetary contributions were from a small number of donors.