

Safe Water Network
Financial Statements
and Independent Auditor's Report
December 31, 2012

Safe Water Network

Index

	<u>Page</u>
Independent Auditor's Report	2
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7-14

Independent Auditor's Report

To the Board of Directors
Safe Water Network

We have audited the accompanying financial statements of Safe Water Network, which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Correction of Error

As noted in Note 8 to the financial statements opening unrestricted net assets have been restated to account for certain prior activity with the branch office located in Ghana. Our opinion is not modified with respect to that matter.



Glastonbury, Connecticut
January 14, 2014

Safe Water Network

Statement of Financial Position December 31, 2012

Assets

Assets:

Cash and cash equivalents	\$ 3,447,597
Grants and contributions receivable, net	3,428,000
Water systems receivable	420,724
Accounts receivable	96,762
Prepaid expenses and other assets	91,300
Certificates of deposit	1,013,298
Office equipment, net of accumulated depreciation of \$63,504	<u>91,756</u>
Total assets	<u>\$ 8,589,437</u>

Liabilities and Net Assets

Liabilities:

Accounts payable and accrued expenses	<u>\$ 111,266</u>
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Commitments

Net assets:

Unrestricted	3,692,095
Temporarily restricted	<u>4,786,076</u>
Total net assets	<u>8,478,171</u>

Total liabilities and net assets	<u>\$ 8,589,437</u>
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See Notes to Financial Statements.

Safe Water Network
Statement of Activities
Year Ended December 31, 2012

	Unrestricted	Temporarily Restricted	Total
Revenues, returns and other support:			
Grants and contributions:			
Foundations	\$ 453,500	\$ 3,243,000	\$ 3,696,500
Corporations and other	165,246	64,000	229,246
Individuals	34,382	-	34,382
Contract revenue	150,000	-	150,000
Interest income	19,879	-	19,879
Investment return	9,121	-	9,121
Other income	4,318	-	4,318
Net assets released from restrictions	785,924	(785,924)	-
Total revenue	<u>1,622,370</u>	<u>2,521,076</u>	<u>4,143,446</u>
Expenses:			
Program services:			
Africa	684,568	-	684,568
India	827,269	-	827,269
Program development	600,857	-	600,857
Total program services	<u>2,112,694</u>	<u>-</u>	<u>2,112,694</u>
Supporting services:			
Management and general	387,444	-	387,444
Fundraising	276,624	-	276,624
Total supporting services	<u>664,068</u>	<u>-</u>	<u>664,068</u>
Total expenses	<u>2,776,762</u>	<u>-</u>	<u>2,776,762</u>
Change in net assets before other changes	(1,154,392)	2,521,076	1,366,684
Other changes:			
Foreign currency remeasurement loss	(6,573)	-	(6,573)
Change in net assets	<u>(1,160,965)</u>	<u>2,521,076</u>	<u>1,360,111</u>
Net assets, beginning of year, as previously reported	4,505,944	2,265,000	6,770,944
Prior period adjustment	347,116	-	347,116
Net assets, beginning of year, as restated	<u>4,853,060</u>	<u>2,265,000</u>	<u>7,118,060</u>
Net assets, end of year	<u>\$ 3,692,095</u>	<u>\$ 4,786,076</u>	<u>\$ 8,478,171</u>

See Notes to Financial Statements.

Safe Water Network

Statement of Functional Expenses Year Ended December 31, 2012

	Program Services				Supporting Services			
	Africa	India	Program Development	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
Direct program expenses	\$ 180,669	\$ 211,771	\$ -	\$ 392,440	\$ -	\$ -	\$ -	\$ 392,440
Salaries	313,126	447,139	202,487	962,752	160,341	192,983	353,324	1,316,076
Employee benefits	14,452	7,850	7,851	30,153	5,956	7,723	13,679	43,832
Payroll taxes	13,994	13,994	13,994	41,982	7,519	13,159	20,678	62,660
Insurance	5,861	2,230	2,229	10,320	2,106	2,096	4,202	14,522
Professional fees	2,389	2,389	2,389	7,167	87,234	-	87,234	94,401
Consulting	3,235	3,235	253,543	260,013	43,000	-	43,000	303,013
Office expense	25,026	24,689	13,800	63,515	11,461	12,977	24,438	87,953
Field expenses	16,907	-	-	16,907	4,227	-	4,227	21,134
Occupancy	32,200	49,503	9,599	91,302	15,242	9,025	24,267	115,569
Travel	20,416	34,002	64,499	118,917	13,287	6,447	19,734	138,651
Meetings and facilities	-	-	-	-	19,844	-	19,844	19,844
Depreciation	26,030	204	204	26,438	6,567	192	6,759	33,197
Information technology	6,079	6,079	6,079	18,237	3,266	7,327	10,593	28,830
Communciation	21,776	21,776	21,775	65,327	-	16,331	16,331	81,658
Network development	-	-	-	-	6,100	6,100	12,200	12,200
Other	2,408	2,408	2,408	7,224	1,294	2,264	3,558	10,782
Total expenses	\$ 684,568	\$ 827,269	\$ 600,857	\$ 2,112,694	\$ 387,444	\$ 276,624	\$ 664,068	\$ 2,776,762

See Notes to Financial Statements.

Safe Water Network
Statement of Cash Flows
Year Ended December 31, 2012

Operating activities:	
Change in net assets	\$ 1,360,111
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	33,197
Realized and unrealized gains	(9,121)
Discount on grants receivable	57,000
(Increase) decrease in:	
Grants receivable	(2,210,000)
Accounts receivable	(96,762)
Water systems receivable	(200,043)
Prepaid expenses and other assets	(25,269)
Increase (decrease) in:	
Accounts payable and accrued expenses	64,722
Net cash used in operating activities:	<u>(1,026,165)</u>
Investing activities:	
Proceeds from sale of investments	118,397
Change in invested cash	(4,449)
Purchases of property and equipment	<u>(45,702)</u>
Net cash provided by investing activities	<u>68,246</u>
Effect of exchange rate changes on cash and cash equivalents	<u>50,833</u>
Net decrease in cash and cash equivalents	(907,086)
Cash and cash equivalents, beginning of year	<u>4,354,683</u>
Cash and cash equivalents, end of year	<u>\$ 3,447,597</u>

See Notes to Financial Statements.

Safe Water Network
Notes to Financial Statements

Note 1 - Organization and summary of significant accounting policies:

Organization:

Safe Water Network (the "Organization") is a not-for-profit organization whose primary purpose is to provide financial support and technical assistance for the implementation of decentralized water purification systems in developing countries. Through collaborative efforts with private and public stakeholders, local organizations, public health experts and local and international providers of technology, services and funding, the Organization seeks to address the challenges of local water system ownership and sustainability. The Organization's primary sources of revenue are grants and contributions from corporations, foundations and individuals. The Organization's four integrated areas of activity include:

Field Initiatives - Design, launch and management of water purification stations and rainwater harvesting programs to provide safe water to those in need. Through these initiatives, the Organization gains important field experience to optimize solutions.

Market Development - A fact-based approach to measure outcomes and models, as well as develop scale propositions.

Network - Collaborative activities, best practice approaches and action-oriented programs that apply partner expertise to the Organization's field work and scale development projects.

Technical Assistance - On-site consultation to other organizations, as well as support through training materials and manuals.

Safe Water Network is headquartered in New York, New York, with branch offices in Ghana and India.

Basis of 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. Accordingly, the statements report information regarding its financial position and activities according to three classes of net assets described as follows:

Unrestricted - Net assets that are not subject to explicit donor-imposed stipulations or to those imposed by operation of law. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Safe Water Network
Notes to Financial Statements

Temporarily Restricted - Net assets whose use by the Organization is subject to either explicit donor-imposed stipulations, or to those imposed by operation of law, that can be fulfilled by actions of the Organization or that expire by the passage of time. The change in temporarily restricted net assets is impacted primarily by gifts with time and donor constraints.

Permanently Restricted - Net assets subject to explicit donor-imposed stipulations, or to those imposed by operation of law, that they be maintained permanently by the Organization and stipulate the use of income and/or appreciation as temporarily restricted based on donor-imposed stipulations or by operation of law. There were no permanently restricted net assets at December 31, 2012.

Revenue recognition:

Grants and contributions:

Grants and contributions, including unconditional grants and contributions receivable, are recognized as revenues in the period received. Grants and contributions subject to donor-imposed stipulations that are met in the same reporting period are reported as unrestricted support. Grants and contributions receivable that are scheduled to be received after the statement of financial position date are reported as increases in temporarily restricted net assets. This revenue is reclassified to unrestricted net assets when the time or purpose restrictions are met. Promises to give subject to donor-imposed stipulations that the corpus be maintained permanently are recognized as increases in permanently restricted net assets. Conditional promises to give are not recognized as contributions until such time as the conditions upon which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the time the contribution is made.

Contract revenue:

Contract revenue is recognized in the period in which the related services are provided.

Cash and cash equivalents:

Cash and cash equivalents include all cash balances and highly liquid short-term instruments with an original maturity of three months or less when acquired. At December 31, 2012, the Organization had cash equivalents of \$3,357,671.

Safe Water Network
Notes to Financial Statements

Grants and contributions receivable:

Grants and contributions receivable represent unconditional promises to give that are recognized in the period in which the promise is received. Grants and contributions receivable that are expected to be collected in less than one year are reported at net realizable value. Grants and contributions receivable that are expected to be collected in more than one year are discounted to their net present value. Amortization of the resulting discount is recognized as additional grant and contribution revenue. On a periodic basis, the Organization evaluates its grants and contributions receivable and establishes an allowance for doubtful accounts, when deemed necessary, based on its history of past write-offs, collections and current credit conditions. Conditional promises to give are recognized when the conditions upon which they depend are substantially met.

Water systems receivable:

Water systems receivable represents the cost of water purification systems advanced by the Organization on behalf of various communities in Ghana. Under the terms of the agreements between the Organization and the communities, repayment of these advances will occur over a period of eight years from the time each becomes operational. Management evaluates the collectability of these amounts annually and does not believe an allowance for uncollectable amounts is necessary at December 31, 2012 as repayment is set to begin during 2014.

Accounts receivable:

The Organization uses the allowance method of accounting for bad debts. On a periodic basis, the Organization evaluates its accounts receivable and establishes an allowance for doubtful accounts, when deemed necessary, based on its history of past write-offs, collections and current credit conditions. Management does not believe an allowance for doubtful accounts is necessary at December 31, 2012.

Certificates of deposit:

At December 31, 2012, the Organization held two certificates of deposit (the "Certificates") yielding .3% to .5%. The Certificates are held in a financial institution, are federally insured and mature in October 2013 and April 2014. The balance in the Certificate which matured in October 2013 was deposited into a checking account with the same financial institution. The Certificates are recorded at the original investment plus accrued interest. The fair value of the Certificates approximates carrying value because of the short-term maturity of the Certificates.

Office equipment:

Office equipment is stated at cost, or if donated, at their approximate fair value at the date of donation. Depreciation is provided for on a straight-line basis over the estimated useful lives of the assets, ranging from 5 to 7 years. Expenditures for repairs and maintenance are charged to expense as incurred.

Safe Water Network
Notes to Financial Statements

Donated property and equipment:

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 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 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 at that time.

Donated services:

The Organization pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Organization. There were no donated services recorded during the year ended December 31, 2012 because they did not meet the requirements for recognition.

Income taxes:

The Organization is exempt from Federal and state corporate income taxes under the provisions of Internal Revenue Code (the "Code") Section 501(c)(3).

The Organization has no unrecognized tax benefits at December 31, 2012. The Organization's Federal and state information returns prior to fiscal year 2009 are closed. The Organization believes it is in compliance with all laws and regulations, but management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

If the Organization had unrelated business income taxes, it would recognize interest and penalties associated with any tax matters as part of the income tax provision and include accrued interest and penalties with the related tax liability in the statement of financial position.

Functional expenses:

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

Safe Water Network
Notes to Financial Statements

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent events:

The Organization has evaluated subsequent events and transactions for potential recognition or disclosure through January 14, 2014, which is the date the financial statements were available to be issued.

Note 2 - Grants and contributions receivable:

Grants and contributions receivable at December 31, 2012 are comprised of the following:

Receivables due in less than 1 year	\$ 1,335,000
Receivables due in 1 - 5 years	2,150,000
	<u>3,485,000</u>
Less: discount to present value (1.15%)	(57,000)
	<u>\$ 3,428,000</u>

Management does not believe an allowance is necessary at December 31, 2012. At December 31, 2012, 100% of grants and contributions receivable are from three sources, one of which is receivable from a foundation where an individual from that foundation is also a member of the Organization's Board of Directors.

Note 3 - Temporarily restricted net assets:

Temporarily restricted net assets at December 31, 2012 are comprised of the following:

Grants and contributions receivable	\$ 3,428,000
Financial capacity and internal framework	1,066,667
Communication initiatives	197,409
Water purification system development	94,000
Total temporarily restricted net assets	<u>\$ 4,786,076</u>

Net assets released from restrictions for the year ended December 31, 2012 consisted of the following:

Financial capacity and internal framework	\$ 8,333
Communication initiatives	322,591
Water purification system development	455,000
Total net assets released from restrictions	<u>\$ 785,924</u>

Safe Water Network
Notes to Financial Statements

Note 4 - Retirement benefits:

The Organization maintains a SIMPLE IRA plan ("the SIMPLE IRA Plan"). Participation in the SIMPLE IRA Plan is limited to employees who have prior year compensation of at least \$5,000 and current year compensation is expected to exceed \$5,000. Contributions by the Organization to the SIMPLE IRA Plan for the year ended December 31, 2012 were \$24,900.

Note 5 - Operating lease:

During 2012, the Organization entered into an agreement to share office space under a sublease agreement which expires December 31, 2015. Future minimum lease payments due under the terms of this lease in each of the years subsequent to December 31, 2012 are as follows:

<u>Year Ending December 31,</u>	
2013	\$ 60,000
2014	61,800
2015	<u>63,653</u>
Total	<u>\$ 185,453</u>

Rental expense recognized in the accompanying statement of activities for the year ended December 31, 2012 was \$31,250.

Note 6 - Functional currency, foreign currency translation and currency exchange rate exposure:

Based on several factors, including the dominant role of the U.S. currency in the funding of the Organization's programs, management considers the U.S. dollar to be the Organization's functional currency. As such, the Organization's assets and liabilities held in foreign currencies are remeasured using the current rate at the statement of financial position date.

Most revenues and expenses that occur during a period are remeasured for practical purposes using a weighted average exchange rate for the period.

The Organization regularly transfers cash from its domestic accounts to its foreign accounts to cover expenses, translating its foreign transactions into U.S. dollars using a weighted average exchange rate. The Organization has deposits in foreign financial institutions and petty cash held in the local currencies of Ghana and India. The Organization has other assets and liabilities originally denominated in foreign currencies. This results in an exposure to currency exchange gains and losses at the time assets are disposed of and liabilities are settled, as well as during year-end foreign currency translation into U.S. dollars. In any particular year, currency exchange rates fluctuations may have a significant impact on the Organization's financial results.

Safe Water Network
Notes to Financial Statements

The foreign currency translation gains and losses are recorded on the Organization's statement of activities as a net remeasurement gain or loss. For the year ended December 31, 2012, the Organization recognized net remeasurement losses of \$6,573. To date, the Organization has not engaged in any currency trading or hedging transactions to reduce its exposure to currency fluctuations, but it may engage in such transactions in the future.

Note 7 - Concentrations:

Operations risk:

The Organization's operations in Ghana and India are subject to risks not typically associated with operations in North America. Accordingly, the Organization's financial condition and activities may be influenced by the political, economic and legal environments in these sovereign states. As a result, the Organization's activities are subject to a variety of risks, including:

- Social, political and economic instability;
- Inflation;
- Additional costs of compliance with government regulation and licensing requirements;
- Tariffs and other trade barriers;
- Expropriation, nationalization and limitation on repatriation of earnings;
- Fluctuations in foreign exchange rates (Note 6);
- Adverse changes in the creditworthiness of parties with whom the Organization has significant receivables;
- Longer receivables collection periods and greater difficult in collecting accounts receivable;
- Unexpected changes in regulatory requirements.

Any of these developments, or others, could adversely affect the Organization's financial condition and activities. Should such circumstances occur, the Organization might need to curtail, cease or alter its activities in a particular area. The Organization's ability to address these issues may be affected by applicable U.S. laws and, in particular, potential conflicts between the requirements of U.S. law and the need to protect its employees and assets.

Safe Water Network
Notes to Financial Statements

In addition, the Organization is required to comply with the United States Foreign Corrupt Practices Act and similar laws, which prohibit entities from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. Corruption, extortion, bribery, payoffs, theft and other fraudulent practices occur from time to time in the areas in which the Organization operates. The majority of funds are maintained in the U.S. and most of the Organization's costs are fulfilled directly with vendors or go towards staff payroll, both of which are highly predictable payments that leave good paperwork trails. Although the Organization informs its staff that corruption, extortion, bribery and so forth are illegal, there can be no assurance that employees or other agents will not engage in such conduct for which the Organization might be held responsible. If employees or other agents are found to have engaged in such practices, the Organization could suffer severe penalties.

Credit risk:

Financial instruments which potentially subject the Organization to concentrations of credit risk consist primarily of cash and cash equivalents and receivables. The Organization maintains its cash and cash equivalents with high-credit quality financial institutions. At times, such amounts may exceed Federally insured limits. Concentration of credit risk with respect to accounts receivable are limited due to management's active monitoring of these balances. Concentration of credit risk with respect to grants and contributions receivable is limited due to the active involvement of the donors with the Organization. In addition, management closely monitors these balances while maintaining allowances for potential losses.

Note 8 - Prior period adjustments:

During 2012, Management determined that there were adjustments needed to unrestricted net assets as of December 31, 2011. Management concluded that funds advanced to the Ghana branch office as well as its results of operations were not properly reported, resulting in an understatement of unrestricted net assets of \$347,116.

Net assets as previously reported as of December 31, 2011 were restated as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Net assets, December 31, 2011, as previously reported	\$ 4,505,944	\$ 2,265,000	\$ 6,770,944
Prior period adjustments:			
Funds advanced reported as items of expense	729,730	-	729,730
Accumulated results of operations	(382,614)	-	(382,614)
Totals	<u>347,116</u>	<u>-</u>	<u>347,116</u>
Net assets, December 31, 2011, as restated	<u>\$ 4,853,060</u>	<u>\$ 2,265,000</u>	<u>\$ 7,118,060</u>